

Linking Organizational Learning, Organizational Culture, and Market Orientation on Innovation Culture: A Case Study in Indonesian MSME

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Abstract

Innovation has been crucial in developing sustainable business. Previous studies have also proved that innovation is one of the main strategies to compete in the globalized and diverse market. While many studies focus on innovation culture in large enterprises. Meanwhile, the MSME had not received enough attention despite their contributions to nations' economic growth exist. Therefore, this study proposes an empirical investigation the influence of organizational culture, organizational learning and market orientation on innovation culture in MSMEs sector. This study is categorized a quantitative study with a mixed of direct and online questionnaires data collection technique. This study is conducted in big cities of MSME's. Further, structural equation modelling was performed in order to test the construct relations in the theoretical framework of this study. This study found that organizational culture, organizational learning and market orientation have significant and positive impact on the creation of innovation culture among MSME's in Indonesia. This study provides relevant information for MSMEs owners on the elements that could nurture innovation culture in their organizations. More effort should be devoted from practitioners and the government to comprehend the concept of innovation culture among MSMEs from the context of developing country.

Keywords

Organizational Culture, Organizational Learning, Market Orientation, Innovation Culture, MSME's

1. Introduction

Micro, Small and Medium Enterprises (MSME) contributed a major portion of the global market and are considered as the backbone of Asian economic growth (Yoshino & Taghizadeh-Hesary, 2016; Yoshino, et al., 2015). Beside their contribution in a country on the macro level of economy, the extent of MSME's accomplishments also becomes as a

measure of the efficiency of governmental programs and strategies in developing an entrepreneurial spirit in an economy. While bearing a fundamental role in realizing government's economic growth policy, an ambitious and stronger MSME industry would have to be properly considered. In addition, the presence of MSMEs within a market with large enterprises, allows competition to be happen and add more fundamental balance to industries and marketplaces (Beaver & Jennings, 2000). Particularly, MSMEs placed themselves between the gaps to provide segments that are complementary to the large enterprises or involve niche and fragmented markets where larger enterprises are uncertain enter on account of the risks and unattractive return (Brouthers et al., 1998). While being resource limited and small size, MSMEs are capable to participate in the mentioned markets due to their innovativeness ability and flexibility.

Indonesia, known for the largest economy in Southeast Asia, has an extensive variation of archipelagos with of more than 300 ethnic groups in 5 big islands and thousands of smaller islands. Indonesia has outlined impressive economic growth since overcoming the Asian financial crisis of the late 1990s (World Bank, 2018). Indonesia's real GDP growth has shown an increase from 4.8 in 2015 to 5.1 percent in 2016 (World Bank, 2018). Researchers found that the MSME category is a major contributor to Indonesia's economy, accounting for about 57.8% of the country's GDP (Yoshino et al., 2015). MSMEs that are existing in developing nations, such as in Indonesia, are often associated with economic and social problems in the country such as high poverty levels, large numbers of unemployed people, income distribution bias, unbalance development between urban and rural areas, and urbanization issues. When the economic crisis hit the world, it was written that only the MSME sector could still stand firm even though the economy worsened (BPS, 2012). On the contrary, the number of MSME is called to increase its growth so that it can absorb 85 million to 107 million workers, as of 2012.

Economic growth of a country can be seen from the productivity and innovation rate. Those indicators measure a country's performance to develop a sustainable competitive advantage to a country. Naturally, innovation has a major influence to support MSMEs in generating their competitive advantage and differentiate themselves within competitive market (Galia & Legros, 2004). In fact, OECD (2007) stated that innovation is largely recognized as a vital aspect in competitiveness across firms or even countries. As such, creativity and innovativeness are necessary while facing crisis that might appear during their continuation in the market. Indonesia, unfortunately, has a low score in global innovation performance index compared to neighbouring countries. According to recent the global innovation index (GII), Indonesia scored 29.8 out of 100 and ranked 85th, compared to Philippines (73rd), Viet Nam (47th), Thailand (44th) and Malaysia (37th) in 2018. In line with the government program for the Short, Medium and Long Term where Micro, Small and Medium Enterprises will grow into solid backbones for sustaining the macroeconomy for the nation and state, Indonesian government also implemented supplementary supports to stimulate and incubate innovation culture among the MSMEs in developing Indonesia towards new innovation-focused economy through new regulations that ease MSMEs creation, easy access of funding, such as Kredit Usaha Rakyat (KUR), and open co-working platforms to develop creative business ideas. However, the participation to conceive innovation culture by the MSMEs is notably low in developing countries including Indonesia. Innovation has become one major discussion in measuring organization performance. While there are many articles discussing innovation, there were almost none in talking about elements that inspired the creation of innovation culture to develop an innovative performance among MSMEs. MSME owners will have to reinforce their performance by escalating their ability to innovate. In fact, it is implicitly written in the literature by Padilha and Gomez (2016), Hanifah, et al. (2017), that culture of innovation is considered as a vital element that can embark the start innovation process.

