



The Influence Of Corporate Resources And Corporate Strategy To Improve Corporate Performance At Indonesian State Owned Enterprises

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Abstract

The existence of Indonesian state-owned enterprises (SOEs) has an important role for the communities' welfare as it is mandated in the constitution. If traced based on its face value, the profit of Indonesian SOEs looks to continue increase steadily every year. However, on the other hand there is the biggest challenge, such as how to increase the value of company, which is shown by ROA and ROE that keep on declining. This actually means that it is still possible to get a higher profit. The objectives of this study are to get assessment regarding to (1) correlations of corporate resources with corporate strategy, and (2) whether corporate resources and corporate strategy are affecting corporate performance, partially or simultaneously, to the Indonesian SOEs. Units of analyzes were 101 corporations from four different industry sectors and the samples for this research are 50 corporations of Indonesian SOEs. Time horizon is cross-sectional, where the study was conducted at a single period of time simultaneously. Data was gathered by questionnaires and in-depth interviews to SOEs directors and functional managers. Data analyzed were both descriptive and quantitative. Hypothesis testing was utilized by PLS model (Partial Least Square) 2.0 version. The finding shown that there are correlations between corporate resources and corporate strategy. Corporate resources and corporate strategy do affect corporate performance, directly or simultaneously. Moreover, corporate strategy have more influence than corporate resources. Directional strategy and organizational resources are the most dominant dimensions in affecting corporate performance of Indonesian SOEs. The conclusion from this research is that most of Indonesian SOEs are not capable in formulating their corporate strategy appropriately due to mismatching of their/incompatibility corporate resources.

Key words: Corporate Resources, Corporate Strategy, and Corporate Performance.

Pengaruh Sumber Daya Perusahaan Dan Strategi Perusahaan Untuk Meningkatkan Perusahaan Kinerja Pada Badan Usaha Milik Negara Indonesia

Abstrak

Keberadaan Badan Usaha Milik Negara Indonesia (BUMN) memiliki peran penting untuk kesejahteraan masyarakat seperti yang diamanatkan dalam konstitusi. Jika ditelusuri berdasarkan nilai nominalnya, laba BUMN Indonesia terlihat terus meningkat terus setiap tahun. Namun, di sisi lain ada tantangan terbesar, seperti bagaimana meningkatkan nilai perusahaan, yang ditunjukkan oleh ROA dan ROE yang terus menurun. Ini benar-benar berarti bahwa itu masih mungkin untuk mendapatkan keuntungan yang lebih tinggi. Tujuan dari penelitian ini adalah untuk mendapatkan penilaian mengenai (1) korelasi dari sumber daya perusahaan dengan strategi perusahaan, dan (2) apakah sumber daya perusahaan dan strategi perusahaan mempengaruhi kinerja perusahaan, secara parsial maupun simultan, dengan BUMN Indonesia. Unit analisis adalah 101 perusahaan dari empat sektor industri yang berbeda dan sampel untuk penelitian ini adalah 50 perusahaan BUMN Indonesia. Horizon waktu cross-sectional, dimana studi ini dilakukan pada periode tunggal waktu bersamaan. Data dikumpulkan oleh kuesioner dan wawancara mendalam kepada BUMN direksi dan manajer fungsional. Data dianalisis berdua deskriptif dan kuantitatif. Pengujian hipotesis digunakan model PLS (Partial Least Square) versi 2.0. Temuan ini menunjukkan bahwa ada korelasi antara sumber daya perusahaan dan strategi perusahaan. Sumber daya perusahaan dan strategi perusahaan lakukan mempengaruhi kinerja perusahaan, secara langsung atau secara bersamaan. Selain itu, strategi perusahaan memiliki pengaruh dari sumber daya perusahaan. Strategi directional dan sumber daya organisasi adalah dimensi yang paling dominan dalam mempengaruhi kinerja perusahaan BUMN Indonesia. Kesimpulan dari penelitian ini adalah bahwa sebagian besar BUMN Indonesia tidak mampu dalam merumuskan strategi perusahaan mereka secara tepat karena ketidakcocokan sumber daya mereka/ketidakcocokan perusahaan.

