

The Impact of Marketing Planning, Market Orientation and Service Quality on Institutional Performance; an Evidence from Indonesian Higher Education

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Abstract

Market orientation studies have been conducted in a various contexts. However, market orientation in the developing countries within a non-western environment in non-profit institutions such as higher education, is still under-explored. This research was conducted to find evidence of the linkage of marketing planning, market orientation, service quality, and institutional performance in Indonesian higher education. Data obtained from 328 key persons of study programs within bachelor degrees at eleven cities on four main islands was used for analysis. The proposed model was discovered to be satisfactory from the SEM assessment and has succeeded in explaining the positive impact of marketing planning, market orientation, and service quality on institutional performance.

Keywords: Marketing planning, market orientation, service quality, institutional performance

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Introduction

Over the past three decades, numerous studies investigate the relationship between market orientation and institutional performance in various contexts. However, there is limited study on market orientation in higher education (hereafter called HE). The discussion on this issue has been mixed. According to Driscoll and Wicks (1998) the customer-driven approach (as another term of market orientation) in education is dangerous. They argued if students are allowed to negotiate curriculum and evaluation based on their needs, the quality of education will be eroded. As the world becomes more competitive, HE should engage in market orientation which is believed to be the best approach to create competitive advantage (Kotler, 2003; Olivares and Lado, 2003). This research is expected to help address the disproportionate lack of market orientation studies and focuses on a revival of interest in market orientation in HE in non-Western environments with a developing country background, such as Indonesia. The purpose of this study is also to assess any broader implications of earlier research.

Market Orientation and Marketing Planning

Many market orientation studies included antecedents to market orientation to examine the reasons that some organisations are more market oriented than others. In the published literature, it was found that not many researchers are interested in investigating marketing planning as an antecedent to market orientation. One earlier study investigates marketing planning as market oriented institutional planning facing colleges and universities (Kotler, 1979). That study found a relationship between the marketing planning stage and market orientation. More recent studies (Pulendran and Speed 1996a, 1996b; Pulendran, Speed and Widing, 2003) found marketing planning and market orientation are positively related. This research is proposed in order to produce evidence of the relationship between marketing planning and market orientation in Indonesian HE, by forwarding the following hypothesis: *(H1) Marketing planning is positively related to market orientation in Indonesian HE.*

Market Orientation and Institutional Performance

Most studies in the market orientation field investigate institutional performance as a consequence of market orientation in manufacturing institutions (Agarwal, Erramilli and Dev, 2003). A study of the literature has surfaced inconsistent research findings of the relationship between market orientation and institutional performance. Some studies found a positive relationship between market orientation and business performance (Perry and Shao, 2002; Pulendran, Speed and Widing, 2003). However, Greenley (1995) and Diamantopoulos and Hart (1993) found a weak relationship between market orientation and business performance. On the other hand, other researchers found no significant association (Caruana, Pitt and Berthon, 1999; Sargeant and Mohamad, 1999; Tse, 1998). The positive relationship between market orientation and organisational performance has led to a variety studies on market

orientation (Kohli & Jaworski 1990). Some previous studies (Caruana, Ramaseshan and Ewing, 1998; Flavia'n and Lozano, 2006; Qureshi, 1989, 1993) have found evidence of a positive relationship between market orientation and performance of service institutions such as HE. These finding provide a starting point for further investigation. Therefore, this research also explores the gap and proposes the research hypothesis as follows: *H(2) Market orientation is positively related to the institutional performance of Indonesian HE.*

Marketing Planning and Institutional Performance

As discussed before, marketing planning is an antecedent to market orientation and institutional performance is a consequence of market orientation. A consequent expectation is that marketing planning relates to institutional performance. However, it is difficult to develop a clear picture of this relationship, not only because of the limitations of the supporting literature but also because of the inconsistent research findings (Hill, McGowan and Maclaran, 1998).

Marketing planning formally relates to the decisions that must be executed in order to realise organisational goals (Leefflang and de Mortanges, 1996). This statement infers the relationship between marketing planning and performance. From the limited number of published studies, three studies (McDonald, 1984, 1989; Pulendran, Speed and Widing, 2003) support this relationship. More specifically, Pulendran, Speed and Widing (2003) explain that marketing planning as an antecedent of market orientation has a positive relationship to business performance. By reflecting this conclusion onto the HE context, this research is conducted to evaluate whether: *H(3) Marketing planning is positively related to institutional performance of Indonesian HE.*

Market Orientation, Service Quality, and Institutional Performance

The positive relationship between market orientation and service quality has support from researchers. Chang and Chen (1998) for instance, identify the quality of service firms as an outcome of managerial action, which is in turn motivated by a market orientation. Other significant research by Kasper (2002) suggests that the market orientation concept relates to the basic values of any organisation to deliver superior value or excellent service quality. Zeithaml (2000) considers service quality to be an outcome of the successful application of market assets while also adding value to the firm and taking its place among the stock of market-based assets. Therefore, the value that service quality creates for all stakeholders establishes it as an effective competitive advantage.

