

## The role of proactive market orientation and management commitment to internal resource on export performance of handicraft industry

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### ABSTRACT

This study aims to analyze and provide empirical evidences on the effects of proactive market orientation (PMO) and management commitment to internal resource (MCIR) on export performance. The sample of this study includes the owners or leaders of handicraft exporter industry consisting of 72 respondents with a purposive random sampling in West Java, Indonesia. Data collection techniques are arranged by distributing questionnaires, interviewing, and recording documentation from the respondents. The data analysis uses the Structural Equation Model (SEM) based on Partial Least Square (PLS) with the tools of SPSS and SmartPLS statistical programs. The results show that the effect of proactive market orientation (PMO) on export performance (EP) was positive and significant. The effect of management commitment to internal resource (MCIR) on export performance was also positive and significant. MCIR has also a more considerable influence than PMO on export performance. This research has implications for policy makers and creative industries in improving the export performance, especially handicraft industries in developing countries. Furthermore, it is hoped that handicraft industries will consider the research findings in making business decisions and to improve their business success.

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## 1. Introduction

Cultural and Creative Industries (CCI) is relatively a new concept in Indonesian non-traditional economic models and has a tremendous potential impact on the country's economy (BEKRAF, 2017). Creative economies contribute to increased value-added, job creation, and export in various countries (UNDP, 2013). Technological developments have made creative industries to be one of the most productive and dynamic sectors. The Indonesia's creative economy contributed USD 62.2 Billion (7.38%) in 2015, employed 15.9 million people (13.90%) and provided the export value of USD 19.4 Billion (12.88%) (BEKRAF, 2017). Handicraft as a sub-sector of the creative industry is an applied art that is something between art and design, derived from the traditional heritage or contemporary ideas that produces the final product in the form of artwork, functional products, ornament objects, or decorative (BEKRAF, 2017). Indonesia's handicraft industry is dominated by micro, small, and medium scale industries. Its

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existence mostly supported by a wealth of resources and raw materials. The central dominance of the Indonesian handicraft industry is located in West Java, East Java, Yogyakarta, Central Java, Jakarta, and Bali, and requires development to other parts of Indonesia. FHAN exposes data contribution of global handicraft exporting countries by 2015, that Indonesia's exports of handicrafts to world was at 1.09%, below USA (34.43%), China (8.1%), Germany (6.4%), Japan (4.6%), Vietnam (3.48%), Malaysia (1.51%) and India (1.37%) (FHAN, 2015). The export of Handicraft Indonesia in 2015 was only USD 9.78 Million (BEKRAF, 2017), and fluctuated almost every year (DISPERINDAG, 2018). One of the main obstacles of handicraft exporters in Indonesia is the performance problem (BEKRAF, 2017). Therefore, that needed a solution to overcome it.

Researchers explained the factors that improve export performance; including marketing mix strategy (i.e., O'Cass & Julian, 2003; Leonidou et al., 2002; Ruzo et al., 2011), marketing capability (i.e., Morgan, Katsikeas & Vorhies, 2012; Zou et al., 2003), and relationship capability (i.e., Lages et al., 2009). However, less attention has been devoted on the role of proactive market orientation and management commitment to internal resources which can affect the export performance of the handicraft industry.

In previous literature, proactive market orientation (PMO) was an effort to get and find the customer's latent needs (Narver et al., 2004). From a future perspective on technological developments and market changes, PMO has to be a valuable contribution for market orientation. That is due to many refutations of the traditional market orientation concept that tends to be responsive to the market (Voola & O'Cass, 2010) such as critiques of innovation limitation (Berthon et al., 1999) and minimum R&D activities (Frosch, 1996). PMO increase success in the market by seeking customer's needs with firm resources, addressing problems from existing products, and unconscious customer latent needs (Bodlaj et al., 2012). Management commitment to internal resource (MCIR) is a resource allocation (human and non-human) to achieve specific goals (Richey Jr. et al., 2014). It is often regarded as the key for the strategic planning process (Mao et al., 2016). Management commitment to internal resource should be a priority because it has a potential factor to improve export performance (Richey et al., 2005). In addition, management commitment to internal resource is a guide to managers' decisions to improve the efficiency and effectiveness of the resource allocation in the future (Lages & Montgomery, 2004). Managers committed to resources will allocate human resources and financial resources for activities that improve export performance (Lages et al., 2008).