Kata kunci: Sumber Daya Perusahaan, Strategi Perusahaan, dan Kinerja Perusahaan.

INTRODUCTION

The existence of Indonesian state-owned enterprises (SOEs) has an important role for the communities' welfare as mandated in the constitution. Indonesian State Owned Enterprises (SOEs) profit during 2009 were Rp 45.115 trillion which then increased to be Rp 49.95 trillion at 2010. In 2011, Indonesian SOEs increased their profit to become Rp 69.36 trillion or was having an increase of 38.86%. However, on the other hand there is the biggest challenge, namely how to increase the value of the company, which is shown by ROA and ROE that keep on declining. Indonesian SOEs ROA average in 2009 was 5.22 and in 2010 was declining to be 4.91 and in the year 2011 again was declining to become 4.54. As for the ROE, during 2009, the average was 22.95, and was declining to become 15.67 in 2010, and again kept on declining to become 15.75, which mean still bellow year of 2009 ROE average. Based on this fact, may we assume that, even though, the profit from Indonesian SOEs were increasing on the face value, they may potential to have a higher profit increases.

Return on Asset or ROA is defined as corporate capability to give return which is the overall effectiveness in generating profits through any available assets. Return on Equity (ROE) is defined as the ability to generate profit from the capital invested. It is the ability of a company to earn net profit that is associated with dividend (Horne and Wachowicz, 2005:235).

The low corporate performance of Indonesian SOEs was allegedly for inappropriate corporate strategy. Caldart and Ricart (2006:26) explained that corporate strategy affects corporate performance. Inappropriate corporate strategy can be indicated by several endeavour to ameliorate some sluggish state-owned enterprises. At the first semester of 2011, there were fifteen SOEs at the corporate restructuring and revitalization stage, either at due diligence stage, scheme proposal, stipulation and scheme approval or implementation and monitoring stage.

Beside the restructuring through the Asset Management Company (AMC), Ministry of the Indonesian state-owned companies undertook the capital restructuring with fresh money from the Budget

and State Expenditure (BSE), funding from GATHNBAS (Government Assistance That Has Not Been Assigned Status), and loan from the IFA / SLA (Investment Fund Account / Sub Loan Agreement) to becoming SCP (State Capital Participation). For example, in developing their business, PT. DI received capital restructuring either through a loan conversion and fresh cash with the total fund more than Rp 6,7 trillions. PT. Pindad received a loan conversion and fresh cash with the total fund of more than Rp 960 billions, while PT. Merpati Nusantara Airlines received fresh cash about Rp 561 billions and PT. PAL obtained additional capital of more than Rp 2,8 trillions. For the GATHNBAS conversion in the preparation of IPP (Implementation Plan of Purchases) include 9 SOEs (Pelindo I, II, III, IV; Angkasa Pura I, II; PT ASDP; PLN (State Power Company) and Perum LKBN (The State News Agency) Antara with the amount around Rp 25,42 trillions (Public Relation and Protocol, Ministry of the Indonesian SOEs, 2011). However, it seems the corporate strategy formulated by the SOEs were still relatively less accurate, although the support of Indonesian government is growing.

Indonesian SOEs' corporate strategy tend to not fully appropriate, maybe because there are still existing general problems such as operation activities are still fragmented and bureaucratic business culture, led to less market-oriented, quality and business performance are low, and ending up in low assets utility and productivity.