It is believed to be essential in identifying the relationship between market orientation and service quality in HE (Webb *et al*, 2000). By referring to a study of Voon (2006) proposed the service-driven market orientation measure (SERVMO) within higher educational context and found it has a significantly strong and positive relationship with service quality this research proposes the following hypothesis: *H(4) Market orientation is positively related to the service quality of Indonesian HE*

Improvement in service quality has been previously found to increase customer satisfaction (Barnes and Cumby, 1995). Therefore, it is expected that service quality positively relates to performance which uses customer satisfaction as an indicator. Even though the study by Rust, Zahorik and Keiningham (1995) was not conducted in an educational context, they developed a framework for determining the impact of service quality on profitability. As a result, they

found that service quality contributes to business performance. A more valuable study by Caruana and Pitt (1997) examined the relationship between the level of service quality and the level of business performance. They suggested ‘the service quality delivered by a business does have an effect on performance’ (Caruana and Pitt, 1997, p. 613). Therefore, sufficient evidence was identified to formulate the following hypothesis, by reflecting the business environment onto HE: *H(5) Service quality is positively related to the institutional performance of Indonesian HE.*

Service quality was also expected to be a mediator of the relationship between market orientation and institutional performance (Chang and Chen, 1998; McNaughton, Osborne and Imrie 2002; Tsai 2003). It was found that market orientation does not directly affect institutional performance (Han, Kim and Srivastava, 1998; Olivares and Lado, 2003; Perry and Shao, 2002). Chang and Chen (1998) made an important contribution by identifying service quality as a mediating variable to create an indirect effect of market orientation on business performance. They concluded that market orientation can assist an organisation to achieve a higher level of quality, and that quality has a positive relationship with profitability. Tsai (2003) also found the same result in his replication research in Taiwan. A study by McNaughton, Osborne and Imrie (2002) acknowledge that market orientation may improve firm performance by contributing to service quality. Therefore, by adapting previous studies to the HE context, this study proposes the following hypothesis: *H(6) Service quality mediates the relationship between market orientation and institutional performance of Indonesia HE.*

Research Method

The unit analysis of this research was study programs within bachelor degree. However, the respondents were managements of study programs. Judgment sampling was applied to distribute 700 questionnaires to targeted respondents in eleven cities of the four main islands. The useable sample of 365 responses was used for SEM analysis. A large proportion (51.5%) of respondents was from private institutions. As expected, most respondents (96.2%) were from institutions which offered programs regularly. The majority of these were from engineering (37%) and economics/business (20.3%) faculties, the two faculties which are the most favoured for study in Indonesia.

This research adapted Kotler’s (1979) suggestion to measure marketing planning. Three factors namely *the market analysis* (MP_F1) and *opportunity and threat analysis factors* (MP_F2) and *the strength and weakness analysis factor* (MP_F3) were found from ten valid items. The three factors were valid, because the inter-factor score correlations were higher than 0.30. The lowest correlation was 0.39. The correlations of the three factor scores to the general marketing planning score were higher than 0.50 with 0.65 as the lowest (Hair et al. 1998). The reliability coefficients of the MP_F1 ($\alpha=0.76$) and MP_F2 ($\alpha=0.77$), and MP_F3 ($\alpha=0.64$) considered to be acceptable for exploratory research such as this (Hair et al. 1998; Sekaran 2003). All of the marketing planning items combined to exhibit good reliability for the overall marketing planning scale with Cronbach $\alpha = 0.82$

The measure of market orientation was used the ‘Indonesian MARKOR’ (Yeni and Herington, 2008) which adapted from modified MARKOR for HEIs (Caruana, Ramaseshan and Ewing, 1998). From 17 valid items, four factors namely: intelligence generation (MO_F3) intelligence dissemination-institution (MO_F1), intelligence dissemination – staff (MO_F4) and responsiveness (MO_F2) were found to exhibit good reliability (Nunnally and

Bernstein, 1994) with Cronbach alphas ranging between 0.64 and 0.84 (MO_F3 = 0.64, MO_F1 = 0.84, MO_F4 = 0.79, MO_F2 = 0.74). The Cronbach alpha for the overall market orientation construct demonstrated a reliable construct as shown by Cronbach $\alpha = 0.89$, and the four factors of composite market orientation measure were valid (Raju, Lonial and Gupta, 1995).

