

# MARKET ORIENTATION AND SERVICE QUALITY AS DRIVING FORCES OF BUSINESS SUSTAINABILITY: EVIDENCE FROM SMALL COFFEE SHOP

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## ABSTRACT

*Business sustainability of small coffee shops has become a rising issue due to the current competitive environment which makes a company's life cycle shorter than before. Market orientation is part of business culture that is always aware of the customer's needs and competitor's actions. Companies with good market orientation remain competitive since they have the ability to formulate suitable strategy to protect their customers from competitor action. Market orientation with good service quality has the potential to help small coffee shops to become more sustainable. This study aims to assess the role of market orientation and service quality to business sustainability of small coffee shops. As many as 110 owners of small coffee shops have been selected to be interviewed. The criteria of respondents are those owners of coffee shops with less than 10 workers and whose business has been running for a minimum of one year. To test the proposed hypotheses, Structural Equation Modelling using Partial Least Square (SEM-PLS) is applied. The results of this study can be input for small business owners as well as stakeholders who are concerned about business sustainability of small firms.*

**Keywords:** Business Sustainability, Structural Equation Modelling, Service Quality, Small Coffee Shop.

## INTRODUCTION

The rapid growth of coffee shops has led to increased competition significantly. In 2019, 15-20% of new coffee shops enlivened the market along with the increasing culture of drinking coffee among millennials. Even though many new coffee shops were born and developed promisingly, there are also many coffee shops that have closed due to their failure to be competitive. Past research shows that coffee shops that fail to maintain their attractiveness to consumers in the first two years are likely to fail (Nadiri & Gunay, 2013). The intense competition in the industry has caused product life cycles to be shorter than before (McAfee, 2019) companies that are unable to survive are forced to leave the market (Najib & Kiminami, 2011). This raises the issue of how to effectively maintain the sustainability of the coffee shop business, especially small coffee shops, in a situation of increasing competition.

The challenges faced by coffee shops in the first year are internal and external factors (Najib & Fahma, 2020). Internal factors may include product quality, service quality and price (Suhud et al., 2020), while external factors can include increased competition and changes in

consumer behavior caused by changes in purchasing power and preferences. Today, many companies are starting to realize that competitiveness can be maintained by maintaining customer satisfaction. One of the ways to maintain customer satisfaction is to always try to understand and fulfill the changing needs and desires of consumers. Companies that strive to always understand consumers and competitors in their business are known as market-oriented companies (Jaworski & Kohli, 1993; Slater & Narver, 2000).

Many companies believe in the important role of the market orientation concept, but they do not have enough experience to achieve the expected performance through market orientation (Ho et al., 2018). Their inability to take advantage of the concept of market orientation to achieve the expected performance is generally caused by unclear views about consumers and how to satisfy them (Jogaratnam, 2017). Several references state a strong correlation between service quality and sustainable competitive advantage (Rapert & Wren, 1998; Reed et al., 2000). Meanwhile, service quality is also influenced by the mindset of business managers and their responses to competitors and consumers (Ramayah et al., 2011). The implementation of the integrated market orientation and service quality concepts is expected to be able to maintain the sustainability of the coffee shop businesses, because these two concepts can affect business performance, which is a prerequisite for business sustainability.

The purpose of this study is to integrate service quality and market orientation models in influencing business sustainability in small coffee shops. Previous studies regarding service quality at small coffee shops were only able to predict performance below 40% (Doukoure & Supinit, 2016; Kim & Shim, 2017), while the ability of market orientation in predicting performance is only around 30% (Narver & Slater, 1990; Pascucci et al., 2016). The integration of the service quality and market orientation models is a novelty in this study because it has a higher predictive power than the separate models.