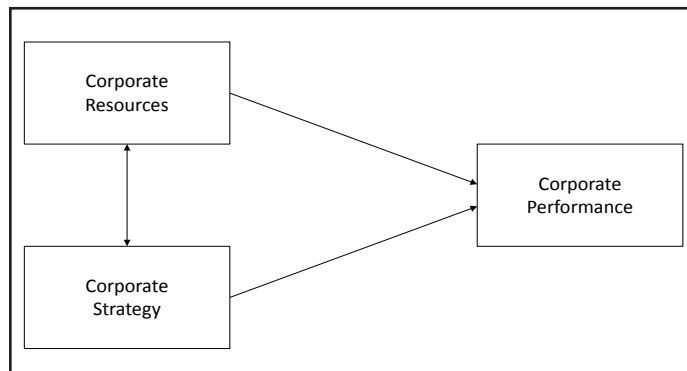
The low corporate performance, allegedly caused by the Indonesian SOE management team capabilities were not good enough to develop the quality of their corporate resources carefully. Pearce and Robinson (2009:5) says that possession of adequate corporate resources in terms of tangible resources, intangible resources and organizational capabilities constituting an essential ingredient in improving the corporate performance.

Liu, Timothy, and Gao (2011:6640) stated that corporate resources could be defined as a corporate possession of which is used to optimized corporate strategy in improving the corporate performance. Wong, Kuek, and Ong (2011 :5961) also mentioned that corporate resources dimensions are physical resources, human resources and organizational

resources.

The low quality of internal corporate resources looks like for both, tangible and intangible assets. In terms of tangible assets ownership, the problems are like ineffective working capital, where in the face of resolutions of order, the case is lack of capital and relatively old equipment and machinery. For intangible assets, the problems are such as creation brand of products that is not widely known by market, company reputation relatively not so good in the eye of the market when compared with other country products and also the weakness in organization capability management, particularly when creating superior work culture.

Based on the above statements, it is important to make a study regarding to the correlations of corporate resources with corporate strategy and the impact of corporate resources and corporate strategy to improve corporate performance. Below is the paradigm:



Picture 1 Paradigm

LITERATURE REVIEW

Liu, Timothy, and Gao (2011:6640) stated that corporate resources could be defined as a corporate possession of which is used to optimized corporate strategy in improving the corporate performance. Wong, Kuek, and Ong (2011: 5961) also mentioned that corporate resources dimensions are physical resources, human resources, and organizational resources.

Wong, Kuek, and Ong (2011:5961) stated that human resource indicators in this study are managerial experience, utilization abilities, managerial knowledge about the company, managerial skill in analyzing the

environmental changes, and managerial intelligence in decision making consideration.

Wong, Kuek, and Ong (2011 :5961) also said that organizational resource indicators are financial source, capability in service operations, capability in marketing, information systems, research and development, monitoring and controlling systems. Heng (2006:2) stated that physical resource include natural resources, technologies and physical infrastructure.

Wheelen and Hunger (2012:42) proposed that corporate strategy is a strategic platform or it is an organizational capability to cope with business in a diverse business environment with its strategic capabilities. Caldart and Ricart (2006:4-5a) suggested pertaining dynamic skeleton for corporate strategy based on three things which are interconnected in forming corporate strategy itself, namely cognition (key success factor), corporate strategic initiatives and architecture design.

Wheelen & Hunger (2012) divided corporate strategy into three dimensions which are directional strategy, portfolio strategy, and parenting strategy. Directional strategy according to Hunger (2012) are divided into three strategies, which are : growth strategy, stability and austerity. Portfolio strategy is a corporate strategy to understand and analyze how much time and funds needed to develop their best products, so that the product can remain successful, as well as how much time and money have been spent to develop a type of product that never reached the level of success. Corporate parenting is a management endeavour to build corporate synergies through the corporate resources sharing, capability, and development between business units and product units that exist in the company. This corporate strategy is commonly used for a company that has a diversity of business units or different products and multi businesses.

