

Analysis of Effects of Market Orientation, Good Corporate Governance, and Professional Leadership on Managerial Performance in Pt. Pupuk Kujang (Persero) Indonesia

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Abstract

This study has a goal to observe variables that determine the viability of industry's performance in PT Pupuk Kujang (Persero). The company's performance will be analyzed with market orientation, good corporate governance, and professional leadership and then demonstrate empirically the variable suitability. By simultaneously and partially testing, market orientation significantly influences the company performance followed by good corporate governance and professional leadership. This study implies that industry competitiveness requires an understanding of market orientation so that the company can survive in a changing business environment.

Keyword: Market Orientation, GCG, Professional Leadership, PT. Pupuk Kujang (Persero)

1. Introduction

The process of industrialization in Indonesia has been developed rapidly because of the dramatic growth and structural transformation taking place since the 1970s. The rapid development occurred in the growth of employment and transition to a capital-intensive industry due to solid expertise, productivity, higher wages, and broader industrial base outside Java region. In that case, the growth of the fertilizer industry is also developed rapidly because of investment either foreign, national and domestic demands. In addition, the fertilizer as the product is produced for export purposes which need coordination among stakeholders.

However, in implementation, there are gaps among business parties as if they walk on their own. As an illustration of the phenomenon exists in the sectors of the fertilizer industry, fertilizer industry is still experiencing gas shortage as the main raw material, fertilizer industry. In addition, fertilizer manufacture of Asean Aceh Fertilizer (AAF) has not productive because lack of gas supply. Likewise, other fertilizer plants also experienced similar issue e.g. decreased production due to gas shortage and managerial problem.

There are several important issues that reduce the competitiveness of Indonesian fertilizer industry, namely (1) the difficulty of continuity of gas supply as the main raw material for the fertilizer industry, (2) inability of fertilizer manufacturers to reduce production costs associated with higher raw material imports, (3) domestic selling price should be set manufacturers, but the reality, it is determined by the Government, (4) limited customer segment of export destinations countries, and (5) the absence or limitation of production technology development.

To explore the relationship between upstream- and downstream-industrial sectors, the authors carry out a study on a company in the fertilizer sector that located in Cikampek City, West Java, namely PT Pupuk Kujang (Persero). Based on pre-visitation and pre-observation that researcher conducted at location, PT Pupuk Kujang (Persero) is a state-owned enterprise that have not been able to realize a good or optimal performance level compared to other SOEs as summarized in table 1 below.

TABLE 1
Financial Performance Target of PT Pupuk Kujang (Persero)
2002-2004 (If there years 2012-2014)

	Consolidation Phase	Revitalization Phase	Growth Phase
1.200.000			▲ 1.113.067,5
1.100.000			▲ 1.032.993,1
1.000.000		▲ 963.336,2	
900.000		▲ 900.029,2	
800.000	▲ 831.161,8		
700.000	▲ 772.500,8		

2001 2002

2003 2004

2005 2006

Source: minister of State of SOE

From all existing SOEs, it turns out that profit in 2003 reached 103 companies with a total net profit Rp25.6 trillion. However, 69 percent of the total net profit was only contributed by the 10 state-owned companies and most of the companies that are already in stock (go public).

SOEs are Telkom, Bank Mandiri, Pertamina, Bank BRI, Bank BNI, Fertilizer Sriwijaya, Social Security, the National Gas Company, Pelabuhan Indonesia II, and Health Insurance. Telkom accounts for most, namely Rp6.087 trillion.

In general, developing countries such as Indonesia still face institutional weakness due to the small number of companies that go public. The condition indicates that the government-owned company is still not able to establish a system of corporate governance and international standards. In other words, state-owned enterprises in Indonesia still face distrust. This is exemplified by the low quality of SOEs accounting reports are less trustworthy, insider trading (insider trading), as well as corruption, collusion and nepotism (KKN).

