

From Market Insight to Business Triumph: Unraveling the Role of Market Orientation in Enhancing MSMEs Performance

M. Lail Cahya Ulum^{1*}, Agusty Tae Ferdinand², Fadel Wirawan Gunaldi³, Nur Arifah⁴

¹⁻⁴Universitas Diponegoro, Indonesia

Author E-mail: lailcahya@gmail.com

Abstract

This study aims to analyze the role of market orientation on performance in MSMEs in Semarang City. The research method used is quantitative. The object of research is SMEs in the city of Semarang. By using a non-probability sampling technique, namely convenience/accidental sampling, 200 samples were taken from 11,910 MSMEs. Data collection method using a questionnaire with a numerical scale. This research found that competitive advantage can be achieved by adopting market orientation, which involves customer orientation by understanding what customers want and need, competitor orientation by analyzing the strengths and weaknesses of competitors that can be leveraged by the company, and inter-functional coordination to develop strategies based on the gathered information. Marketing capabilities also play a crucial role in shaping competitive advantage. Marketing capabilities can develop and deliver superior value to customers by leveraging existing resources. Competitive advantage, market orientation, and marketing capability play a partial role in enhancing their business performance. Business performance is the goal of every organization. It is considered the core of strategic management, and therefore, most of their efforts are directed towards improving business performance. Companies can pay attention to important factors that can influence business performance. In this study, it was found that by focusing on competitive advantage, market orientation, and marketing capability, companies can enhance their business performance. The theoretical implication in this research is scientific development, while in practice, market orientation is a supporting factor that needs to be considered by MSME actors in order to achieve success.

Keywords: Market Orientation, Competitive Advantage, Performance, MSMEs

Abstrak

Penelitian ini bertujuan untuk menganalisis peran market orientation terhadap performance pada UMKM di Kota Semarang. Metode penelitian yang digunakan adalah kuantitatif. Objek penelitian adalah UMKM di Kota Semarang. Dengan menggunakan teknik *non-probability sampling*, yakni *convenience/accidental sampling*, maka sampel diambil sebanyak 200 dari 11.910 UMKM. Metode pengumpulan data menggunakan kuesioner dengan skala numerik. Penelitian ini menemukan bahwa *Competitive advantage* dapat dicapai dengan melakukan orientasi pasar berupa orientasi pelanggan dengan memahami apa yang diinginkan dan dibutuhkan oleh pelanggan, orientasi pesaing dengan menganalisis keunggulan dan kelemahan pesaing yang bisa menjadi potensi bagi perusahaan serta, menjalin koordinasi yang baik antar lini perusahaan guna Menyusun strategi berdasarkan informasi yang didapatkan. Kapabilitas pemasaran juga memegang peran penting dalam membentuk keunggulan kompetitif, Kapabilitas pemasaran dalam peranannya memiliki kemampuan mengembangkan serta memberikan nilai superior kepada pelanggan dengan menggabungkan sumber daya yang ada. Competitive advantage, market orientation, dan marketing capability memiliki peranan parsial dalam meningkatkan kinerja bisnis mereka, Kinerja bisnis merupakan tujuan akhir dari setiap organisasi. Kinerja bisnis serta peningkatannya dianggap sebagai inti manajemen strategis perusahaan, dengan demikian sebagian besar usaha mereka dituangkan untuk dapat meningkatkan kinerja bisnis perusahaan. Perusahaan dapat memperhatikan hal penting yang dapat mempengaruhi kinerja bisnis, dalam penelitian ini menemukan dengan perusahaan memperhatikan competitive advantage, market orientation, dan marketing capability dapat meningkatkan kinerja bisnis perusahaan. Implikasi teoritis dalam penelitian ini adalah pengembangan keilmuan, sedangkan praktisnya adalah orientasi pasar menjadi faktor pendukung yang perlu diperhatikan bagi pelaku UMKM agar mencapai kesuksesan.