Subjective performance measurement includes relative performance compared to competitors (Kohli, Jaworski, and Kumar, 1993), expectation against return on asset (Narver dan Slater, 1990), product sales growth (Appiah-Adu, 1997; Luo, Stravers, and Duffin, 2005), return on investment/ROI (Harris, 2001), new product successfulness and profitability (Pelham dan

Wilson (1996) are using financial parameters such as return on sales, return on asset, return on net worth to understand a company marketing strategic planning of product segment, customer group and other operating business variable. Aras, Aybars, and Kutlu (2010:237) were used accounting based measures of ROE, ROA and ROS.

Objectives

The objective of this study is to get assessment regarding to (1) correlations of corporate resources with corporate strategy and (2) whether corporate resources and corporate strategy affecting corporate performance partially or simultaneously to the Indonesian SOEs.

METHOD

Method Technique

The nature of this study is descriptive and verification, therefore the method is descriptive method and explanatory survey method. Descriptive method is to obtain a description of variables characteristics. Verification method is essentially wanted to test the truth of a hypothesis in which the data for hypothesis is gathered from the field. Units of analysis were Indonesian state-owned enterprises. Time horizon was cross-sectional, where the study was conducted at a single period of time simultaneously.

Sample Determination Techniques

Population in this reseach were the companies whose are incorporated into the state-owned enterprises with a total number of 140 companies with 13 business sectors. Four sectors were chosen randomly using a sampling frame. Those four business sectors consist of 101 corporations. Samples were taken using a table of random numbers and appropriately distributed to each sector proportionally as follows:

Table 1 Sample Distribution

No	Sector	Number of Companies	%	Sample (Companies)
1	Agricultur, Forestry and Fishery	25	24.75	12
2	Industry of processing	31	30.69	15
3	Transportation and Warehousing	23	22.77	11

Source: Ministry of Indonesian State-Owned Companies (2013)

Lanjutan Table 1 Sample Distribution

No	Sector	Number of Companies	%	Sample (Companies)
4	Financial services and Insurance	22	21.78	11
	Total number	101	100	50

Source: Ministry of Indonesian State-Owned Companies (2013)

Hypothesis of Testing Design

Consistent with the objectives of this study and limited sample size, hence the analysis design was using PLS (Partial Least Square) model. It is one of series of multivariate techniques to examine the relationship between dependence variables that do not require the number of samples. Total sample of respondents in this study are only 50 companies, which is still under 200 respondents, the minimum number of samples that can be used by SEM (Structural Equation Modeling). Typically, PLS model is basically almost same with SEM (Structural Equation Modeling), used if there are causality between variables which have latent variables, and limited number of samples.

RESULT AND DISCUSSION

Goodness of Fit Test

This part will discuss the result of research in verificatif through hypothesis using Partial Least Square (PLS) model. Before the discussion, the hypothesis will be analyzed by goodness of Fit Test. In PLS, model of estimate evaluation conducted through two analysis, namely inner model and outer model.

Structural Model (Inner Model)

Inner model analysis (structural model) is the analysis that indicate the link between latent variables. In detail, inner model analysis associated with the hypothesis proposed. Prior to proving whether the research hypothesis is supported by empirical facts or not, the first stage is to test the overall model fit. To indicate the overall model acceptable or not, we do goodness of fit test. Goodness of fit test is to prove a hypothesis, that theory has been used in accordance with the empirical data or that theory has been supported by data (Model fit with data).

Inner model to be evaluated using goodness of fit model (GoF), which is showing the difference between



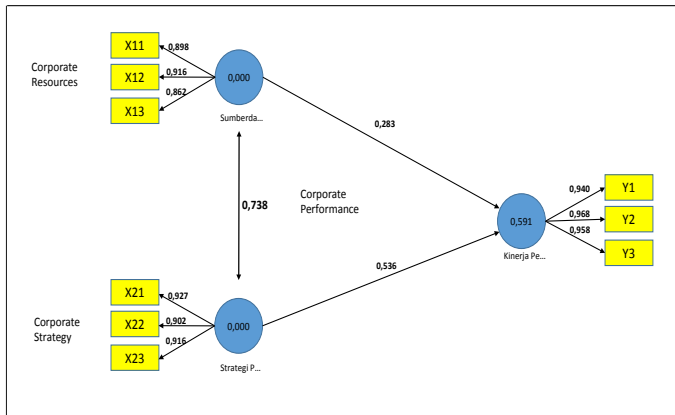
the observed values and the values predicted by model. Following is the value of GoF on construct :

