STRATEGIC ORIENTATIONS AND MARKETING PERFORMANCE OF INDONESIAN FM RADIO STATIONS: THE MEDIATING ROLE OF PROGRAM INNOVATION

SUNARDI SEMBIRING BRAHMANA

THESIS SUBMITTED IN FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

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by

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DEDICATION

To the loving memory of my father N. Brahmana and my mother L. Ginting who shed the light in understanding the secret, beauty, and the value of the life.

To the loving memory of my dearest brother in law Simion Manik, and also to my dearest sisters Lelong Brahmana and Rimeanna Brahmana for their loving, caring, and unquestioning support and guidance.

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ABSTRACT

The purpose of this study is to examine the effect of each of the four strategic orientations (market, innovation, entrepreneurship, and learning orientation) on marketing performance in the context of Indonesian FM radio stations. The study also examines the mediating effect of program innovation on the relationship between each of the four strategic orientations and marketing performance. In this study, each of the four strategic orientations is conceptualized as a multidimensional construct which consists of three dimensions for market orientation (i.e. customer orientation, competitor orientation, and inter-functional coordination), two dimensions for innovation orientation (i.e. openness to new ideas, and propensity to change), three dimensions for entrepreneurship orientation (i.e. receptiveness to innovation, risk-taking attitude, and proactiveness toward opportunity), and four dimensions for learning orientation (i.e. commitment to learning, shared vision, open-mindedness, and intra-organizational knowledge sharing). Data were collected through mail survey and a total of 117 usable responses were accepted for the purpose of this study. The results of this study revealed that customer orientation, competitor orientation, inter-functional coordination, innovation orientation, receptiveness to innovation, proactiveness toward opportunity, commitment to learning, shared vision, open-mindedness, and intraorganizational knowledge sharing have a significant influence on marketing performance, whereas risk taking attitude has insignificantly influence marketing performance. The results also revealed that customer orientation, competitor orientation, innovation orientation, proactiveness toward opportunity, commitment to learning, and shared vision significantly influence program innovation, whereas inter-functional coordination, receptiveness to innovation, risk taking attitude, open-mindedness, and intraorganizational knowledge sharing do not significantly influence program innovation. In addition, it is found that program innovation has a significant influence on marketing performance. Furthermore, the results of this study support the mediation effect of program innovation only for the relationship between customer orientation, competitor orientation, innovation orientation, proactiveness toward opportunity, commitment to learning, shared vision and marketing performance. The findings suggest that each of the four strategic orientations is important to Indonesian FM radio stations. Therefore, Indonesian FM radio station should carefully develop and implemented these four strategic orientations to enhance their program innovation capabilities, which in turn will lead to superior marketing performance. Limitations of the study and recommendations for future research are also included in this study.

ORIENTASI STRATEGIK DAN PRESTASI PEMASARAN STESEN-STESEN RADIO FM DI INDONESIA: PERANAN INOVASI PROGRAM SEBAGAI PENCELAH

ABSTRAK

Tujuan kajian ini adalah untuk mengkaji kesan empat orientasi strategik (orientasi pasaran, orientasi inovasi, orientasi keusahawanan, dan orientasi pembelajaran) ke atas prestasi pemasaran dalam konteks stesen radio FM di Indonesia. Kajian ini juga mengkaji kesan pencelah inovasi program kepada perhubungan di antara setiap empat orientasi strategik dan prestasi pemasaran. Dalam kajian ini, setiap empat orientasi pemasaran dikonsepsualisasikan sebagai konstrak yang mempunyai pelbagai dimensi iaitu tiga dimensi untuk orientasi pasaran (orientasi pelanggan, orientasi pesaing, dan koordinasi antara fungsi), dua dimensi untuk orientasi inovasi (keterbukaan kepada ide-ide baru, dan kecenderungan kepada perubahan), tiga dimensi untuk orientasi keusahawanan (kepenerimaan kepada inovasi, sikap terhadap pengambilan risiko, dan proaktif terhadap peluang), dan empat dimensi untuk orientasi pembelajaran (komitmen kepada pembelajaran, perkongsian visi, keterbukaan minda, dan perkongsian pengetahuan antara organisasi). Data telah dikumpul melalui survei secara pos dan sejumlah 117 respon boleh digunapakai telah diterima untuk tujuan kajian ini. Keputusan kajian ini menunjukkan bahawa orientasi inovasi, orientasi pesaing, koordinasi antara fungsi, orientasi inovasi, kepenerimaan kepada inovasi, proaktif terhadap peluang, komitmen terhadap pembelajaran, perkongsian visi, keterbukaan minda, dan perkongsian pengetahuan antara organisasi mempunyai pengaruh kepada prestasi pemasaran, manakala sikap terhadap pengambilan risiko tidak mempengaruhi prestasi pemasaran secara signifikan. Keputusan kajian juga mendedahkan bahawa orientasi pelanggan, orientasi pesaing, orientasi inovasi, proaktif terhadap peluang, komitmen kepada pembelajaran, dan perkongsian visi mempengaruhi inovasi program secara signifikan, manakala koordinasi antara fungsi, penerimaan kepada inovasi, sikap terhadap pengambilan risiko, keterbukaan minda, dan perkongsian antara organisasi tidak mempengaruhi inovasi program secara signifikan. Sebagai tambahan, didapati bahawa inovasi program mempunyai pengaruh signifikan ke atas prestasi pemasaran. Selain itu, keputusan kajian ini hanya menyokong kesan pencelah inovasi program ke atas perhubungan di antara orientasi pelanggan, orientasi pesaing, orientasi inovasi, proaktif terhadap peluang, komitmen kepada pembelajaran, perkongsian visi dan prestasi pemasaran. Dapatan mencadangkan bahawa setiap empat orientasi strategik adalah penting kepada stesen-stesen radio FM Indonesia. Oleh itu, stesen-stesen radio FM di Indonesia sepatutnya berhati-hati dalam membangun dan melaksanakan ke empat-empat orientasi strategik untuk meningkatkan keupayaan inovasi program mereka yang mana kemudiannya akan membawa kepada prestasi pemasaran yang lebih baik. Kelemahan kajian dan saranan untuk penyelidikan masa hadapan juga dimuatkan dalam kajian ini.