## LITERATURE REVIEW

Market orientation is basically part of the company's efforts in implementing the marketing concept (Jaworski & Kohli, 1993) where the market orientation concept is identified as organizational culture (Slater & Narver, 1995). Market orientation can be defined as a business philosophy where the marketing concept is actually implemented and becomes the focus of all parts of the organization (Kohli & Jaworski, 1990). Furthermore, market orientation is also often identified as an organizational culture that is very effective in encouraging behavior to create superior value for consumers so that it can sustainably create superior performance for a business (Narver & Slater, 1990). Market orientation is an organizational culture that contains three components of behavior, namely orientation towards consumers, orientation towards competitors and always coordinating between divisions in serving market needs and demands properly.

Companies that are always consumer-oriented will certainly try to accurately read the needs of their consumers and make efforts to fulfill them properly. Companies like this will try to satisfy their customers by providing quality products and services (Camarero, 2007; Lam et al., 2012). Service quality is affected by several factors (Lee et al., 2000). Orientation of companies to their consumers and competitors also influences their quality of services (Brady & Robertson, 2001; Camarero, 2007). Because the quality of service will satisfy consumers, consumer-oriented companies will try to provide the best service for their consumers. The quality of service also affects competitiveness (Grubor et al., 2009; Subramanian et al., 2014), therefore competitor-oriented companies will provide better service than their competitors, so

that consumers will not easily switch to their competitors. Based on such literature, this study will examine the impact of market orientation on service quality in the context of small coffee shops. Therefore, the hypothesis is as follow:

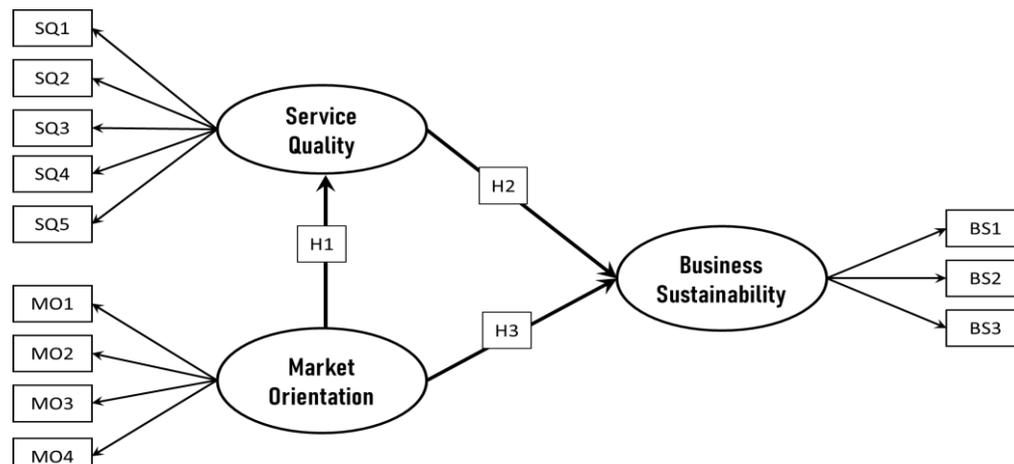
$H_1$  *Market orientation influences service quality of coffee shops*

Business sustainability is a company's strategy to prioritize its efforts on long-term business sustainability (Bansal & DesJardine, 2014; Gross-Golacka et al., 2020). The sustainability of a business is greatly influenced by its ability to face competitive pressures and its ability to adapt to rapid environmental changes, including changes that occur in consumers (Jang & Lee, 2020). In a changing business environment, there are always things that are unexpected or dangerous that can cause a company to be unable to continue its business if it does not adapt.