Table 2. Structural Model Testing (Inner Model)

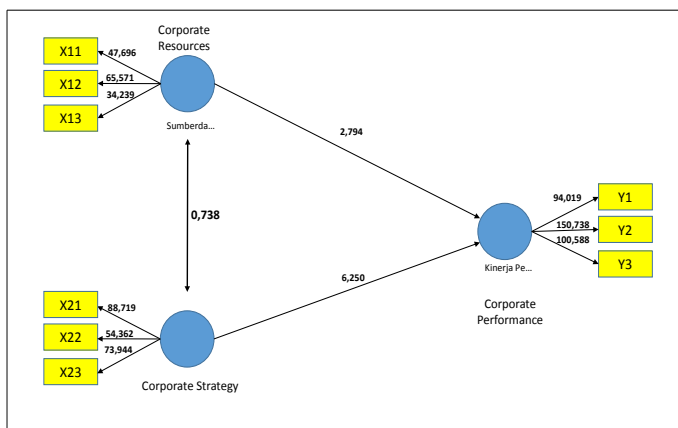
Variable	R Square	Communality	GoF
Corporate Resources		0,797	
Corporate Strategy		0,837	0,708
Corporate Performance	0,591	0,913	

Source: Primary data processed by Smart PLS (2014)

The table above gives the critical value to test the model. GoF value indicates the value greater than 0,70 , which means that the research model has been supported by the empirical conditions or the model is fit. The picture below shows the result of model testing by Smart PLS 2.0.



Picture 2 Result of Research Model



Picture 3 Result of t Test Research Model

Measurement Model (Outer Model)

Measurement model shows the relationship model between manifest variable (indicator) and latent variable. Measurement model analysis aims to

analyse the validity of dimensions and indicators that used in measuring every construct research variable. Whether an indicator of variable/construct is valid or not, it is measured or considered from several test validity tools, which are Composite Reliability and value of square root of Average Variance Extracted (AVE). Suggested value is greater than 0,5. Following is the AVE value and Composite Reliability in this research:

Table 3 AVE Score and Composite Reliability

Variable	AVE	Composite Reliability
Corporate Resources	0,872	0,921
Corporate Strategy	0,903	0,939
Corporate Performance	0,952	0,969

Source: Primary data processed by Smart PLS (2014)

The table above showed that root value AVE > 0,5 , means that all variable in the estimated model meet criteria of discriminant validity. The composite reliability from each variable >0,70. Therefore it can be said that all the variables are reliable.

Measurement model analysis is performed to find out how far the validity of indicators in measuring the research variables. The tables below, presents the result of measurement model analysis for each indicator on every variables.

Table 4 Measurement Model (Outer model)

Outer model	Loading Factor	Standard Error	t-count	Description
X11 <- Human Resources	0,898	0,019	47,696	Valid
X12 <- Organizational Resources	0,916	0,014	65,571	Valid
X13 <- Physical Resources	0,862	0,025	34,239	Valid
X21 <- Directional Strategy	0,927	0,010	88,719	Valid
X22 <- Portfolio Strategy	0,902	0,017	54,362	Valid
X23 <- Parenting Strategy	0,916	0,012	73,944	Valid
Y1 <- Financial Performance	0,940	0,010	94,019	Valid
Y2 <- Operational Performance	0,968	0,006	150,738	Valid
Y3 <- Administrative Performance	0,958	0,010	100,588	Valid