This study aims to address the problems in improving export performance of the handicraft industry in West Java Province, Indonesia. Moreover, the study also aims to enrich strategic marketing research regarding the role of proactive market orientation and management commitment to internal resource on export performance due to lack of attention to the handicraft exporter industry. The core questions of this research are: Does proactive market orientation positively affect export performance? Does management commitment to internal resource (MCIR) positively influence the export performance? Answering these questions are vital for the creative industries, especially in emerging markets such as Indonesia to improve their business growth in the domestic and global markets.

## **2. Literature Review**

### *2.1. Proactive Market Orientation*

PMO aims to uncover and understand the future of customer's needs and provides solutions for them (Narver et al., 2004). That is related to fulfill latent needs and to find a solution that is not expressed by the customer. PMO is also termed as market drivers that shape and focus on customer perceptions and behaviors so that they can manifest their upcoming requirements (Bodlaj et al., 2012). In organizational culture aspects, there is a need to focus on innovation support learning about customer's needs and improve value propositions beyond customer expectations (Narver et al., 2004). In the behavioral aspect, a proactive firm must be future sensing to gain market information and knowledge, and develop new ideas in the future that change market preferences (Carrillat et al., 2004). In the customer stimulus aspect, PMO

aims to create behavioral aspects either directly by removing customer barriers or indirectly by creating new preferences (Jaworski et al., 2000).

Proactive oriented firms tend to cover the gaps in customer satisfaction or unresolved customer problems as firms proactively find unexploited opportunities (Atuahene-Gima et al., 2005) to generate a long-term advantage in customer satisfaction, markets, and sales (Kumar et al., 2011). However, not all firms can adopt PMO optimally. According to Kumar et al. (2000), most firms tend to avoid risk, limited innovative ideas, and low-risk business decisions. In addition, PMO uses financial risk and implements unique solutions (Atuahene-Gima et al., 2005), therefore it is related to efficiency, compliance with existing business practices and prudence to taking risk may prevent firms from implementing PMO in achieving the advantage of opportunities for the future (Kumar et al., 2000). The current marketing strategy should be able to predict future customer's needs (Mohr & Sarin, 2009) due to rapid consumer preference changes and shorter product life cycles (Rauch et al., 2009). PMO requires an approach beyond a firm's experience and experiment to find and meet the customer's latent needs not articulated by them (Atuahene-Gima et al., 2005; Narver et al., 2004). Market-oriented behavior is characterized by improvements, efficiencies, and implementations that characterize exploitation; while proactive-oriented behavior is characterized by discovery, variation, and risk-taking indicating exploration (Tsai et al., 2008). The previous market orientation is to deepen existing competencies, furthermore extending existing competencies (Tsai et al., 2008). Based on Lamore et al. (2013), proactive strategies encourage technological opportunities that prioritizes R&D; while responsive strategies encourage economic opportunities that prioritize marketing, these relationships increase interest in learning proactive strategies in marketing. When consumer orientation is considered a market-controlled concept, proactive market orientation is more in line with market control (Mohr & Sarin, 2009).

## *2.2. Management Commitment to Internal Resource (MCIR)*

Management commitment to internal resource (MCIR) refers to the resource allocation level of the firm and the willingness to invest in these resources in order to obtain a valuable output (Lai et al., 2008). Prior research suggests that MCIR plays a vital role in improving the effectiveness and efficiency of corporate activities (Richey et al., 2005) and performance improvements (Huang et al., 2012). The importance of MCIR is not only in one discipline but also in many areas such as marketing, corporate strategy, operations, and information systems (Mao et al., 2016). In addition, MCIR plays a role in monitoring resource distribution and ensuring resource accuracy that firms use for maximum performance (Kanwal et al., 2017). Resources can be categorized into three types; namely management resources, financial resources, and technical resources as an investment in a development capacity for the firm (Wu, 2017). Firms that are committed to resources enable to configure resources and assist firms in collecting and utilizing resources in enhancing superior performance (Mao et al., 2016).