This study used 'the non-difference SERVQUAL (Brown, Churchill and Peter, 1993; Chang and Chen, 1998; Tsai, 2003). Follow the ordering number of Lampley's study (2001), three factors (namely Facilities/equipment: SQ_F1, Responsiveness/caring: SQ_F2, and Records/paperwork: SQ_F3) were identified from 16 valid items. Three factors were valid, because the inter-factor score correlations were higher than 0.30. The lowest correlation was 0.40. The correlations of the three factor scores to the general construct score were higher than 0.50 with 0.75 as the lowest (Hair et al. 1998). The all factors (SQ_F1 = 0.84, SQ_F2 = 0.80, and SQ_F3 = 0.87) passed Nunnally and Bernstein's (1994) 0.70 cut-off for reliability. All of the service quality items combined to exhibit good reliability for the overall service quality scale with Cronbach $\alpha = 0.89$

This research utilised respondents' opinions as subjective data for measuring institutional performance and used five indicators namely: *non-government funding* (Burke, 2003; Caruana, Ramaseshan and Ewing, 1998), *accreditation*, *length of study*, *average number of applicants* and *average GPA* (the four indicators are employed by some popular competitive projects in Indonesian HE). A single factor was extracted to represent institutional performance, as shown all items have a factor loading of more than 0.50 (ranging from 0.547 to 0.728). Therefore, these five items were considered practically significant (Hair et al., 1998). The reliability coefficients of the institutional performance construct was 0.67 which was acceptable for exploratory study such as this research (Hair et al, 1998; Sekaran, 2003).

Results and Discussion

The SEM assessment was used examined the proposed model. This assessment estimated the strength of a series of relationships among unobserved variables of market orientation marketing planning, service quality, and institutional performance. A series of relationships were specified graphically in AMOS. The initial model did not fit the data well, because most of the fit indices were unsatisfactory. An examination of modification indices recommended the removal of IP1, and the addition of covariances between errors IP3 – IP5, SQ_F1 – SQ_F3, and IP2 – IP3 to improve the fit of the model. The correlated measurement errors can be introduced to the model as a way to test hypotheses about shared sources of variance other than those due to a common construct (Kline 1998). This resulted in a satisfactory fit are CMIN/DF (χ^2/df)= 2.650, CFI= 0.927, TLI= 0,909, GFI=0,926, RMSEA=0,071 and SRMR= 0,049. The standard regression coefficients of marketing planning, market orientation and service quality construct range from 0.51 to 0.91 with all items strongly loading onto these constructs. However, the standard regression coefficients of the institutional performance construct range from 0.45 to 0.56 indicated most items strongly loading onto these constructs. Hence, these results indicate that each factor of marketing planning, market orientation and institutional performance are suitable representations of these constructs. Furthermore, the standardised regression coefficients of each construct ranging from 0.27 to 0.94 for all paths in the structural model. Therefore, marketing planning, market orientation, service quality and institutional performance were found to be strongly related to each other, acceptable to include in the structural model and ready for use in hypothesis testing. All paths in the

structural model were significantly different from zero with the standardised regression coefficients of each construct ranging from 0.27 to 0.94. Therefore, all four construct/unobserved variables of marketing planning, market orientation, service quality and institutional performance were found to be strongly related to each other, acceptable to include in the structural model. Then, the analysis found that the standard regression coefficients relating marketing planning to market orientation was 0.94, market orientation to institutional performance was 0.28, marketing planning to institutional performance was 0.27, market orientation to service quality was 0.88, service quality to institutional performance was 0.32. This indicated that hypotheses 1, 2, 3, 4 and 5 were supported. Hypothesis 6 was also supported, since the indirect path to institutional performance from market orientation which is via service quality showed a value of $0.88 \times 0.32 = 0.28$. Therefore, applying marketing planning, market orientation and service quality will improve institutional performance of Indonesian HE.

Conclusion

The findings indicate that market orientation can assist HEIs to achieve a higher level of institutional performance. It is suggested that practitioners, in particular those in HEIs, should utilise market orientation as an important concept in responding to market need and in improving institutional performance.

Market orientation has also an indirect positive relationship to institutional performance with service quality as a mediator. The research has succeeded in explaining the positive impact of market orientation on service quality. Finally, this research indicates market orientation is a mediator in the relationship between marketing planning and institutional performance. It was found that marketing planning impacts indirectly on institutional performance. It also demonstrates that marketing planning is a predictor of market orientation. Therefore, this research recommends if institutions wish to improve their institutional performance, they should consider marketing planning, market orientation and service quality because marketing planning, market orientation and service quality relate individually and simultaneously to improving institutional performance. However, the conclusions of this research should be used as an impetus and foundation for further exploration of the issues, rather than for generalising. Under different research circumstances, it is possible that many other variables would also be important to identify, and many other measures of market orientation, marketing planning, service quality, and institutional performance available for study.

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