CHAPTER 1

INTRODUCTION

1.1 Background of the study

Whatever the reason, basically, the existence of a firm in business is to justify its goals, to create value and to outperform its competitors (Ma, 1999). To outperform its competitors, a firm should create and deliver better value compared to its competitors. Therefore, to be the winner of the competition, a firm has to create, exploit, and maintain its competitive advantage (Ma, 1999). However, the ability and capacity of firms to create and deliver value are varying, which also lead to varying performance among firms.

Scholars are always interested in explaining performance differences between firms (Atuaheme-Gima, 1999; Calantone, Capusgil, & Zhao, 2002; Despande & Farley, 2004; Hult, Hurley, & Knight, 2004; Narver, Slater & MacLachan, 2000; Slater & Narver, 1995). Some scholars claimed that one of the factors that could explain these differences is innovation (Narver & Slater, 1990; Smart & Conant, 1994; Calantone, et al., 2002; Deshpande & Farley, 2004). Firm’s capability and capacity to create innovation is the major factor to determine firm performance (Auh &Menguc, 2005; Burns & Stalker, 1961; Hurley & Hult, 1998; Porter, 1990). Innovation enables firm to create solutions to overcome problems and challenges faced by firm and it becomes the basis of firm’s long-term success (Hult et al., 2004; Lin & Chen, 2007).

Innovation is a medium for firm to gain success (Branzei & Vertinsky, 2006; Damanpour, Szabat, & Evan, 1989; Han, Kim, & Srivastava, 1998; Hult et al; 2004; Khan & Manopichetwattana, 1989; Zahra, de Belardino, & Boxx, 1988; Varela & Benito, 2005; Verhees & Meulenberg, 2004; Zaltman et al., 1973). In the turbulence of external environments, innovation is an important means for firms to survive and reach long-term superior performance (Akamawi 2005; Garcia-Morales & Llorens–Montes, 2006; Gronhaug & Kaufmann, 1988; Han et al, 1998; Theter, 2003.

Some studies have been carried out to elaborate factors that could increase firms' capabilities to create innovations; however, the results were varied (Abratt & Lombard, 1993; Henard & Szymanski, 2001; Poolton & Barclay, 1998). Abratt & lombart (1993) found out that market-oriented firms tend to be more innovative compared to non market-oriented. In contrast, Poolton & Barclay (1998) argued that there are 14 key success factors as determinants of firms' success in creating new innovations. The 14 key success factors were: good internal and external communication; innovation as a corporate-wide activity; high quality management and management style; key individuals; good planning and control; efficient development work; marketing and user needs; after-sales service and user education; top management support for innovation; long term strategy with an innovation focus; long term commitment to major projects; flexibility and responsiveness to change; top management acceptance of risk; support for an entrepreneurial culture (Poolton & Barclay, 1998).

It is commonly known that firm's innovation capability influences firm performance. However, firms still have a lack of understanding about the factors that could drives innovation (Han et al, 1998; Hult et al, 2004). Some researchers argued that firm's strategic orientations are the drivers of innovation (Calantone et al., 2002; Chou (2009); Frishammar & Horte, 2008;

Gatignon & Xuereb, 1997; Hult et al., 2004; Jeong, Pae & Shou, 2006; Ledwith & O'Dwyer, 2008; Morgan, 2004; Verhees & Meulenberg, 2004).