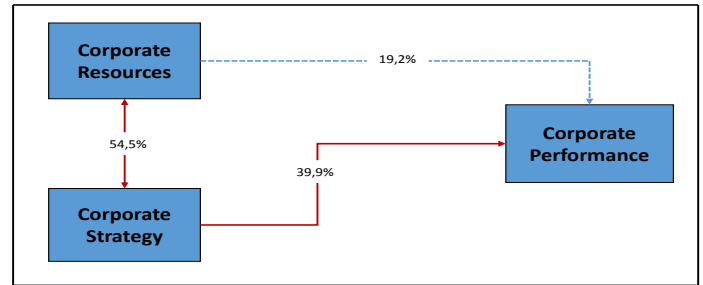
Source: Primary data processed by Smart PLS (2014)

The analysis result of measurement model showed

that most of indicators have loading factor value greater than 0,70 and value of tcount is greater than value of ttable (2,011). Therefore it can be assumed that variables in the manifest are capable to become good indicators to shape their latent variables.

The measurement result shows that organizational resources (X12) is the most valid dimension in reflecting corporate resources, followed by human resources (X11) and physical resources (X13). A coefficient describes the contribution level of each variable. The magnitude of the contribution level (coefficient determination R²) from each variable is (coefficient² x 100%). Although the performance of organizational variable is not the greatest, however it has the most dominant impact in shaping the influence of corporate resources against corporate strategy. For that reason, the performance of organizational resources is precedence to be improved. And for

more dominant influence compared to corporate resources in improving corporate performance. The most dominant dimension of corporate strategy is Directional Strategy (X21), followed by Parenting Strategy (X23), and Portfolio Strategy (X22). It can be said that appropriate corporate strategy formulation will improve corporate performance.



Picture 4 Finding Model

The test has shown that company resources were

Table 5. Result of Partial and Simultaneous test result on Hypothesis 1 and 2

Hypothesis	Structural Model	γ	Standard Error	t count	R _{square} (R ²)	F count	Description
1	Corporate Resources -> Corporate Performance	0.283	0.101	2.794*	0.591	34.00	significant
2	Corporate Strategy -> Corporate Performance	0.536	0.086	6.250*			Significant

*significant on $\alpha=0,05$

the corporate strategy latent variable, directional strategy (X21) is the dimension that reflecting the most for Indonesian SOEs, followed by parenting strategy (X23) and portfolio strategy (X22). Based on the test result of table 5, can be noticed that it simultaneously have a greater F-value compared to Ftable (3.195). Therefore it can be said that there is an influence from corporate resources and corporate strategy to corporate performance simultaneously. Total impact for both of exogenous variables to corporate performance is 59.1%, where other factors are 40.9%.

Partial test shown that the influence of corporate resources and corporate strategy to corporate performance are significant with t-statistic is greater than 2.011 (t_{table} at $\alpha=0,05$).

Partial test shown that the influence of corporate resources and corporate strategy to corporate performance are significant with t-statistic is greater than 2.011 (ttable at $\alpha=0,05$). Research finding have revealed that corporate strategy have

corelated with corporate strategy of 54,5%. Corporate strategy is a strategic platform, or an organizational capability to handle their businesses in a different environment with a set of strategic abilities. Corporate resources owned by a company could be used as a base to formulate a corporate strategy. The use of valuable, rare, inimitable, and irreplaceable of the corporate resources, will enable management team to formulate their corporate strategy. For that reason, we may say the corporate resources have correlations with corporate strategy. Optimum use of corporate resources is one of corporate strategy to win a competition in international level. Effective and efficient corporate resources management will create positive contribution for corporate strategy development. Thus, a company will be able to compete in the market with its competitive performance. This indicates that corporate strategy formulation in many State Owned Companies is affected by their corporate resources, such as human resources, organizational resources, and physical resources; thus they will be able to create competitive advantage.