According to Barney (1991), "internal resources include all assets, capabilities, processes, knowledge, and information controlled by the firm in order to improve effectiveness and efficiency". However, not all aspects of resources such as physical, human, and organizational capital are relevant to the firm, depending on how the firm understands and implements the firm's attributes (Barney, 1991). Based on resource-based views (RBV) explains that firms capable of analyzing resource allocation are critical to both short-term and long-term competitive advantage (Barney, 1991). In other words, firms that adapt and commit to resources for an activity can produce superior performance (Li, 2014). In the view of resource-advantage theory, firms with more resource advantages will improve market position and competitive advantage and subsequently, superior performance (Hunt & Morgan, 1996). Agree with that, Richey et al. (2005) suggest that a significant level of resource allocation into organizational practice will enjoy superior performance. Lack of adequate human and financial resources can be a barrier to the firm's success (Li, 2014). Thus, MCIR is essential to be applied in business practices for the success of the firm.

### 3. Hypotheses Development

#### 3.1. Proactive Market Orientation and Export Performance

PMO encourages the development and application of new ideas that lead to unresolved customer problem investigations and expected to be the solution for them (Narver et al., 2004). That leads to a focus on analyzing customer data, customer behavior, and customer learning (Tan & Liu, 2014). Thus, the firm pays attention to customers' latent needs by completing new variants of market information to add value, thus enhancing the problem-solving abilities of customers (Atuahene-Gima et al., 2005). Then, firms that have PMO will focus on the future and distribute resources for strategic activities beyond the existing market area of the product market. It forms flexible structures and processes to facilitate resource allocation for new experiments and findings (Wei et al., 2014). However, firms need to know the limitation of their resource capacity in searching for new opportunities in the market. Application of a PMO that exceeds a certain level prevent new knowledge exploration, carrying risks and costs due to the inefficiencies of knowledge and unknown information, so customers can reject new products or services that do not meet their needs (Tsai et al., 2008).

Researchers have stated that PMO positively affects export performance (e.g., Atuahene-Gima et al., 2005; Narver et al., 2004; Voola & O'Cass, 2010). Wei et al. (2014) argue that in proactive market-oriented firms, exploration and exploitation interactions positively affect export advantage. Then, Ozdemir et al. (2017) stated that PMO is upgraded in various types of new product alliances that enable the firm to improve new product performance and overall performance. In addition, based on Jaeger et al. (2016), the impact of PMO on U-shaped performance is so that high-level PMO provides a superior competitive advantage. Furthermore, Tournois (2016) concludes that applying a high PMO is taken into account as a leader in increasing customer perceived value from an improved reputation. Thus, we conclude that:

H<sub>1</sub>: Proactive market orientation has a positive effect on export performance of the handicraft industry.

#### 3.2. Management Commitment to Internal Resource (MCIR) and Export Performance

Managers who commit the resource will show an attitude that is appropriate and useful for a firm and will allocate firm resource capabilities needed to achieve export performance (Cadogan et al., 2005). MCIR help managers improve the efficiency and effectiveness of their resource allocation for market success (Lages & Montgomery, 2004). Empirical evidence shows that if managers dedicate special efforts and allocate essential resources for business activities, the firm will achieve higher export performance (Griffith, 2011). MCIR becomes an essential factor in improving performance (Bianchi & Wickramasekera, 2016). When managers are committed to business decisions, all resource, marketing, technology, and finance will be organized to maximize the results in a precise and systematic manner (Stoian et al., 2011). The resource-based view states that effective and efficient resource allocation is the key to develop a sustainable competitive advantage (Barney, 1991). Then, for firms that are committed to resources and able to adjust these resources for business activities, they are more likely to achieve superior performance (Daugherty et al., 2005). Thus, we conclude that:

H<sub>2</sub>: Management commitment to internal resource (MCIR) has a positive effect on export performance of handicraft industry

### 4. Method

#### 4.1. Sample and data collection technique

This study draws on population data from the Republic of Indonesia's industrial and trade offices in the West Java Province, Indonesia. From the data of Handicraft Exporters, the samples taken in this study included 72 exporters (Slovin's formula 10% of margin error) based on ownership of business legality

and export experience over two years. Handicraft categories took based on HS Code 4414, 4420 and 4602 (made from wood, leaves, and root), HS Code 6914 (made from clay), then HS Code 8306 (made from metal). Primary data were collected using questionnaires and interviews, while respondents were owners or leaders of handicraft exporters in Bandung, Cirebon, Tasikmalaya, and Sukabumi. The research instrument includes the profile of respondents, firm profile, proactive market orientation, management commitment to internal resource, and export performance.