Strategic orientation is firms' focus direction in creating needed behavior to enable them to create innovation to compete with others which resulting in superior performance (Azhar, 2008; Gatignon & Xuereb, 1997; Kaya & Seyrek, 2005). Strategic orientations that closely related to innovation are: market orientation, innovation orientation, learning orientation and entrepreneurship orientation (Baker & Sinkula, 1999b; Berthon, Hulbert, & Pitt, 1999; Calantone et al., 2002; Han et al., 1988; Hult et al., 2004; Morgan, 2004; Verhees & Meulenberg, 2004; Rapp, Schilewaert, & Hao, 2008; Wang & Ahmed, 2004; Zhou, Gao, Yang, & Zhou, 2004). Market, innovation, learning and entrepreneurship orientation are different concepts (Baker & Sinkula, 1999; Berthon et al., 1999; Calantone et al., 2002; Hurley & Hult, 1998; Liu, Luo, & Shi, 2002; Lin, Peng, & Kao, 2008; Slater & Narver, 1995; Zhou et al., 2004). Firstly, market orientation focuses on how firms understand their customers' needs, environments, and how to deliver best beneficial values for customers (Hou, 2008; Kohli & Jaworski, 1990; Narver & Slater, 1990). Secondly, innovation orientation involves firms' openness to new ideas and tendency to change (Hurley & Hult, 1998; Lin et. al., 2008). Thirdly, learning orientation involves entire organization activities in creating and using knowledge so that organization can learn faster than its competitors, and hence, can outperform its competitors (DeGeus, 1988; Farrell, Oczkowski, & Kharabshah, 2008; Hoy, 2008; Hurley & Hult, 1998; Lin et al., 2008). Lastly, entrepreneurship orientation is related to the aspects of organization capability and the courage in taking risks to enter new markets (Chadwick, Bannett, & Dwyer, 2008; Lumpkin & Dess, 1996).

Up to present, the four strategic orientations, innovation and marketing performance relationship have not been studied in an integrated framework. Han et al. (1998) investigated how market orientation and innovation influence firm performance. Hult et al. (2004) investigated the impact of market, learning and entrepreneurial orientation on firm performance using innovation as a mediator. Hurley & Hult (1988) investigated the relationship between innovation-performance with market and learning orientation as the antecedent of innovation. Atuaheme-Gima (1999) investigated the relationship between market orientation, innovation and firm performance.

Hult et al. (2002) mentioned these strategic orientations as the four culture-based factors. The idea of the four culture-based factors derived from the resource-based view of the firm (Barney, 1991; Welnerfelt, 1984) and from literatures on market-driven organizations (Day, 1994), which clearly stated that organizational culture is among the most important resources in the firm.

This study will adopt the resource-based view (RBV) as the theoretical foundation. The RBV is based on the principles which stated that competitive capability of firms is the function of valuable and unique resources and other capabilities owned and controlled by firms (Henri, 2006). Valuable, rare, unimitated, and non-substitutable resources will enable firms to reach sustainable competitive advantage that is not easily imitated by competitors (Barney, 1991).

One of resources that meet Barney's (1991) criteria as a unique resource, mainly in the service sector is organizational cultures (Bharadwaj, Varadarajan, & Fahry, 1993). Market orientation, innovation orientation, learning orientation and entrepreneurship orientation are an organizational culture (Baker & Sinkula, 199a; Berthon et al., 1999; Covin & Slevin, 1991; Day, 1994; Hurley & Hult, 1998; Lin et al., 2008; Moorman & Miner, 1998; Narver & Slater, 1990; Noble, Sinha, & Kumar, 2002) and believed as major required capabilities to enable firms to gain sustainable competitive advantage and long-term superior performance (Henri, 2005; Hult, Ketchen, & Nichols, 2002; Hurley & Hult, 1998; Ireland, Hitt, Camp & sexton).

Each element of the four culture-based factors is crucial, however, each of them inadequately create unique resources to gain sustainable competitive advantage (Henri, 2006; Hult et al. (2002). The entire four culture-based factors will assist firms to own a unique advantage to develop sustained advantages (Bhuian, Menguc & Bell, 2005; Hult et all., 2002; Hurley & Hult 1998; Ireland et al., 2001). The intricate configuration of the four factors will become a milestone for managers in creating a firm competitive advantage. It is important then to examine how innovation influences the relationship between each of the four strategic orientations and performance in one integrated framework.