Market-oriented companies will be able to adapt to environmental changes and be able to cope well with competitive pressures because they always pay attention to the dynamics that occur in competitors and consumers (Narver & Slater, 1990). Previous studies have shown that market orientation positively influences sustainable competitive advantage and business performance (Kumar et al., 2011; Morgan et al., 2009; Narver & Slater, 1990). In an effort to respond to changing consumer needs for services, market-oriented companies will also continue to improve the quality of their services (Ramayah et al., 2011; Voon, 2006), where improvement in the service quality will affect competitiveness (Grubor et al., 2009) and overall business performance (Yee et al., 2010). Based on the review literature, we propose the following research hypotheses:

$H_2$  *Service quality influences business sustainability of coffee shops*

$H_3$  *Market orientation influences business sustainability of coffee shops*



**FIGURE 1**  
**CONCEPTUAL MODEL**

Based on the literature review above and the hypotheses that have been formulated, a conceptual model can be formulated in this study as seen in Figure 1. In this figure, it can be

seen that the business sustainability of a coffee shop is influenced by service quality and market orientation. Meanwhile, service quality itself is influenced by market orientation.

## METHODS

Primary data was collected using a survey approach where respondents were asked to answer closed questions given in the questionnaire. Respondents were selected by purposive sampling technique, where respondents must have the following criteria: 1) the company has employees less than 20 people, 2) minimum length of operation is 3 months; 3) the business is fully related to coffee shop. Samples were taken as many as 110 coffee shops in Bogor, Indonesia. The number of samples is determined based on the rule of thumb for the determination of the Structural Equation Model sample, which is 5-10 times the number of indicator variables (Hair et al., 2014).

Definition of a coffee shop in this study is a small restaurant, where coffee, tea, other drinks without alcohol and with simple food is served. Bogor has been chosen as a location of research based on several reasons. First, Bogor is an urban area located near Jakarta, the capital city of Indonesia. Bogor is also a favorite tourist destination for people who live in Jakarta. Second, the culture of drinking coffee in the coffee shop is growing in Bogor. Third, the growth of new coffee shops in Bogor is higher compared to other cities surrounding Jakarta that have higher a competitive environment in the coffee shop industry. Therefore, Bogor is a better location to study business sustainability of coffee shops.

Data processing and analysis techniques in this study consisted of quantitative data. To analyze the data in this study, SEM-LISREL was used. SEM allows researchers to analyze the relationship between latent variables and the relationship between indicator variables and their latent variables simultaneously (Kartika et al., 2019). SEM also provides dynamic modeling and is able to provide accurate estimation results (Hair et al., 2014).

## RESULTS

### Profile of Respondents

Based on a survey conducted on coffee shops in Bogor, the majority of respondents' coffee shop business ages (57.9%) were 1-2 years, while those over 5 years old were 41.8%. In terms of number of employees, the majority of coffee shops surveyed had less than 10 employees (78.2%). This shows that the majority of respondents in this study were coffee shops that were still on a micro scale. The majority of the monthly turnover average (43.6%) ranges from USD 1000-5000. In terms of ownership, the majority (59.1%) are independent or self-owned coffee shops. The gender of owners are dominated by male (80%) and followed by female (18.2%).

### Measurement Model

Table 1 shows the results of the current research: the values of CR were 0.719-0.785 and values of AVE were 0.618-0.680. Both are greater than the threshold values. This means the individual items evaluated in this study reach satisfactory reliability and convergent validity. Additionally, all the variables of AVE were higher than the correlation weights of each variable (see Table 2), thus, all the discriminant validity variables are acceptable. Therefore, these

findings proved that the measurement items in the instruments could be applied to measure the constructs in this research.

Observed variable	Loading factor	CR	AVE	Cronbach alpha
Market Orientation		0.742	0.618	0.822
▪ Able to identify market need (MO1)	0.769			
▪ Giving the best effort to customer satisfaction (MO2)	0.755			
▪ Monitoring competitor`s action (MO3)	0.754			
▪ Improving capability continuously (MO4)	0.777			
Service Quality		0.785	0.631	0.843
▪ Providing service without any mistakes (SQ1)	0.747			
▪ Providing service timely (SQ2)	0.751			
▪ Assuring the safety food for customer (SQ3)	0.757			
▪ Resolving customer`s problem quickly (SQ4)	0.748			
▪ Providing attractive physical element (SQ5)	0.750			
Business Sustainability		0.719	0.680	0.814
▪ Sales volume increase sustainably (BS1)	0.718			
▪ Consumer`s satisfaction increase sustainably (BS2)	0.733			
▪ Business profit increase sustainably (BS3)	0.728			