#### 4.2. Operational definition

Indicators of proactive market orientation comprise anticipating future needs, changing market preferences, satisfying latent needs, and opportunity focus. Indicator of management commitment to internal resource (MCIR) comprises financial commitment and human resource commitment. Indicators of export performance comprise sales growth and market share. There were 26 questions in the survey which consists of ten items for PMO, six questions for MCIR, and ten questions for EP. It assessed all question items on a five-point Likert Scale, ranging from one (strongly disagree) to five (strongly agree).

#### 4.3. Result of Data Analysis

Based on data result process on the respondents, a summary of respondent characteristics was obtained, descriptive analysis and testing of the relationships between variables using the analysis of structural equation modeling-partial least square (SEM-PLS). Fig. 1 shows that most owners/leaders of handicraft exporters are men (72.22%) with a range of ages 50-59 years (36.12%), where most at this age already had work experience and the highest position in the firm. Analysis of the export operation period of the handicraft industry is between 10-15 years (33.33%), this shows that the handicraft industry has considerable experience in doing business and global expansion in the Americas, Europe, and Asia. Based on the number of employees, most handicraft exporters in West Java are under 30 employees (68.05%).

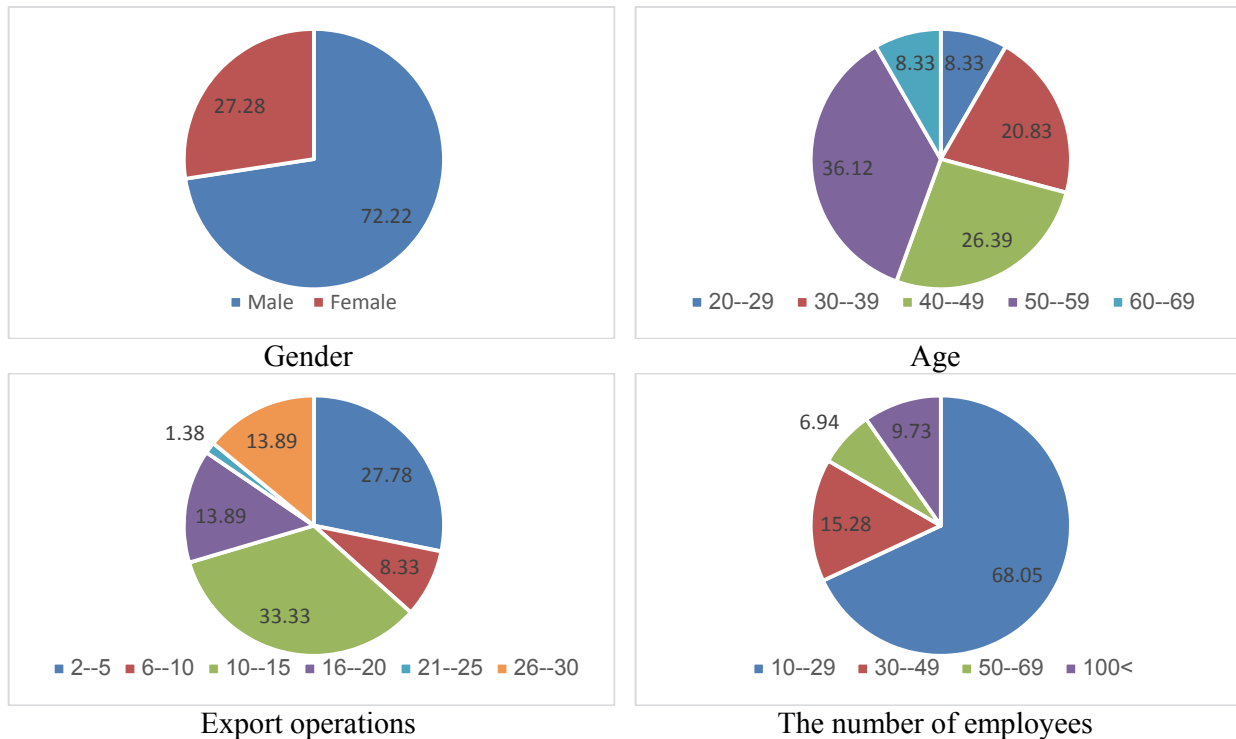


Fig. 1. Personal characteristics of the participants

Descriptive analysis based on the respondents' answers in Table 1 shows that proactive market orientation variable had a high category, which indicates that the exporter's handicraft industry in West Java had a good response to the changes in consumer preferences, to find the latent consumer needs, and to focus on market opportunities and tendency to predict future trend of craft products. Moreover, the handicraft exporter industry in West Java always pays attention to product quality to maintain customer satisfaction and maintain good relationships with customers, communicate via social media and e-mail to provide new product information, offers and explore needs that are not expressed by consumers. The average of management commitment to internal resource (MCIR) variable is in a low category; which means that the average of handicraft exporter industry in West Java has less commitment to human and financial resources. It is proven by the small number of employees (majority under 30 people) and the few employees who received training, certification, and education. However, employees are still equipped with the method to make handicraft products made from rattan, *mendong* plants, pandan leaves, bamboo, and metal to make artistic crafts.

**Table 1**  
Description of variables

Variables	Mean	SD
Proactive Market Orientation	4.07	0.75