This study attempts to examine the effect of innovation on the relationship between each of the four strategic orientations and marketing performance of the Indonesian FM radio broadcasting industry. Radio stations are part of media industry. Media industry is a very unique sector and become socially and economically more important, and most of its activity takes place within small and medium scales (Rae, 2004; Verhoef, Hoekstra, & Aalst, 2000)

Radio is increasingly preferred as an advertising medium (Verhoef et al., 2000). In The Netherlands, total advertising expenditure spent in radio increased by 19 percent in 1996 (VEA, 1997). Compared to other media (for example: television, newspaper, magazine) radio has a number of advantages (Verhoef, 2000:143) such as:

- Advertising time is relatively cheap, and production cost is low
- Radio is selective; owing to the limited geographical reach of most stations and their specialized programming formats, such as all news and classical formats, audiences tend to be quite homogenous in terms of demography and lifestyles;
- Radio is a very flexible medium because the commercial often can be delivered shortly before the (first) moment of broadcast;
- Radio enables an advertiser to build both a high average reach and frequency in a short period;
- Radio is ubiquitous, because it is available to most people at any place at any time.

Major media in Indonesian media industry are: television, newspaper, radio, magazines, and other types of media. Radio stations have the third position in Indonesian media industry after television and newspapers. The number of radio stations in Indonesia has grown by significant rates. There were 634 FM radio stations as of 2004, for 2005 the number raised to 679 FM radio stations, and it is growing to more than 750 FM radio stations as of 2006 (PRSSNI, 2006). The growing numbers of radio stations is the expression of the attractiveness of this industry although the competition among the radio stations themselves is high. While the radio stations compete among one another, they too have to compete with other media industry, especially television, newspapers, and magazines in order to gain a certain piece of advertising spending cake.

Private radio station generated revenue from advertising spending of companies, or organizations that promotes their products or services on radio. Total advertising spending on media industries in Indonesia for 2003 was about U.S.$. 1.94 Billion, with an estimated growth rate of more than 25 percent per year (Bisnis Indonesia, 2003). Table 1 shows that in 1998 total advertising spending of Indonesian businesses was about US$ .41 Billion, but in 2006 (for the first semester only) the amount increased to US$ 3.11 Billion (Kadiman, 2006). Radio stations have the third position in advertising spending after television and newspapers. In 2000, the radio station industry absorbed only about U.S.$. 29.37 Million, but in 2004 the number increased to U.S.$. 109.7 Million. For 2004, radio stations have a 5.3 percent share of the total national advertising spending (PRSSNI, 2004). The estimated average growth rate of advertising spending on radio is 35 percent per year. Maricar (2003),

Director of Research and Development of PRSSNI said that this significant growth rate is due to the confident of the business players for the effectiveness of radio station as an advertising media (Maricar, 2003). Maricar (2003) also argued that the radio station industry tends to be more competitive compared to other media. The growth of advertising spending on radio was logically followed by the increased number of radio stations which in turn forced the competition among radio stations to be higher. Besides the competition among radio stations themselves, radio stations also have to compete with other media companies, such as television, magazines, and newspapers. Consequently, these radio stations have to conceive and implement strategies that can meet the competition.

Radio stations, like all other companies in the media industry abrupt transformation – from a seller's market a few years ago to today's turbulent buyer's market – this transformation has made it critical for media company such as radio stations to acquire a new set of business capabilities in order to survive in the turbulent media industry environment (Parker, 2004: 36). These capabilities are those that can generate innovation in radio stations.

Table 1.1 Total Advertising Spending of Indonesian Businesses

Year	Amount in US $ (Billion)
1998	.41
1999	.62
2000	.88
2001	1.08
2002	1.49
2003	1.86
2004	2.33
2005	3.00
2006 (first semester)	3.11

Source: Kadiman, K. (2006: 33)

Radio stations sell their products to consumers, who are the listeners of the radio programs, but the revenues come from the companies or organizations that promote their products or services through the radio, and from third parties (i.e. advertising agencies). The listeners who listen to the radio program hear the promotion of products. The more the radio programs meet the felt of the listener's needs, the more the listeners will listen to the radio program. If there are more listeners of the radio program, the ratings of the radio program will increase. The rating of the radio program is a reflection of coverage. The higher the increase of the rating of the radio program the more likely the companies or organizations will be willing to rise their advertising spending on that radio program. The challenge now is to create radio programs that meet the needs of the listeners. It is all about program innovation.

This study expects that private radio stations should have enough levels of program innovation in order to have competitiveness with other radio stations, thus obtaining better marketing performance. In a firm, an innovation can be in the form of a new product or service, a new production process, or a new organizational structure or administrative system (Damanpour, 1991; Hurley & Hult, 1998). Therefore, innovation in radio stations could take the form of new radio programs, new ways of delivering the radio programs, etc. In this study innovation refers to radio program innovation, which created to meet the listeners' needs and wants.

This study aims to examine the role of program innovation in the relationship between the four strategic orientations (market, innovation, learning and entrepreneurship orientation), and marketing performance in one framework as indicated by Henri (2006); Hurley & Hult, (1998), Hult et al. (2001; 2002; 2003; 2004), thus closing the gap in this area of research especially in Indonesia, and more specifically in the Indonesian FM radio station industry.