Therefore, it is interesting to study how the condition can occur. For the goal of this research, the researcher will analyze the managerial performance, both at the central, regional, and branches, undisciplined behaviors in applying market orientation and how the company strategies in business environment that is constantly changing. In addition, the variables are important for the company to manage the issues not in getting worse. In general, the strategy must involve the development of the organizational structure, the allocation of resources (budget), leadership, responsibility, behavior, and organizational culture. Therefore, the implementation of corporate strategic plan, management commitment and support implementation of good corporate governance (GCG) in all SOEs are indispensable in order to realize the company objectives, which in turn it is expected to have positive impact on the increased performance.

In addition to the corporate governance issues, the leaders of SOEs should be able to build professionalism and leadership behavior as the main requirement in the development of the company. All stakeholders should be faced with the realization of the globalization strategy preparation to uncertainties and problems of industrial growth fluctuating. The leader in state-owned enterprises must continue to hone his ability to create market opportunities and seek an effective strategy to overcome the negative impact of changes in the market.

Meanwhile Payne A.F. (1988, p. 46) states that the implementation of market orientation is closely related to personal and application behavior in organizations. Leaders in an organization plays an important role in a various activities to focus the company on market orientation and the leadership style will impact on the corporate goal and leadership result. Therefore, Slater and Narver (1998, p. 212) states that a business organization that wants to improve its performance in a fast and dynamic business environment need to concentrate on the managerial role as the important aspect.

Based on the background and the reasons, it is investigated how variables such as market orientation, good governance, and professional leadership can improve managerial performance is SOE company e.g. PT Pupuk Kujang (Persero). This will be measured the implications on revenue contribution.

2. Literature Review

Market Orientation

For a company, develop a strategy of market orientation is very important to be able to survive in a competitive environment. Market orientation defined by Kohli and Jaworski (1993) as market intelligence data collection to meet the needs of current and future customers which the market data disseminated to various divisions and functions within the company that company can response better to market demand.

Three key market orientations are market intelligence generation, market intelligence dissemination, and responsiveness. Meanwhile, Narver and Slater (1990) propose a model that market orientation consists of three components of behavior, namely customer orientation, competitor orientation, and interfunctional coordination, and two decision criteria, i.e. long-term goals and profits.

Understanding market orientation proposed by other experts combine both of these definitions, the market orientation is seen as an organizational behavior that includes collection, dissemination, and response to market intelligence which reflected on customer orientation, competitor orientation, and coordination mechanisms in creating customer value (Cadogan and Diamantopoulos, 1999).

Good Corporate Governance

In the era of globalization, challenges and competition in the business world becomes more intense. Competition was influenced by the progress of information technology and increased education level of the global community. These conditions require organizational sensitivity in responding to the changes in order to keep competitive. Paradigm shift from conventional competition that relies on material resources (physical assets) shifted towards knowledge resource-based competition (knowledge-based competition) (Garraat. B, 2000).

To achieve those needs, Steinberg and Bromilow (2000) proposed that companies establish good corporate governance strategy. Implementation of this strategy requires the readiness of companies starting from planning (strategic planning) that can be implemented in a measured time.

With measurable strategic planning, board of directors can monitor the performance of the company. According Garraat (2000), the company which has planning can survive and continue to produce high-performance.

With proper planning, the company will be more transparent, streamlined, more effective leadership, and always innovating. The components are important to succeed the professional leadership. Furthermore, the leader must

be able to move the organization to have operational orientation to boost customer (market orientation), total quality management and timely organization's activities and processes.

Definition of Leadership

Leadership is defined as the ability to influence a group to achieve a common goal. Sources of influence may be formal or informal in which the leader role in the achievement of goals and objectives of the organization (Robbins, 2002). Thus, the effectiveness of the leaders in leadership is something that is highly coveted by all stakeholders in the organization's success (Siagian, 1999).