Kata kunci: Market Orientation, Competitive Advantage, Performance, UMKM

* Copyright (c) 2023 **M. Lail Cahya Ulum**

This work is licensed under a [Creative Commons Attribution-ShareAlike 4.0 International License](https://creativecommons.org/licenses/by-sa/4.0/).

Received: 27 April 2023; Revised: 25 July 2023; Accepted: 30 July 2023

INTRODUCTION

MSMEs play a significant role in the industrial world due to their contribution to the economic growth of a country, especially developing countries (Aziz & Samad, 2016; Mamun et al., 2018). In Indonesia, the development of small and medium-sized enterprises is expected to contribute significantly to economic and social issues such as high poverty rates, income inequality, unemployment, and uneven infrastructure development (Usman et al., 2020). According to data from the Ministry of Cooperatives, Small and Medium Enterprises (KUKM) for 2018, the number of MSME actors is 64.2 million or 99.99% of the number of business actors in Indonesia. The absorption capacity of MSME workers is as many as 117 million workers or 97% of the absorption capacity of the business world workforce. Meanwhile, the contribution of MSMEs to the national economy (GDP) was 61.1%, and the remaining 38.9% was contributed by large business actors whose number was only 5,550 or 0.01% of the total number of business actors (Sasongko, 2020). This data shows that MSMEs make a major contribution to the national economy and create jobs.

MSMEs, despite their contributions, still face uncertainties. In the current landscape of global economy, intense competition requires MSMEs to be creative and innovative to survive (Mamun et al., 2018). MSMEs require a range of skills and knowledge to compete in the market, such as marketing, technology, operations, etc (Jin & Cho, 2018). Mamun et al. (2018) state that to remain competitive in the current business environment, MSMEs need to focus on processes, practices, principles, and decision-making styles that guide their business activities, especially when responding to the external environment.

Boohene et al. (2020) stated that the performance of MSMEs can be observed and measured using both financial and non-financial measures, although financial measures are the most used in practice and theory. Previous research MSMEs has indicated that one of the factors influencing SME performance is marketing capability, specifically marketing capability which seen as a behavioral representation of the company's market orientation, in relation to the outcomes associated with a firm's performance (Ali et al., 2021). A stronger market orientation of a company should manifest in superior marketing capabilities (Kamboj & Rahman, 2017).

Market orientation is the ability of a company (SME) to understand and respond to consumers (Priatin et al., 2017). Market orientation is the company's ability to learn or understand the market conditions, including customers (understanding their wants and needs) and competitors (understanding their strengths and weaknesses), to retain customers or gain superior value from them, thus improving business performance (Rizki Aulia et al., 2019).

This is consistent with the research conducted by Ahmad et al. (2020), which states that there is a positive influence of market orientation on performance. Several other studies have also found similar results, indicating a relationship between market orientation and business performance (Buli, 2017; Iqbal et al., 2023; Kocak et al., 2017; Mamun et al., 2018). However, a study conducted by Dionysus & Arifin (2020) found that market orientation does not affect the performance of MSMEs.

This study's aims are to explore factors that enhance the performance of MSMEs especially market orientation to marketing capabilities, marketing capabilities to competitive advantage, marketing capabilities to performance, and competitive advantage to performance. Among the strategies that have the potential to improve company performance are market orientation and competitive advantage. However, the relationship between these variables needs to be further explored, considering other variables that may influence business performance.

RESEARCH METHOD

The object of this study is Micro, Small, and Medium Enterprises (MSMEs) in Semarang City. The researcher obtained different data regarding the number of MSMEs in Semarang. According to the official website of the Semarang City Government, the number of MSMEs in Semarang in 2021 was reported as 22,242. However, this data is claimed to be temporary and has not been verified by the Central Statistics Agency (BPS), Regional Development Planning Agency (BAPPEDA), and Information and Communication Agency (DISKOMINFO). On the other hand, according to the website of the Cooperative and MSME Agency of Central Java (Dinas Kooperasi dan UMKM JATENG), the number of MSMEs in Semarang is reported as 11,910. Therefore, it can be concluded that the exact population size for this study cannot be determined.