1.2 Research Problem

Program innovation is important not only for firm development but also for its survival (Chang & Lee, 2008; Gronhaug & Kaufmann, 1988; Jime-nez-Jimenez, Valle, & Hernandez-Espellardo, 2008; Kandampully, 2002; Lin et al., 2008). Program innovation become more important for the long term firm's survival, it is the most effective means to face changes and turbulence in external environments (Han et al., 1998; Kandampully, 2002). It is commonly known that program innovation influences the performance, however, firms still have a lack of understanding about the drivers of program innovation, and how those factors through their influence on program innovation affecting firms' performances (Hult et al., 2004). Some scholars argued that the implementation of the four strategic orientations (market, innovation, learning and entrepreneurship orientation) significantly influence firm's capability to create innovation (Baker & Sinkula 1991a; Baker & Sinkula, 1999b; Berthon, Hulbert, Hulbert, & Pitt, 1999; Calantone et al., 2002; Han et al., 1998. Hult et al., 2004; Morgan, 2004; Verhees & Meulenberg, 2004; Wang & Ahmed, 2004; Zhou, Gao, Yang, & Zhou, 2004).

Previous research indicated that there was no conclusive proof about when and how each of the four strategic orientations above influenced firm's performance. Some scholars (Atuaheme-Gima, 1999; Baker & Sinkula, 1999a, 1999b; Han et al; 1998; Hult et al., 2004; Narver & Slater, 1990) argued that mediator between strategic orientations and performance needed further research. In respond to the problem, some scholars (Atuaheme–Gima, 1999; Hult et al., 2004; Baker & Sinkula, 1999a; Sandvik & Sandvik 2003; Verhees & Meulenberg, 2004; Zhou, Yim, & Tse, 2005) investigated the relationships between some strategic orientations and performance using innovation as mediator. The results indicated that innovation as a mediator can provide a better explanation about the relationships of each the strategic orientations and performance (Atuaheme-Gima, 1999; Hult et al, 2004; Baker & Sinkula, 1999a; Sandvik & Sandvik, 2003; Verhees & Muelenberg, 2004; Zhou et al, 2005). However, very few if any studies have been done in order to explain the relationship between the four strategic orientations and performance with program innovation role as a mediator.

Most of research in marketing and strategic marketing areas measured marketing success with business performance. Such case led to vague perception of managers when they evaluate the implementation of marketing programs. In order to give a clear insight on the implementation of marketing programs, it is better to measure marketing programs and their activities with marketing performance (Amber, Kokkinaki, & Pntoni, 2004; Clark, 2000; Vorhies & Morgan 2003). Therefore, the main problem of this research is to explain and understand the marketing performance differences among Indonesian FM radio stations by promoting program innovation as a mediator between each of the four strategic orientations and marketing performance.

1.3 Research Questions

This study seeks to answer the following main research questions:

Q1 What is the relationship between each of the four strategic orientations and marketing performance?

Q2 What is the relationship between each of the four strategic orientations and program innovation?

Q3 What is the relationship between program innovation and marketing performance?

Q4 What is the role of program innovation in the relationships between each of the four strategic orientations and marketing performance?

1.4 Objectives of the Research

The purpose of this study is to investigate the relationship between strategic orientations, program innovation, and marketing performance in order to explain and understand marketing performance differences among Indonesian FM radio station. In an attempt to answer the research questions, the objectives of this study are:

- To investigate the relationship between each of the four strategic orientations and marketing performance;
- To investigate the relationship between each of the four strategic orientations and program innovation;
- To investigate the relationship between program innovation and marketing performance;
- To investigate the role of program innovation in the relationship between each of the four strategic orientations and marketing performance.

1.5 Scope of the study

This study focuses on Indonesian private FM radio stations, members of PRSSNI (PRSSNI stands for Indonesian Private Radio Station Association). Based on the ownership, there are two kinds of radio stations in Indonesia, which are government and private owned radio stations. The former's main objective is to distribute information, while the later is merely profit oriented. In terms of frequency, Indonesian radio stations can be classified into AM and FM.

The main differences between the two are the quality and the clarity of the audio output. The audio output of FM radio is in stereo sound mode, while AM radio is in mono sound mode. Because of the difference in audio quality, radio listeners prefer listening to FM radio stations to AM. Therefore, FM radio stations rapidly increased comparing to AM. In 2004, there were 907 private radio stations consisting of 634 FM radio stations and 273 AM radio stations (PRSSNI, 2006). In 2006, there were 976 private radio stations consisting of 762 FM radio stations and 214 AM radio stations (PRSSNI, 2006).

The above data indicated that FM radio stations increased rapidly, on the other hand, AM radio stations significantly decreased. It also indicated that there was a tendency of AM radio stations changed their frequencies into FM. Because of the above factors, this study focuses on private FM radio stations and not involving either private AM radio stations or government owned radio stations.