Performance results

Term performance corresponds to the actual job performance especially on the actual work performance or achievements attained by someone. Performance termed defined performance job performance or the performance of work or work achievement. Based on the notion of performance as the level of achievement of results (the degree of accomplishment), means that the higher the achievable performance of the institution, also means that the optimal organizational goals are achieved.

Siegel and Marconi (Marconi, 1993, p.99) defined a periodic evaluation of the performance appraisal as the operational effectiveness of an organization, part of the organization, and employees which based on objectives, standards and established criteria.

Gronlund (1982, p.86) defines performance as the performance of work behavior which is characterized by flexibility of movement, rhythm, and working order in accordance with the procedure to obtain results that meet the requirements of quality, speed, and number. Smith (1982, p.393) stated that performance was "... the output driven from the process, human or otherwise". It showed that the performance is the result or output of a process.

3. Samples and methods

In this study, the population, which consists of the chief executive directors, managers, and the expert staff at PT Pupuk Kujang?

The sample is part of the population. The sample in this study is leaders and support staff, as well as expert staff seconded to PT Pupuk Kujang.

Because of the research magnitude, it is investigated the influence of the independent variables on the dependent variable, the data collection is done by random sampling. From these efforts it collected 84 respondents.

4. Analysis and results

This study has a goal to analyze the effect of market orientation, god corporate Governance and professional leadership on the managerial performance PT Pupuk Kujang. Based on the test results, some variables such as market orientation, good corporate governance and professional leadership have influence on Managerial Performance of PT. Pupuk Kujang.

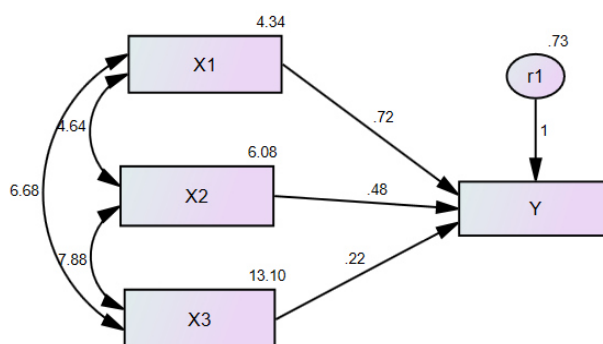


Figure 1. Effect of Market Orientation (X₁), Good Corporate Governance (X₂) and Professional Leadership (X₃) on Managerial Performance (Y) PT. Pupuk Kujang

Based on the hypothesis testing, the influence of Performance PT. Pupuk Kujang (Y₁) Market Orientation (X₁), Good Corporate Governance (X₂) and Professional Leadership (X₃) on corporate performance is given in Table 1.

Table 1. Results of Path Analysis Calculation

Variable	Path Coefficient
Market orientation	0,72
Good corporate governance	0,46
Professional Leadership	0,22

Source: processed data, author, 2015

Having regard to the above table, it obtained pathways equation as below.

$$Y = 0,72 X_1 + 0,46 X_2 + 0,22 X_3$$

Where Is:

Y = Managerial Performance PT. Pupuk Kujang

X₁ = Market Orientation

X₂ = Good Corporate Governance

X₃ = Professional Leadership

From the equation above it found that any increase of market orientation by 1 unit, it will improve managerial performance by 0.72 units, each unit of increase in Good corporate governance by 1 unit will improve managerial performance of 0.46 units, each unit of professional leadership increased by 1 unit, it will improve managerial performance of PT. Pupuk Kujang of 0.22 units, each unit increase of managerial leadership will improve managerial performance of 0.22 units.

The value of the variable path coefficient X₃ is greater than the path coefficients for the variables X₁ and X₂ Professional Leadership means more influential than variables Market Orientation, and good corporate governance.

Direct and indirect influence of each variable is presented in Table 2.