2. Innovation Culture Amongst MSME

Innovation is identified as a kind of deviation from the principles, processes and practices of traditional management, or an unusual organizational form that change the manner a work is done (Hamel et al. 1994). With this consideration, MSMEs is positioned at disadvantageous state compared to larger enterprises. The large-sized enterprises undoubtedly have more financial capabilities, attained much wider and complicated range of skills, better access to assets needed to maintain production and distribution and are more equipped to preserve intellectual property (Minh and Hjortsø 2015). MSMEs are supposed to be able to specialize in specific areas to come up with innovations. For instance, MSMEs can overcome certain conditions like: flexible to handle new technology; partnering various entities which can enhance the necessary knowledge and finances in order to achieve technological competencies; overwhelm technological constraints by innovation using of formal non-R&D process and performing with less technologically-exposed conditions as well as to be aware to recognize changes in consumer preferences and market trends to conquer new opportunities (Keskin, 2015).

In respect of previous studies, every organizations, including MSMEs, needs to embark “a culture of pride and climate of success” (Anahita et al., 2012; Dobni 2008). In line with this, Tushman and O’Reilly (1997) also assumed culture as a part of compulsory aspects in managing innovation. In the same study, culture is needed to be excel in every business environment while perceiving the values that guide and support the environment. A culture of innovation is crucial as it intensifies the coherence, loyalty and some apparent rules to behave and act in a proper way (Dobni, 2008; Mahmoud et al., 2017). In this situation, MSMEs’ presence become important in the creation of cultural context that encourages innovation performance. According to Dobni (2008), there are four dimensions of innovation culture, particularly intention to be innovate, infrastructure to assist innovation, behaviour that leverage market orientation as well as value perception and lastly, an environment that enables the implementation of innovation. With this categorization, innovation culture is assumed to be multi-dimensional; however, within the context of MSMEs, which are fragile and small in nature, innovation culture is examined as one dimension to incorporate a holistic manner in respect to innovation culture of large corporation in general, where communication networks are better, have flexible structure, employees are entrusted, able to take risk, have an coordinated orientation, and accepting new knowledge with learning process (Hanifah, 2017).

3. Organizational Culture and Innovation Culture

Innovation culture could be happened by promoting a culture where new ideas are allowed to be generated, appreciated and supported (Sarooghi, 2015; Streets & Boundary, 2004). By doing so, the organizational culture can act as an influencer to create innovation culture (Sharifirad Sadegh & Ataei, 2012; Brettel, Chomik & Flatten, 2015). As a matter of fact, organizational culture needs to be properly gestated as it will result in the encouragement for organizations to cultivate creativity and freshness through the innovation culture (Mahmoud et al., 2017; Gandotra, 2010). ccording to Denison’s model (1990) of organizational culture, there are four attributes of organizational culture, namely involvement, consistency, adaptability and mission. Involvement culture refers to a bold sense of psychological ownership and engagement to the organizations, while on the other hand, consistency culture can be defined as a condition where leaders and followers shared a common mindset and high level of loyalty. Adaptability defined as the capacity of organizations to overcome internal changes as a result of fluctuations of external environment. Finally, missions attribute stands for a long-term goal to ensure strategic orientation and intention, goals, objectives and vision are accomplished (Denison, Janovics & Young 2005).

Without these attitudes, enhancing an organization’s innovativeness would be complicated and difficult to happen in the fluctuated market. Bearing in mind, a culture that supports innovation, will inspire attitudes that appreciate creativity, risk taking, freedom, teamwork, value seeking, and become solution oriented (Padilha & Gomes 2016). These arguments then lead to the first hypothesis:

H1: Organizational culture (adaptability, involvement, mission and consistency) positively impact innovation culture.