1.6 Significance of the study

This study is expected to contribute to both the theory and practice of strategic orientations, especially market orientation, innovation orientation, learning orientation, entrepreneurship orientation, program innovation and marketing performance. In terms of theoretical significance, this study intends to contribute to the existing literature by addressing the following significant issues:

- This study expects an understanding of the drivers of program innovation;
- This study expects an understanding of the role of program innovation in the relationship of the strategic orientations with marketing performance.
- Since there have been very few previous studies attempted to explain the performance differences in the Indonesian media industry, especially in the private radio station industry, this study expects to create understanding and shed light of the Indonesia private radio station industry.

In terms of practical significance, this study intends to contribute to managers as well as to government as a regulator by providing:

- information for managers in understanding their industry's underlying cultures that can drive program innovation in radio station;
- information for managers for better planning in allocating resources to each of the four orientations according to their priority in order to create sustainable competitive advantage;
- information for managers for better understanding in measuring performance, especially in the context of the marketing field;
- information for government as a regulator to create and establish policy that could facilitate radio program creation.

1.7 Definitions and Descriptions of Terminologies

There are several key terms repeatedly mentioned throughout this study. The next sub section will explain the definitions and descriptions of terminologies.

1.7.1 Market Orientation:

Market orientation is the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for customers and, thus continuous superior performance for the business. Market orientation consists of three behavioral components – customer orientation, competitor orientation, and inter-functional coordination (Narver and Slater, 1990).

1.7.2 Innovation Orientation:

Innovation orientation is an organization's openness to new ideas and propensity to change through adopting new technologies, resources skills, and administrative systems (Hurley & Hult, 1998).

1.7.3 Learning Orientation:

Learning orientation is the organization wide activity of creating and using knowledge to enhance competitive advantage. Learning orientation consists of four components: commitment to learning, shared vision, open-mindedness, and intraorganizational knowledge sharing (Hurley & Hult, 1998; Moorman & Miner, 1998; Mone et al., 1998).

1.7.4 Entrepreneurship Orientation:

Entrepreneurship orientation is the processess, practices, and decision-making activities that lead to new entry with three underlying dimensions: receptiveness to innovation, risk-taking attitude, and pro-activeness toward opportunities (Covin & Slevin, 1991; Hult et al., 2004; Matsuno, Mentzer, & Ozsomer, 2002).

1.7.5 Program Innovation:

This study conceptualized innovation as the number (quantity) of new programs/ ideas adopted, implemented, or produced by an organization (Burns & Stalker, 1961; Cohen & Levinthal, 1990; Hurley & Hult, 1998; Thompson VA., 1965). In terms of innovation, this study is concerned with the ability of Indonesian FM radio stations to produced new programs. To focus more on radio station innovation, this study uses the terms of program innovation to describe radio station's innovation. Furthermore, radio station innovation can be in the form of: new to the radio station but not new to FM radio stations market or it is new to both radio stations and FM radio stations' market, or new to the world. Hence, an indicator of this ability would be the number of new programs produced by a radio station.

1.7.6 Marketing Performance:

Marketing performance is the measurement of success of the organization marketing program which comprises of three components which are: effectiveness, efficiency, and adaptability (Walker & Ruekert, 1987; Clark, 2000; Ambler & Kokkinaki, 2004).

1.8 Organization of the Thesis

Chapter 1 provides the introduction of this study, and includes: the background of the study, research problem, objectives of the research, research question, scope of the study, significance of the study, and definitions and descriptions of terminologies.

Chapter 2 provides an extensive overview of the literature on market orientation, innovation orientation, learning orientation, entrepreneurship orientation, and program innovation, each with its definitions and components, its relationship, and its impact on marketing performance.

Chapter 3 describes the research methodology used in this study, it attempts to answer the research questions, and includes: the conceptualization of the framework, the hypotheses drawn from this model, research design, data collection procedures, measurement methods used, questionnaire development, and the proposed statistical analysis.

Chapter 4 reports data analysis and findings. It describes the response rate, profile of responding firms. This is followed by assessing goodness of measures, test of response bias, correlation analysis, simple regression analysis, multiple regression analysis, and hierarchical regression analysis in order to test the research hypotheses.

Chapter 5 describes the discussion and conclusion of the study. It begins with the recapitulation of the study and is followed by a discussion on the findings and the contribution of the study both theoretically and practically. The conclusions, limitations of the study and suggestions for future research are also included.

1.9 Summary

Chapter 1 discusses the background of the study, research problem, research questions, objectives of the research, scope of the study, significance of the study, definitions and descriptions of terminologies and the organization of the thesis. The next chapter will discuss the literature review of the study.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter provides an overview of the literature on the services industry, Indonesian radio station, the resource-based view (RBV), each component of the four strategic orientations (market, innovation, learning, and entrepreneurship orientation), program innovation, and marketing performance. It begins with an explanation of the service industry, Indonesian radio station, the RBV, each of the constructs, definitions, and the relationship of each construct with program innovation and marketing performance.