Management Commitment to Internal Resource	2.48	0.49
Export Performance	3.86	0.83

Source: Data processing, 2019

In addition, the firm encourages employees to increase their creativity through Information Technology (IT) and compare their products with competing products. Furthermore, the handicraft exporter industry also has a low financial commitment, this is due to difficulties in getting financial resources and capital for the firm, so that the financial allocation for marketing, HR and operational funding activities in the global market is still limited, and also firm's financial stability are not well maintained. On average, the export performance of the handicraft industry exporters in West Java can be categorized as moderate. There is an average increase in sales growth and market share. Although less significant, this condition is caused by an increase in export demand for handicrafts to the United States and Europe as well as the exchange rate of Indonesian rupiah against the US dollar.

## 5. Result

### 5.1. Test of Validity

We present test of validity to measure whether the research instrument is valid or not. This test is performed using the SmartPLS 3.0 application program by showing factor loading (See Table 2).

**Table 2**  
Test of validity

Construct	Factor Loading	t-statistic (t-table=1.97)	Description	Construct	Factor Loading	t-statistic (t-table=1.97)	Description
Proactive MO				Export Perf.			
PMO1	0.851	26.511	Valid	EP1	0.549	4.617	Valid
PMO2	0.732	10.287	Valid	EP2	0.608	5.176	Valid
PMO3	0.813	15.264	Valid	EP3	0.827	13.545	Valid
PMO4	0.811	24.606	Valid	EP4	0.785	19.627	Valid
PMO5	0.777	16.525	Valid	EP5	0.919	59.985	Valid
PMO6	0.733	9.824	Valid	EP6	0.916	41.852	Valid
PMO7	0.729	8.86	Valid	EP7	0.912	46.767	Valid
PMO8	0.783	12.148	Valid	EP8	0.912	52.702	Valid
PMO9	0.784	13.274	Valid	EP9	0.792	12.295	Valid
PMO10	0.631	8.15	Valid	EP10	0.762	9.846	Valid
MCIR							
MCIR1	0.559	4.964	Valid				
MCIR 2	0.834	26.212	Valid				
MCIR 3	0.906	20.523	Valid				
MCIR 4	0.866	26.867	Valid				
MCIR 5	0.838	14.881	Valid				
MCIR 6	0.926	37.901	Valid				

The variables used in this study are independent variables, namely proactive market orientation and management commitment to internal resource (MCIR); while the dependent variable is export performance. The measurement of the validity of each variable is based on the evaluation of factor loading factors using convergent validity. Each factor loading average is greater than 0.5. Based on the validity test results, all indicators of proactive market orientation variables, management commitment to internal resource and export performance have maintained an original sample estimated value greater than 0.5 and the t-statistic value is greater than t-table (1,97). Table 3 shows convergence validity represented by average variance extracted (AVE) value for all variable constructs which are greater than 0.5, and all significant indicators with the result of at least 0.5.