4. Organizational Learning and Innovation Culture

Organizational learning can be concluded as the process that are related in generating new knowledge and ideas (Perez Lopez et al., 2004; Dishman & Pearson 2003; Huber 1991), thus have effects in the creation of organizational innovation process (Smith, 2005). Previous studies have recognized the positive relationship between organizational learning and organization innovation (Calantone et al., 2002; Jiménez-Jiménez & Sanz-Valle, 2011). In regards, organizations that are highly engaged to learn tend to be equipped by advanced technologies which then leads to better innovation capability in products as well as processes (Calantone et al., 2002). However, learning-oriented organizations realized that innovation will happen if there is an urgent need for an organizational culture where creativity and innovative behavior nurtured amongst them. In connection, innovation culture act as incubators for new ideas and improved base capabilities to successfully embrace new knowledge, processes and products (Hurley & Hult, 1998). Therefore, organizational learning capabilities may lead to the creation of innovation culture.

Huber (1991) and Lopez et al (2004) identified organizational learning as a mixture of four initial measures. There are: information acquisition, information distribution, information interpretation and organizational behavioral and cognitive. Therefore, organizations that are going to focus on organizational learning, have to be compelled to acquire information, analyze the information to understand deeply its meaning and convert it into organizational knowledge.

Moreover, other than implementing behavior and cognitive changes within the organization, words need to be implemented into practice (Tsang, 1997). Responding to this occurrence, organizational learning may affect innovation culture in three possible ways: when learning process take place during acquisitions, organizations have a tendency to interact with environment; when information is collected, the organizations need to described the knowledge and spread the culture of creativity and capability to understand and finally, as organization is able to implement the knowledge, then it is time for them to put words into action. Therefore, it is proposed that:

H2: Organizational learning (information acquisition, information interpretation and behavioral & cognitive) positively impact innovation culture.

5. Market Orientation and Innovation Culture

Generally, market orientation is connected to culture which pinpoint the customer and competitor orientation, internal coordination and responsiveness, which are fundamental to organization achievements (Kohli & Jaworski, 1990; Narver & Slater, 1990). In the context of MSMEs, innovation performance is naturally driven by customer and competitor orientation (Appiah-Adu & Satyendra, 1998). It is strongly recommended for organizations to compare past, present and future needs of customers to be competitive and be more likely to embrace the culture of innovation as well as to keep up with the time (Pelham & Wilson, 1995). In contrast, competitor orientation is often associated with actively observing all existing and potential competitors in the market where organization exist and to gather information to differentiate themselves from competitors (Narver & Slater, 1990). The market-focused organizations main goal is to put more attention towards competitor’s actions and considering competitors as the origin of new ideas. Genuinely, the better consideration of competitor orientation will make the degree of new products failure low (Mahmoud et al., 2017).

Market orientation aims on orientation from customer and competitors by creating products or services which can sparked the creation of competitive advantage within the organization, whilst innovation culture underlined the organization’s internal capabilities. Consequently, market-oriented organizations are naturally motivated by the innovation culture which took form in mentioned activities above. At the same time, the organizations need to instill innovation culture which significantly assist the research and development as well as technology division to become successful in further improvements of innovation performance. Thus, the lack of presence in this context gave opportunity and interest to conduct an analysis to link the relationship between market orientation and innovation culture amongst Indonesian MSMEs. From above arguments, it can be concluded that:

H3: Market orientation (consumer orientation and competitor orientation) positively impact innovation culture.

Hypotheses for this research were inspired by previous research by Abdul-Halim et al. (2018). Therefore, from the hypotheses above, this study concluded the conceptual framework as shown below in Figure 1.