2.1 General Overview of The Service Industry

Service sector has rapidly developed worldwide, and dramatically influenced all aspect of social life (Kasper, 2002; Lovelock & Wirtz, 2004; Matear et al., 2004; Rodie & Martin, 2001). In the USA, services sector contributed to GDP more than 70 percent, more than half of consumer total expenditures, and increased two-fold faster than other industries (Rodie & Martin, 2001). New services are continously being launched to satisfy customers' existing needs, and even customers' unthinkable needs.

Services sector is the biggest proportion of world economics resulting in more job opportunities (Lovelock & Wirtz, 2004). Investment on service sector is developed in most world economies, and increasing the size of the service sector (Hooly, Fahy, Beracs, Fonfara, and Snoj, 2003; Esteban, Millan, Molina, and Consuegra, 2002; Tether, 2005; Javalgi, Whipple, Ghosh and Young, 2005). The increased productivity and technology innovation in manufacturing industry, and the increasing demand for both new and traditional services led to the growth of manpower in the service sector (Lovelock & Wirtz, 2004).

Service can be defined as an activity to create value for customers, and the activity cannot be evaluated until it is accomplished (Esteban et al., 2002). Services have several unique characteristics, such as: intangibility, perishability, inseperability, and variability (Kasper, 2002; Lovelock & Wirtz, 2004). Lovelock & Wirtz (2004) classified services into four categories, such as: people processing services directed at people's bodies, possession processing services directed at physical possessions, mental-stimulus processing services directed at people's mind, and information processing services directed at intangible assets.

Generally, it can be stated that services are acts, processes and performances (Zeithaml & Bitner, 1996). It can be seen from the definition that intangibility is the main determinant of whether something is service or not. Services are more intangible than manufactured goods (Zeithalm & Bitner, 1996). Table 2.1 presents the differences between manufactured goods and services and their implications.

Categorization of service industries in the past is inadequate as it does not provide enough strategic understanding which is required in developing methods to analyse services that focus on their common characteristic, and to examine their impact on marketing management (Lovelock & Wirtz, 2004). Lovelock & Wirtz (2004) classified service industry into five categories, each can be used to develop and implement service marketing strategies, i.e.: the nature of the service act, the type of service organization-customer relationship, the degree of customization and judgement, the nature of demand and supply for the service, and the way the service delivered. Understanding of the above categorization will help marketing managers in a service firm to identify problems and opportunities in marketing, and how to develop and implement strategic marketing plan (Lovelock & Wirtz, 2004).

Table 2.1 The Differences between Goods and Services

Goods	Services	Resulting Implications
Tangible	Intangible	Services cannot be inventoried Services cannot be patented Services cannot be readily displayed or communicated Pricing is difficult
Standardized	Heterogeneous	Service delivery and customer satisfaction depend on employee actions Service quality depends on many uncontrollable factors There is no sure knowledge that the service delivered matches what was planned and promoted
Production separate from consumption	Simultaneous production and consumption	Customers participate and affect the transaction Customers affect each other Employees affect the service outcome Decentralization may be essential Mass production is difficult
Nonperishable	Perishable	It is difficult to synchronize supply and demand with services Services cannot be returned or resold

Source: Adapted from Zeithaml, Parasuraman, and Berry (1985: 33-46)

A key determinant of service is intangibility. Tangibility is the degree of how the customers clearly see the values and benefits of service (McDougall & Snetsinger, 1990). The more tangible the service for customers, the easier the customers in making decisions to buy or not to buy the service (McDougal & Snetsinger, 1990). In consequence, it is important for service managers to create service to be more tangible, mainly in mental decision making process of customers.

Considering the importance of service sector, it is important then to learn service marketing. There are many factors helps the development of service marketing, and some industries, firms and individuals have defined the scope of the concepts, frameworks and strategies that confine the field of service marketing (Zeithaml & Bitner, 1996). The factors mentioned above (Zethaml & Bitner, 1996) are as follow: rapid growth of service industry, the importance to provide quality service to manufacturing goods, the need of special concepts for deregulated industries and professional services, and the need of new service concept due to the advances of innovation in information technologies.