**Table 3**  
Validity Convergence

Variables	AVE	Description
Proactive Market Orientation	0.588	Valid
Manag. Commit. To Int. Res.	0.690	Valid
Export Performance	0.653	Valid

Source: Data Processing, 2019

### 5.2. Test of Reliability

Table 4 shows reliability to test consistency of each variable where the minimum value is above 0.4 (Cronbach alpha should  $> 0.4$ ). It can be explained that all constructs are reliable. Test of reliability also examines composite reliability. It can be accepted if the value of composite reliability is between 0.6 to 0.7, for a higher level, the value of 0.7 to 0.9 can be more satisfying (Hair et al., 2014). The test results show that each composite reliability of all variables is above 0.7. The composite reliability value of the proactive market orientation (PMO) variable is 0.934; management commitment to internal resource (MCIR) is 0.929, and export performance (EP) of 0.948. This value is by the internal consistency reliability described by Wong (2013); the results of all indicators with values above 0.7 can be accepted. It means all variables in this are reliable and can be continued for the next process.

**Table 4**  
Test of Reliability

Variables	Cronbach Alpha	Composite Reliability	Description
Proactive Market Orientation	0.921	0.934	Reliable
Manag. Commit. To Int. Res.	0.906	0.929	Reliable
Export Performance	0.939	0.948	Reliable

Source: Data Processing, 2019

### 5.3. Test on the structural model (inner model)

Structural model testing has been performed to show the correlation values between variables, significance, and R-square values of the relationships between the constructs. The PLS research model begins with knowing the R-square value of all dependent variables. This value is to determine the effect of exogenous latent variables on endogenous ones. Following Table 5, the estimated R-square value using PLS shows the value of the export performance is 0.509. Higher values represent a more significant influence on endogenous variables. In addition, the export performance variable has an R-square value of 0.509, meaning that PMO and MCIR can explain 50.9%, other variables outside the research model determine the remaining 40.1%.

**Table 5**  
R-Square

Variables	R-Square
Export Performance	0.509

Data source: Data processed in 2019

The results of testing data using SmartPLS show the inner model that explains the correlation between constructs. Following bootstrapping output shows a proactive market orientation construct, management commitment to internal resource, and export performance (See Fig. 2).

5.4. Hypothesis testing

This test is conducted to determine whether the proposed hypothesis can be accepted or rejected by comparing T-test and T-table values. Parameter significance estimation shows the correlation value between variables in the model. The criteria of whether or not a parameter is accepted are seen from the level of significance. Table 6 shows the results of estimating hypothesis testing for all variables in the research model. The table below shows that the effect of proactive market orientation to export performance variable has a positive effect (0.258) at  $p < 0.05$  with a statistical value of 2.150. The variable MCIR to export performance has a positive relationship (0.485) at  $p < 0.01$  with a statistical value of 3.925. The results of testing hypotheses can be explained as follows:

5.4.1. 1st Hypothesis

The output value of the original sample estimate is 0.285, and the coefficient value is positive. This shows that the better the implementation of proactive market orientation (PMO) is, the better the export performance (EP) is. It can be proven with the results of testing the hypothesis  $p < 0.05$  (t-statistic 2.150). Therefore, it can be concluded that there is a significant and positive influence from proactive market orientation (PMO) toward export performance (EP).

5.4.2. 2nd Hypothesis

The original sample estimates are 0.485. This value indicates that management commitment to internal resource (MCIR) positively affects export performance (EP). It can be proven by the results of testing the hypothesis  $p < 0.01$  (t-statistic 3.925), and this means that better values of MCIR will increase EP. Therefore, it can be concluded that there is a positive and significant effect of management commitment to internal resource (MCIR) toward export performance (EP).