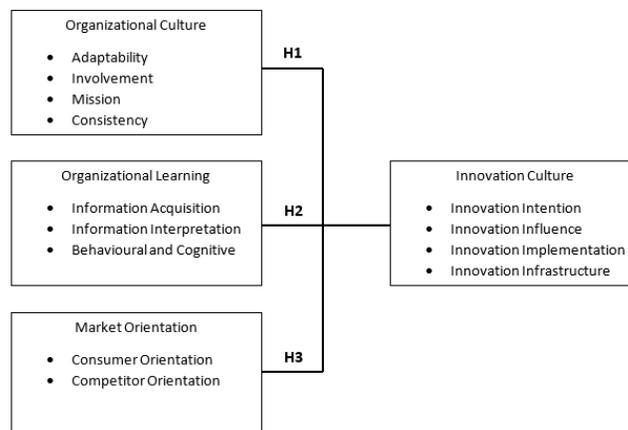


Figure I. Conceptual Model

6. Research Design and Methods

In this study, Researcher will use MSMEs owners as the research object. The main reason for researchers to choose MSMEs is their contribution to Indonesia's GDP. MSME sector contributed about 60% of Indonesia's GDP in 2017 (Media Indonesia, 2018). Therefore, MSMEs presence is crucial to Indonesian economic growth. Additionally, the government of Indonesia had come up with programs that ease the MSME's creation, thus young, talented Indonesians could build their own businesses. The unit of analysis used in this study is individuals. In this study, the individuals used are MSME owners in big cities area. There were approximately 58 million of MSME owners spread across Indonesia (BPS, 2016). However, Jakarta greater area, Bandung, and other cities are within researcher's scope, therefore researcher had easier access to get data and information from respondents. Considering the scope of MSMEs industry, Researchers narrows down the MSMEs category into 4 different industry: agribusiness, manufacture, skill and talent development, marine industry (Primiana, 2009). However, Researchers added one more industry of MSMEs, namely food and beverages, since the sector is commonly found in the scope of the areas.

In this research, the researcher decided to research by using questionnaire data collection method. Researcher distributed the questionnaire personally and electronically which use the online questionnaire by Google Form. There are 330 respondents in this research which dominated by food and beverage industry (178 respondents, 53.9%), followed by manufacturing industry (58 respondents, 17.6%), marine industry (42 respondents, 12.7%), agribusiness (16 respondents, 4.8%), skill development and training (9 respondents, 2.7%) and other industries (27 respondents, 8.3%). From the total of 330 data obtained, the study revealed that most of the respondents are MSMEs that established more than 3 years ago with 197 responses (59.7%), while the rest ranging from 1 to 3 years of establishment (67 respondents, 20.3%) and less than 1 year (66 respondents, 20%). It is revealed that this research is dominated by MSMEs from food and beverage sectors with more than 3 years of establishment.

This study using four major constructs: Organizational Culture, Organizational Learning, Market Orientation and Innovation Culture. The indicators for Organizational Culture were adopted from Denison (2008). Organizational Learning were adopted from Huber (1991) and Lopez et al. (2004). Market Orientation construct was using indicators that adopted from Narver & Slater (1990) and Nasution et al. (2011). Innovation Culture indicators were adopted from Dobni (2008). All scales were measured using a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

7. Results and Discussion

The acquisition of results obtained from the respondents will be processed through Smart-PLS 3.0 software that will be used to answer research problems that exist using statistical methods and models. In this study, the researcher distributed questionnaires of 330 questionnaires and 330 return questionnaires. The complete percentage of 100% was obtained from the results of the methods undertaken by researchers using the method of personally administered where the researcher spread directly the questionnaire — the convergent validity and AVE for each construct as shown in Table 1 below.

Table 1: Convergent Validity - Factor Loading > 0.70

Constructs and Indicators	Factor Loading	AVE	Composite Reliability	Cronbach's Alpha
Organizational Culture		0.766	0.775	0.776
OC2	0.760			
OC4	0.756			
OC5	0.785			
OC6	0.764			
OC7	0.741			
OC8	0.786			
OC10	0.759			
OC11	0.796			
Organizational Learning		0.724	0.784	0.763
OL1	0.787			
OL2	0.778			

OL3	0.711			
OL5	0.740			
OL7	0.767			
Market Orientation		0.718	0.803	0.724
MO1	0.730			
MO2	0.703			
MO3	0.789			
MO4	0.773			
MO5	0.701			
MO6	0.710			
Innovation Culture		0.713	0.825	0.754
IC1	0.716			
IC3	0.797			
IC4	0.738			
IC6	0.743			
IC7	0.764			
IC8	0.726			
IC9	0.752			

This study has been adapted to quantitative research where the data analysis used reliability and validity as the measurement. Accordingly, Smart PLS 3.0 is used to process all the compiled data for this study data analysis. SmartPLS 3.0 program can assess model measurement results through confirmatory factor analysis by testing the validity and reliability of latent constructs. Then, followed by evaluation of the structural model and significance test to test the influence of construct or variable. Validity analysis examines loading factor value and average variance extracted (AVE) value while reliability analysis evaluates the value of Cronbach's Alpha and composite reliability. The result of the validity test presents that all indicators and variables are valid using the standard of loading factor value > 0.7 and AVE value > 0.5 . Accordingly, on the reliability test, the results show with the range from 0.775-0.825 indicates high reliability for survey instruments. All the Cronbach's Alpha and composite reliability are measured with minimum value are 0.7 for each construct. This study is a modification from the previous research of the Abdul-Halim et al (2018). They conducted similar research about SME sector based in Malaysia. The study used the research object derived from the MSMEs contribution globally and especially in Indonesia.