Factors influenced the dynamic change of service markets bring some implications (Lovelock & Wirtz, 2004). The growth in demand for service industries (Lovelock & Wirtz, 2004) resulted in the increasing competition (Hipp & Grupp, 2005; Johnson & Gustafsson, 2003; Vermeuleun, 2004). The increase in competition can stimulate the presence of innovation in service industries (Alam, 2003; 2006). Customer needs and behaviour change due to the changes of demographics, values, and new options. Consequently, managers of service firms have to focus more carefully on the development of marketing strategy to anticipate those environmental changes (Hipp & Grupp, 2005; Johnson & Gustafsson, 2003). Therefore, service firm capability to sustain and develop depends on the readiness and ability of service managers in anticipating and responding changes in their environments (Hooley et al., 2003; Lovelock & Wirtz, 2004). Unlike manufacturing industries, service innovation is easily duplicated due to the lack of patent in service industries (de Vries, 2006; Drejer, 2004; Sheehan, 2006; Tether, 2005; Vang & Zellner, 2005), and as a consequence, innovation is the most important factor for service firms to deal with competition and environmental turbulence (Dolfsma, 2004; Hollenstein, 2003; Lovelock & Wirtz, 2004; Matear et al., 2004; Shimizu, Ishikawa, Satoh & Aihara, 2004; Slater & Narver, 1995).

In the most tightest and challenging competition, service firms filled up the market with intangible products (Garcia–Morales & Llorens–Montes, 2006; Rodie & Martin, 2001). The dynamic competitive environment in service industry, which is slightly different from other industries, and the diverse number of competitors cause difficulty in defining and identifying service competitors (Matting, Sanden & Edvardsson, 2004). Competitors cannot be limited to firms that offer similar service, but cover also firms that offer different services (Matting et al., 2004; Van der Aa & Elfring, 2002). A service firm often has to compete with other service firms that offer the same or related service (e.g. radio versus other media, such as TV, newspaper, and magazine) (Garcia-Morales & Llorens-Montes, 2006; Rodie & Martin, 2001). In such condition, service firms, like any firms, should be market-oriented in order to survive in turbulent markets and to show better performance than non market-oriented firms (Gray, Matear & Matheson, 2002; Hooly et al., 2003; Kasper, 2002, Lovelock & Wirtz, 2004).

Creating and delivering superior quality of new services is the key to service firm success (Hipp & Grupp, 2005; Kasper, 2002). However, most of market-oriented firms only concentrated and focused on minor improvements, while major improvements and breakthrough innovation were neglected

(Matthing et al., 2004). Most of market-oriented service firms focus merely on satisfying the expressed needs, and not the latent needs of the customers (Slater, 2001). The reason is obviously clear, it is difficult to understand latent needs because customers have trouble describing something that they have never experienced (Ulwick, 2002). Service firms cannot merely count on surveys and interviews to identify customers' latent needs (Matthing et al., 2004). In this case, market orientation cannot completely solve these problems (Esteban et al., 2002; Matthing et al., 2004; Santos-Vijande et al., 2005). Matthing et al. (2004), Barret, Balloun and Weinstein (2005) suggested that service firms also need to implement other important cultural resources, such as learning orientation, innovation orientation and entrepreneurship orientation, that could enable service firms to gain sustainable competitive advantage and superior performance.

The next sub section deals with Indonesian radio broadcasting industry. In this section, radio broadcasting history, the growth of radio, industrial structure, and radio broadcasting problems are discussed.

2.2 Indonesian Radio Broadcasting Industry

Indonesian private radio stations have been through a long and dynamic history. The first private commercial radio station was launched in 1960s (Mandolang, 2004). In the early days of radio in Indonesia, private radio stations were used as a means of intensive communication by Indonesian students to the people in direct contribution to undermine the old regime of Sukarno (Nasution, 2003). At that time private radio stations were operated by amateur radio operators and were mostly located on school campuses.

After the old regime of Sukarno was removed, Indonesia entered the new era with the new regime known as the new order or Suharto's era in 1965. Suharto's reign as president of Indonesia lasted for 32 years. During the period of Suharto's reign, the number of private radio stations increased significantly, although this private radio stations faced difficulties due to tight controls from the government.

Prior to the reformation era, at the time of declining Suharto's regime, dual regulations in the hand of differing authorities for broadcasting existed. Namely, broadcasting frequency were regulated by the Ministry of Communication (and transportation), and broadcasting content by the Ministry of Information (NBIC, 2000). Intervention by broadcasting association toward administrative occurred during that period of time. A necessary toward administrative occurred during that period of time. A necessary requirement for approval should have been obtained from Indonesian private radio stations (PRSSNI) prior to get the license (NBIC, 2000). Frequency mapping was also regarded as privileged information that could not be accessed by common citizen at any time, but an eclusive monopoly for its elite cliques (NBIC, 2000).

The reformation era started in 1998 soon after the fall of Suharto's regime. The successor of Suharto, President Habibie, lifted most of the restrictions on the media. Since then, the media has had critical access to the public process that has resulted in a surge of creative programming such as call-in programs, talk shows, and real time public coverage of public events (Djalal and Reen, 2003). Since President Habibie lifted the restrictions, Indonesian private radio stations have enjoyed a euphoric atmoshphere of