Table 6

The correlation among variables

Hypothesis	Original Sample	Sample Mean	Standard deviation	T-Statistic	Conclusion
H1: PMO → EP	0.285	0.300	0.133	2.150	Supported*
H2: MCIR → EP	0.485	0.482	0.124	3.925	Supported**

\* $p < 0.05$ , \*\* $p < 0.01$

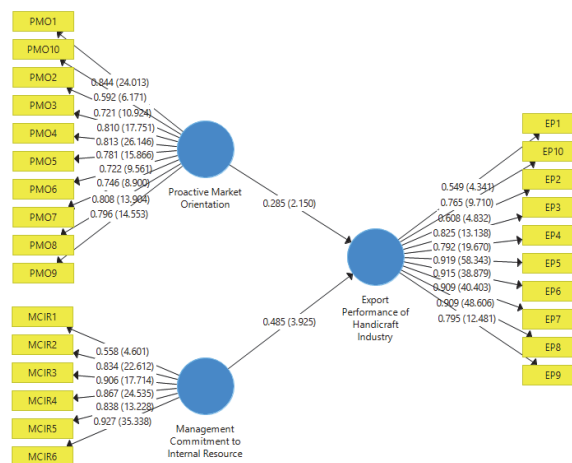


Fig. 2. Structural Model



## 6. Discussion

This study shows that proactive market orientation (PMO) positively affects export performance (EP). It means that the better proactive market orientation (PMO), the better export performance (EP). Therefore, the second hypothesis is accepted. The findings also show that proactive market orientation variables find and satisfy latent customer needs by searching for new ideas tailored to consumer needs. PMO applies generative learning to transcend the boundaries of the existing customers and markets, thereby encouraging the firm's readiness to innovate and develop new products, which ultimately improve performance (Lakshman et al., 2017). This hypothesis is supported by Kirca et al. (2005) which states that a proactive market orientation affects all aspects of business performance, profit, market share, sales volume, perceived quality, customer satisfaction, and customer loyalty. Firms that adopt PMO can predict the trend of future consumer's needs and always strive to satisfy their needs; it has an impact on improving export performance. In addition, Voola and O'Cass (2010) found that proactive market orientation improves export performance stronger than a responsive market orientation. PMO is considered as a market driver, so another goal of the strategy is to create and direct customers towards individual perceptions and behaviors so they can realize their new needs (Bodlaj et al., 2012). This action can be applied by innovating and creating new ideas that effect on performance improvement (Sulistyo & Siyamtinah, 2016). Management commitment to internal resource (MCIR) positively and significantly influences export performance. The better commitment of human and financial resources, the better export performance. This hypothesis is supported by Griffith (2011) who explains that managers who dedicate special efforts and allocate essential resources for business activities will improve export performance. MCIR allows firms to allocate resources proactively and appropriately for export activities in achieving market success and performance improvements (Bianchi & Wickramasekera, 2016). It caused by increasing effort in achieving its stated goals which increase the effectiveness and efficiency in resource allocation as a driver in export performance (Navarro et al., 2010). Therefore, when firms are committed to resource allocation, all marketing, technology, operational and financial efforts will be mobilized to maximize the results of these efforts in an orderly and systematic manner (Stoian et al., 2011).

## 7. Conclusion and implication

This research has found that proactive market orientation (PMO) positively and significantly influenced export performance (EP). It means that the better the PMO, the better the export performance will be. For owners or leaders of industry handicraft exporters in West Java, they need to pay more attention to encourage the creation of new ideas to create unique new products, tailored to the preferences of foreign market consumers. Changes in high consumer preferences for handicraft products encourage industrial handicraft exporters to create the best ideas for their products, and it is expected that these products will become a current trend in consumer preferences. Management commitment to Internal Resource (MCIR) positively and significantly affects export performance. It means that the better the MCIR, the better the export performance will be. For owners or leaders of industry handicraft exporters in West Java, they need to pay more attention to allocate financial and human resources to support marketing and production activities that lead to improved export performance. Moreover, the implication for policymakers that district government should facilitate and support industrial handicraft exporters with capital investment, land and production sites to create integrated production sites that accommodate many handicraft industry entrepreneurs due to weaknesses for the industry that are limited space and production volume, so they can develop and improve export performance in another foreign market.

## 8. Limitation and future research

This study has several limitations. First, the main limitation is that the research sample and the population were restricted to industry handicraft exporters. Future research may conduct this study to other creative industries export industries such as fashion or outside creative industries such as manufacturing indus-

tries. Second, the limitations of variables and test results in the model indicate that there are other variables outside the study that affect export performance. For further studies, research can include other variables such as digital orientation as independent variables and international experience as a moderating variable.

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