Table 2. Effect of direct and indirect

	Direct	Indirect			Total Effects
Description	Y1	X 1	X 2	X 3	
X 1	0.723	0.000	0.000	0.000	0.723
X 2	0.479	0.000	0.000	0.000	0.479
X 3	0.217	0.000	0.000	0.000	0.217
Total Influence					1.419

Source: statistical results, author 2015

Explanation of the table above is given as follows:

- Market Orientation has a direct effect of 72.3% and indirect influence or through its relationship with the other variables at 0%.
- Good corporate governance has a direct effect of 47.9% and indirect influence or through its relationship with other variables at 0%.
- Professional leadership has a direct effect of 21.7% and indirect influence or through its relationship with the other variables at 0%.
- Determination coefficient is the value used to determine the contribution of Market Orientation, Good Corporate Governance and Leadership Professional as (independent variables) toward Managerial Performance of PT Pupuk Kujang (dependent variables). The magnitude of the coefficient is equal to 93.9%, while the influence of other variables outside the model is 6.1%.

Variations changes (coefficient of determination) of three independent variables showed an increase in the change of the dependent variable. In this study the performance of Pupuk Kujang has a value of 1,419.

5. Conclusion

Based on the analysis of research and discussion on the effect of market orientation, organizational structure, leadership on participatory budget, and managerial performance based on data from a survey of 84 respondents on PT Pupuk Kujang, it obtained following conclusions.

- Market orientation, good governance, and professional leadership, respectively, have a significant relationship with a higher degree of correlation in the category It implies that the application of market

orientation needs to support good governance and professional leadership. Similarly, the effectiveness of the implementation of good governance is influenced by the degree of market-oriented policies. Professional leadership success will be optimal if the aspect of market orientation and implementation of good governance are implemented. The relatively high correlation between market orientation, good governance, and professional leadership occurred due to the rapid decision-making authority and broad, human resources support, adequate facilities, and begin implementation of good governance.

- 2) Market orientation, good corporate governance, and professional leadership of PT Pupuk Kujang had a significant relationship with medium category. It implies that the application of market orientation must be supported by good corporate governance and professional leadership in the context of the relevant decisions. Similarly, the effectiveness of the implementation of good corporate governance is influenced by the degree of implementation of market orientation and professional leadership. Professional leadership success will be optimal if the aspect of market orientation and the implementation of good corporate governance implemented. Whereas, there are relationship between market orientation, good corporate governance, and professional leadership of PT Pupuk Kujang caused by the presence of contradictions and inconsistencies between the three aspects. In addition, there is still the dependence on the decision at the holding level (PT Pusri in Palembang).
- 3) Simultaneously and partially, market orientation, good corporate governance, and professional leadership have significant effect on the performance of PT Pupuk Kujang. It implies that market orientation, good corporate governance, and professional leadership as internal factors institutions have an important role in improving the company performance. Relatively high simultaneous effect has been caused by (1) the three variables are the dominant variable affecting the performance of PT Pupuk Kujang; (2) the suitability of the application of market orientation, good corporate governance, and professional leadership are well integrated. Partially, good corporate governance has the smallest effect on the performance of PT Pupuk Kujang. It can be understood as the implementation of new corporate governance will need long term success yet it still need adaptation, looking new forms and adjustment as well as more intensive socialization. Furthermore, the market orientation brings second-largest impact, while professional leadership brings the first largest impact. For the result, it is important in the era of globalization and intense competition to implement the highly demanded professional leadership role in leading the company.
- 4) Simultaneously and partially, the market orientation, good corporate governance, and professional leadership have significant effect on the performance of PT Pupuk Kujang with the degree of influence is very strong. It means the market orientation, good corporate governance, and professional leadership as the company's internal factors, have an important role in improving the performance of PT Pupuk Kujang. The second smallest impact on performance is good corporate governance. Market orientation has the greatest effect, while professional leadership has smallest impact on the performance of PT Pupuk Kujang.
- 5) Performance of PT Pupuk Kujang has contributed significantly to the increase in state revenue. This is due to the increased performance of PT Pupuk Kujang. The company provides income on state revenues from taxes and dividends the produce.

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