Relationship between corporate resources and corporate strategy also describe in Shih & Chiang (2005) that examined the relationship between company strategy, human resource management strategy, and knowledge management strategy and the effect of interactive of knowledge management effectiveness. They were using 147 of Taiwan banking services and manufacture companies for their sample. The research shown that a company that use cost leadership strategy and HRM bureaucratic strategy will be more possible to adopt knowledge management codification strategy. A company that adopt differentiation strategy and make organic HRM strategy tend to caused by the frequent use of knowledge management strategy personalization. The study found that there is match between knowledge management strategy, HRM strategy and company strategy that significantly related with the better effectiveness of knowledge management, particularly related with the process' result, learning ability and organizational result.

Next is Hosseini, Shakshian, & Moezzi (2011) in "Top Management's Role In Coordinating Human Resources With Corporate Strategy" that study airplane industry. They described that in airline industry, particularly in low cost operator, human resources considered as a precious capital. If an airline wanted to be succeed in maintaining its highest standard level, then they must invested for everyone who will be involved in the strategy implementation.

The test of Indonesian state owned companies in this study has revealed that directional strategy has greater effect in reflecting a company strategy. In this case, directional strategy consists of growth, stability and retrenchment. Growth includes the right partnership with supplier/ distributor/ customers, and the precise level of the diversification and conglomerate strategy implementation. Stability, includes the exact point of product add and continuous market penetration that done in a very cautious way; and the precise time to implement profit stability. While retrenchment includes the implementation of cost-effectiveness strategy, sales, and divestment that will be taken if a company experiencing bankruptcy, and also the implementation of liquidation if the business does not run well.

Meanwhile, parenting strategy includes company's understanding level to acknowledge its resources, capabilities, business units expertise that could help them to achieve success and also to understand the level of support they could give to business development.

Portfolio strategy covers the implementation of competitive strategy done by management in every business units, and the implementation of business unit development, both optimum and the less one. In the other hand there is simultaneous impact from company resources and strategies to increase their work performance. It is indicates that strategy formulation at SOEs companies is very affected by the excellent resources, such as organizational resources, human resources, and physics resources that could give a warrant to create a competitive advantage. Based on the situation, management need to improve the quality of organization resources, such as optimized its financial resources, service delivery capability, marketing skills, information system, research and development, and control system.

By using a correct company development strategy, a company was expected to achieve competitive performance, as described in Liu's (2009) "Three essays on corporate growth strategy and firm performance: A contingency perspective". According to his opinion, a company would achieve its growth through a set of strategic acts, such as diversification and build a possible alliances approach. Although, in other side, the effectiveness of those growth strategies will depend on factors that create contingency in its implementation process. Those factors' characteristics are theories and practical relevance that properly enough to gain some attention. The thesis described an important type of a company's growth strategy and how contextual factors could affect company's performance.

The research result has supported with dissertation written by Prakash K. Chathoth (2002) titled "Co-alignment between environment risk, corporate strategy, capital structure, and firm performance: An empirical investigation of restaurant firms" that identify dimensions and management variables and finance domain, vis-a-vis environment risk, company strategy, capital structure and company performance

with corporation level of a restaurant company. The research has shown that high variant in a company performance explained by a co-alignment between the environment risk, company strategy, and capital structure.

CONCLUSION

Indonesian state-owned enterprises (SOEs) management team were not able to maximize their corporate resources as their effort to improve the company performance. This study has revealed that most of Indonesian SOEs are yet capable of creating a precise and correct company strategy, while the competition level within the industry has become more complex.

There is relation between corporate resources and corporate strategy, which corporate resources could be a basic to formulate a corporate strategy. Simultaneously, there are influences from corporate resources and corporate strategy to corporate performance. Moreover, the research has shown how dominant the influence of corporate strategy variable to corporate performance.

Recommendation

The result of this research is expected to be used as a reference for other academicians to develop another related research, where the result of this research could be use as a part of premise to organize a research framework. The topic of this research is also interesting to be re-examined with different units of analyses, but has the same variable observation, perhaps a private own corporation with many subsidiaries companies. It also can be done with similar units of analysis but different variables which discussed strategic management science, so we could examine business aspects in a holistic integrated way.

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