The sampling technique used in this study is non-probability sampling, specifically convenience/accidental sampling. The use of Structural Equation Modeling (SEM) requires an adequate sample size to ensure trustworthy results. The minimum sample size required to minimize bias in all types of SEM estimation is 200 (Hoelter, 1983; Loehlin & Beaujean, 2001). Chin et al. (2000) suggests that the ideal sample size for SEM model specification analysis ranges from 200 to 800. Kline (2010) also suggests that the sample size for SEM estimation should be greater than 200. Based on these considerations, a sample size of 200 was determined for this research.

The respondents are owners/managers of MSMEs (Micro, Small, and Medium Enterprises), and it is assumed that they are valid representatives of their companies. Data collection is conducted through a structured interview process. We interviewed MSME owners/managers using a questionnaire and assessed their responses directly on the questionnaire sheets. Respondents were selected from MSMEs operating in the food and beverages sector. This sector was chosen to examine competition within a specific MSME sector. Additionally, the food and beverages sector were selected due to its high level of competition, which can provide a representative picture of competition in the industry.

This study uses a quantitative method with a questionnaire measured on a numeric scale of 1 to 5, where a score of 1 represents "Strongly Disagree" (SD) and a score of 5 represents "Strongly Agree" (SA). Market orientation is measured with 5 items based on (Bodlaj & Čater, 2022; Theodosiou et al., 2012). Marketing capabilities are measured with 5 items according to (Mainardes et al., 2021). Partnership is measured with 5 items according to (Benhayoun et al., 2021). Competitive advantage is measured with 5 items according to (Sachitra & Chong, 2018). Business performance is measured with 6 items according to (Bamfo & Kraa, 2019).

RESULTS AND DISCUSSION

Validity and reliability

Based on Table 1, which presents the standardized loading estimates for each indicator used in the model, it appears that all indicators have met the criterion for validity. The loading factor values for each indicator are greater than 0.5, which is often considered an acceptable threshold for strong construct validity in structural equation modeling.

Table 1. Standardized Loading Estimate

No	Variable	Indicator	Estimate
1	<i>Marketing Orientation</i>	MO.1	0,836
2		MO.2	0,779
3		MO.3	0,787
4		MO.4	0,780
5		MO.5	0,708
6	<i>Marketing Capabilities</i>	MC.1	0,772
7		MC.2	0,721
8		MC.3	0,749
9		MC.4	0,702
10		MC.5	0,753
11	<i>Competitive Advantage</i>	CA.1	0,729
12		CA.2	0,798
13		CA.3	0,760
14		CA.4	0,798
15		CA.5	0,736
16	<i>Business Performance</i>	BP.1	0,786
17		BP.2	0,739
18		BP.3	0,741
19		BP.4	0,731
20		BP.5	0,740
21		BP.6	0,806

Source: Data processed in 2023.

Table 2. Calculation of Construct Reliability and Variance Extracted values.

Variable	Indicator	Loading Factor	Loading Factor ²	Measurement Error	(Σ Std Loading) ²	Σ Std Loading ²	Σ Measurement Error	CR	VE
<i>Market Orientation</i>	MO.1	0,836	0,699	0,301	15,132	3,035	1,965	0,885	0,607
	MO.2	0,779	0,607	0,393					
	MO.3	0,787	0,619	0,381					
	MO.4	0,780	0,608	0,392					
	MO.5	0,708	0,501	0,499					
<i>Marketing Capabilities</i>	MC.1	0,772	0,596	0,404	13,668	2,737	2,263	0,858	0,547
	MC.2	0,721	0,520	0,480					
	MC.3	0,749	0,561	0,439					
	MC.4	0,702	0,493	0,507					
	MC.5	0,753	0,567	0,433					
<i>Competitive Advantage</i>	CA.1	0,729	0,531	0,469	14,600	2,924	2,076	0,876	0,585
	CA.2	0,798	0,637	0,363					
	CA.3	0,760	0,578	0,422					
	CA.4	0,798	0,637	0,363					
	CA.5	0,736	0,542	0,458					
	BP.1	0,786	0,618	0,382	20,639	2,795	2,205	0,903	0,559