Latent variable	Mean	SD	MO	SQ	BS
Market orientation (MO)	11.241	2.14	0.752		
Service quality (SQ)	11.634	1.68	0.258	0.781	
Business sustainability (BS)	11.203	2.89	0.189	0.237	0.873

## Hypotheses Testing

The results showed that business sustainability is influenced by service quality ( $\beta= 0.621$ ,  $t\text{-value}= 5.16$ ) and market orientation ( $\beta= 0.564$ ,  $t\text{-value}= 4.31$ ) significantly (see Table 3), therefore H2 and H3 are accepted. Meanwhile variability of market orientation influences service quality significantly ( $\beta= 0.485$ ,  $t\text{-value}= 8.79$ ), so H1 is accepted. Regarding the  $R^2$  value, the results of the data analysis show that the  $R^2$  value for business sustainability is 0.51 which indicates the ability of variable market orientation and service quality to predict business sustainability at 51%. The remaining 49 percent is influenced by other variables not covered in this model.

No	Hypotheses	Path coefficient	T-values	Decision
H1	Market orientation $\rightarrow$ Service quality	0.485	8.79	Accepted
H2	Service quality $\rightarrow$ Business sustainability	0.621	5.16	Accepted
H3	Market orientation $\rightarrow$ Business sustainability	0.564	4.31	Accepted

## DISCUSSION AND IMPLICATION

The results showed a significant relationship between market orientation and business sustainability. The results of this study are in line with previous studies which show a positive and significant relationship between market orientation, sustainable competitive advantage and business performance. As mentioned in past literature, sustainable competitive advantage and business performance are required for business sustainability. This study succeeded in proving that service quality has a positive effect on business sustainability. This study also strengthens previous research which proves that service quality is a determinant factor of business performance as shown by customer satisfaction, loyalty and profitability. These three indicators are also a prerequisite for business sustainability. The results also show that Market Orientation has a significant effect on service quality. In this context service quality also acts as a mediator of market orientation and business sustainability.

In the context of small coffee shops, the results of this study provide several managerial implications. First, the coffee shop manager or owner must ensure that the quality service provided to consumers is better than that offered by competitors. This can be done by conducting regular surveys of consumers or other ways to be able to capture the voice of customers. Because consumer preferences can change along with market changes, it is very important for a coffee shop to be able to read the behavior changes that are happening to its customers and try to adapt the service to the latest changes in demand of customer.

In order to always be able to provide services that are adaptive to changing consumer demands and tastes, managers and owners must be able to build their company into a market-oriented company. Market orientation must be a culture that is embedded in the organization. The habit of paying attention to the dynamics of competitors and consumers needs to be instilled in all employees and become a common habit in the organization, so that changes that occur in the market both to competitors and consumers can always be properly monitored and anticipated.

## CONCLUSION

The purpose of this study was to analyze the extent to which the integration of the market orientation and service quality models could affect the sustainability of the coffee shop. The results of this study have proven that market orientation and service quality can be determinants of coffee shop sustainability. Even though this study could have obtained all objectives, this study still has several limitations.

This research is limited to an analysis of how market orientation affects service quality in order to satisfy and retain coffee shop customers. The intense competition situation requires the dynamic ability of the coffee shop to always be adaptive to the strategic changes made by competitors. Specific research on how coffee shops, especially independent coffee shops, face competition from coffee shop franchises needs to be done by further research. In providing services to consumers, of course each segment has different preferences for services. This study has not analyzed the extent of preference and satisfaction of each segment in receiving the services provided. Future studies need to consider multi group analysis to more accurately identify the preferences of each group, so that the coffee shop can provide the best service according to the needs of the segment at hand.

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