Based on the results of the study, the first hypothesis stated " Organizational culture (adaptability, involvement, mission and consistency) positively impact innovation culture" is supported because it outperforms the rule of thumb of T-statistics $> T$ -value 1.969 which resulted as 5.824. In this relationship, the framework of organizational culture is deemed to be significant; nevertheless, organizational culture might act as encouragement or barriers to creativity and innovation if it is not properly developed (Mahmoud et al, 2017). The results are found similar with the previous research by Abdul-Halim et al. (2018), where all dimensions of organizational culture are supported. Thus, the creation of innovation-supporting organizational culture have a positive impact to the creation of innovation culture.

The second hypothesis that declared "Organizational learning (information acquisition, information interpretation and behavioral & cognitive) positively impact innovation culture" is supported because it is confirmed the criteria of T-statistics $> T$ -value 1.969 which resulted as 3.603. However, Abdul-Halim et al. (2018) found that one dimension of organizational learning, which is information acquisition, was not supported. Nonetheless, The result of this hypothesis is supported by the previous theory that states organizational learning capabilities may lead to the creation of innovation culture. A learning-oriented organizations are more equipped with technologies to learn and innovation culture act as incubators for new ideas and improved base capabilities to successfully embrace new knowledge, processes and products.

Furthermore, the third hypothesis stated "Market orientation (consumer orientation and competitor orientation) relates positively to innovation culture" is verified that the hypothesis is supported because it is confirmed the criteria of T-statistics $> T$ -value 1.969 which resulted as 4.893. Abdul-Halim et al. (2018) obtained different results with this study, where consumer orientation dimension is not supported. Market orientation, both consumer and competitor orientation, seen as fundamental role to cultivate a culture of innovation amongst Indonesian MSMEs. By adapting to consumers' needs, wants and response, as well as competitor's strategy, an organization could come up with a

product that satisfy the consumers and tackles competitor's weakness, thus a culture of keep innovating to keep up with the unstable market can be created. The results of all hypothesis as depicted in Table 2 below.

Table 2: Hypotheses Testing

Hypotheses	Original Sample	T-statistics	Sig P-value	Hypotheses Analysis
H ₁ : Organizational culture (adaptability, involvement, mission and consistency) positively impact innovation culture	0.226	5.824	0.000	Positive Impact & Supported
H ₂ : Organizational learning (information acquisition, information interpretation and behavioural & cognitive) positively impact innovation culture.	0.319	3.603	0.000	Positive Impact & Supported
H ₃ : Market orientation (consumer orientation and competitor orientation) positively impact innovation culture	0.399	4.893	0.000	Positive Impact & Supported

Source: Data Analysis

8. Conclusions

Based from the results, it could be concluded that Indonesian MSMEs have implemented a supportive organizational culture which valued and appreciated employee's ideas and giving proper explanation regarding the organization's vision and mission. However, the lack of consistency of their rules and policies might slow down the creation of innovation culture. Indonesian MSMEs have the ability to acquire information externally or internally and the owners positioned themselves as a mentor or adviser for the members in order to evaluate their performance. However, not all ideas from members are implemented. Unless the management think the same way of the employees, the ideas might not be implemented. The internal discussions are also inefficient in solving problems and creating future strategy. These practices might halt creation of innovation culture amongst Indonesian MSMEs. Indonesian MSMEs are indeed competitive and respond well to the industry which they are competing in. Moreover, in the unstable market of Indonesia, which easily affected by new trends, MSMEs need to present multiple options of products or services to consumers to come up with an innovative solution as a basis of innovation culture. Innovation is needed for MSMEs to further improve their performance in the competitive and fluctuated market environment. To embrace innovation, MSMEs need to uphold a culture of innovation.