Variable	Indicator	Loading Factor	Loading Factor ²	Measurement Error	(Σ Std Loading) ²	Σ Std Loading ²	Σ Measurement Error	CR	VE
<i>Business Performance</i>	BP.2	0,739	0,546	0,454					
	BP.3	0,741	0,549	0,451					
	BP.4	0,731	0,534	0,466					
	BP.5	0,740	0,548	0,452					
	BP.6	0,806	0,650	0,350					

Source: Data processed in 2023.

From the above table 2, it can be observed that all variables have high latent constructs and have met the specified criteria, with reliability values > 0.7, which is considered good. The overall Variance Extracted (AVE) values for the variables are > 0.5, indicating good convergent validity.

Normality

Table 3. Data Normality Test

Variable	min	max	skew	c.r.	kurtosis	c.r.
BP.6	1,000	5,000	-1,130	-6,733	1,685	5,021
BP.5	1,000	5,000	-,633	-3,773	,471	1,404
BP.4	1,000	5,000	-,958	-5,707	1,579	4,703
BP.3	1,000	5,000	-,739	-4,404	1,292	3,850
BP.2	1,000	5,000	-,982	-5,852	1,398	4,164
BP.1	1,000	5,000	-1,015	-6,045	1,900	5,659
MC.1	1,000	5,000	-,753	-4,487	,463	1,379
MC.2	1,000	5,000	-,367	-2,188	-,301	-,898
MC.3	1,000	5,000	-,464	-2,765	-,219	-,654
MC.4	1,000	5,000	-,966	-5,757	,656	1,953
MC.5	1,000	5,000	-,692	-4,121	,240	,715
CA.1	1,000	5,000	-1,238	-7,379	2,231	6,645
CA.2	1,000	5,000	-1,515	-9,025	3,284	9,782
CA.3	1,000	5,000	-1,545	-9,204	3,463	10,317
CA.4	1,000	5,000	-1,337	-7,969	2,505	7,463
CA.5	1,000	5,000	-1,260	-7,510	2,507	7,470
MO.1	1,000	5,000	-,708	-4,217	,593	1,767
MO.2	1,000	5,000	-,355	-2,117	,285	,849
MO.3	1,000	5,000	-,489	-2,914	,621	1,850
MO.4	1,000	5,000	-,598	-3,563	,750	2,234
MO.5	1,000	5,000	-,599	-3,569	,516	1,538
Multivariate					63,242	14,848

Source: Data processed in 2023.

Based on table 3, the results of the data normality test in the table, it can be observed that most univariate variables are not normally distributed, as the critical ratio values for skewness are below the range of ± 2.58 . Furthermore, the multivariate data does not conform to the normal assumption, as the value of 14.848 exceeds the range of ± 2.58 . If the normality test indicates that the data used in this study tends to be non-normal, the Central Limit Theorem assumption can be applied, which states that if the

sample size is large enough ($n > 30$), the normality assumption can be disregarded. Additionally, hypothesis testing is performed using resample bootstrapping. The results of the Bollen-Stine bootstrap test yield a p-value of $0.089 > 0.05$, indicating that the data testing can proceed.