This study is a modification from previous study conducted by Abdul-Halim et al (2018). The findings are quite similar to the previous research in which organizational culture, organizational learning, and market orientation served as a support in the creation of innovation culture amongst SMEs. As a modification, researcher added micro enterprises as the target sample and changed the dimensions into indicators. The results show that even when micro enterprises are relatively young, they already or begin to develop an innovative organization with supporting environment to create innovation culture. This study also contributed to previous theories by further supporting the significant relationship between organizational learning to generate innovation culture. Firstly, MSMEs need to collect and maintain their knowledge and describe it with great detail and eventually implement the knowledge accordingly to embark a concept of innovation culture. The result of this study also appears to show competitor orientation influential impact against innovation culture. Intensive monitoring of competitors may administer necessary practices to be acquired and consider innovation activities by referring to the concept of innovation culture. Moreover, the findings of this study could bring MSMEs into a new point of view that may lead to adoption of concept of innovation culture and eventually move from traditional way of business into more efficient, profitable and innovative way.

Managerial implication that this study can contribute is a strategy to cultivate innovation in Indonesian MSMEs. Organizational culture along with the organization's capability to learn and the market orientation are legitimate examples of internal conditions that are vital for MSMEs in nurturing the growth of innovation culture. Within this consideration, those mentioned conditions could cater inspiration to create a strategic plan in facilitating the development of MSMEs.

The characteristics of Indonesian MSMEs are reflected in this study. Indonesian MSMEs owners might not properly explained the organization's vision and mission so members of organization do not know what they are doing to reach the organization's goals. The rules and policies within the organization are not firm and can be updated. This might have a positive or negative impact to innovation as rules and policies were meant to manage employees' behaviour and are a valid control tool. Information within the organization can be accessed by the members, however, internal discussions conducted not to talk about the future of the organizations or come up with solutions for a problem. While Indonesian MSMEs conducted research and responded to consumers and competitors, yet, the result of the research is not shared thoroughly in the organization. These characteristics seemed to be the cause of the lack of innovation from Indonesian MSMEs.

Therefore, proper and clear explanation of organization's vision and mission is needed as the fundamental on how members of organization perceive, act and think within the organization to reach the strategic goal. In the process to reach the desired condition, innovation might take place. To support innovation process, a firm and solid set of rules and policies has to be implemented without interrupting the creation of innovation. As the rules and policies are established and well-run, information spread within organization has to be sufficient and accessible for all employees. Information shared in internal discussion has to be a high quality and accurate. Internal discussions also have to bear a great purpose for the future of the organization, otherwise, it would be unproductive, inefficient and time-consuming discussions. Clear market orientation is also needed as a guidance for the organization in the market. Conducting consumer and competitor research are already in track with innovation process. Nonetheless, information obtained from the research should be shared within the organization to embrace creativity for the members of organizations. With these set of focus on organizational culture, organizational learning and market orientation, innovation culture could be gestated and implemented throughout the MSMEs across Indonesia.

Practitioners have to realize MSMEs come in different size and industries and not all have the advantages to innovate at most times; instead, innovation can only happen for MSMEs that possess the right internal conditions. This might occur due to difficulties that MSME owners have to overcome in precepting innovation culture along with strong understanding of the legitimate methods to produce innovation. Difficulties do not mean to be a barrier for innovation, instead they appear due to the incomplete information to face the uncertain conditions. Within this consideration, owners of MSME have to have a complete understanding about internal condition and an amount of investment might not be needed in achieving innovation. Hence, assisting MSMEs to develop an effective innovation culture will provide them a piece of information to a better understanding in implementing the right approach into creating a culture of innovativeness to improve innovation performance. There are several limitations regarding this research. The primary limitation is the dependence of a single respondent, in this case MSME owners. The answers given were based on their honesty and experience in becoming an owner of MSME. Secondly, the interpretation of theories, hypotheses, results and discussions may vary depending on the readers. Thirdly, this research is constraint by time and resources. This study was conducted for 3 months and using Researcher personal expenses to gather respondents from Jakarta and Tangerang areas. Lastly, the number of samples may not represent Indonesian MSMEs as a whole unit of business.

For the next researcher who want to continue this topic, this study suggest few things as recommendations. Firstly, broader variables could be added to strengthen the performance of innovation. Secondly, sample size used in this study might not be enough to represent all kinds of MSMEs in Indonesia, thus adding more samples and broaden the coverage might be necessary, especially in areas where MSMEs are the source of income. Next, in order to gain more perspective into innovation culture amongst developing countries, comparison research could be conducted, especially within Southeast Asia nations such as Malaysia, Thailand, Philippines, and Vietnam. Lastly, this study serves as a base for further improvements that covers small areas, therefore, next researcher could bring this topic to national level and to embrace the government to create a strategic plan to transform Indonesian MSMEs to a better condition.

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