Framework

Table 4. Goodness of Fit Model

Goodness of Fit	Cut off value	Test Result	Explanation
Chi Square	Small	264.009	Fit
Probabilities	≥ 0.05	0.000	Not Fit
GFI	≥ 0.90	0.903	Fit
AGFI	≥ 0.90	0.879	Marginal Gof Fit
CFI	≥ 0.90	0.967	Fit
RMSEA	< 0.08	0.045	Fit
TLI	≥ 0.90	0.963	Fit

Based on the table 4, out of the 7 Goodness-of-Fit (GoF) criteria proposed, two indicators are not met. However, referring to Browne & Cudeck (Ferdinand, 2002), an RMSEA value that is smaller than or equal to 0.08 is an index for accepting the model, indicating a close fit of the model based on degrees of freedom. In this case, since the RMSEA value is $0.047 < 0.08$, the model is considered to have a good fit and can proceed to the next analysis, which is examining the influence among the research variables.

Hypothesis Measurement

Table 5. Standardized Regression Weight

	Estimate
MC <--- MO	,785
CA <--- MC	,645
BP <--- MC	-,161
BP <--- CA	,758

Table 6. Resample Bootstrapping

Parameter	Estimate	Lower	Upper	P
MC <--- MO	,709	,562	,824	,002
CA <--- MC	,742	,547	,873	,003
BP <--- MC	-,195	-,587	,008	,070
BP <--- CA	,800	,561	1,145	,004

Table 7. Hypothesis Measurements

Correlation Between Variable	Estimate	P value	Explanation
MO -> MC	0,785	0.002	Significant Positive
MC -> CA	0,645	0.003	Significant Positive
MC -> BP	-0,161	0.070	Negative Non-Significant

<i>CA -> BP</i>	0,758	0.004	Significant Positive
--------------------	-------	-------	----------------------

The table 5,6 and 7 illustrates that there are six relationships between research variables, and overall, there are some non-significant relationships among the six. Marketing orientation has a significant positive effect on marketing capabilities (MO -> MC); marketing capabilities have a positive and significant impact on competitive advantage (MC -> CA); Marketing capabilities have a negative but non-significant impact on business performance (MC -> BP); and competitive advantage has a positive and significant impact on business performance (CA -> BP).

DISCUSSION

Market Orientation and Marketing Capabilities

Market orientation is the foundation of marketing management and the strategic paradigm, serving as the basis for high-quality marketing implementation. Thus, market orientation plays a crucial role in long-term success and superior company performance (Mamun et al., 2018). Market orientation generally refers to the extent to which a company's strategies and operations are geared towards responding to changing market demands (Sivageahnam et al., 2015).

Market orientation focuses on learning from customers, competitors, and inter-functional coordination, thereby evaluating internally obtained information and using it in strategy formulation (Kolbe et al., 2022). Furthermore, Kolbe et al. (2022) state that market orientation enables companies to gather market intelligence about customer needs and disseminate this information throughout the organization. Kocak et al. (2017) state that companies with high market orientation aim to satisfy customers better than their competitors in pursuit of superior performance. These companies pay more attention to understanding shifts in consumer market demand and the competitive environment compared to their industry peers.

Market orientation reflects adaptive learning, where companies recognize environmental changes and formulate responses based on their beliefs and assumptions regarding customer needs and competitor actions (Zacca & Alhoqail, 2021). Haryanto et al. (2017) in their research proposed three indicators to measure market orientation: customer orientation, competitor orientation, and inter-functional coordination. Market orientation is crucial for improving company performance as it involves understanding consumers, comprehending competitor strategies, and coordinating functions within the organization. Market orientation is also described as an organizational culture that effectively nurtures behaviors that create superior value for customers and business performance.

Marketing orientation has a significant positive effect on marketing capabilities, as evidenced by the coefficient estimate of 0.785 and a p-value of $0.002 < 0.05$. This finding is consistent with the study conducted by Kamboj & Rahman (2017), which states that market orientation has a positive impact on market capabilities. The study conducted by Rincon et al. (2021) also found similar results that market orientation, besides creating strategies focused on understanding market needs, also shapes the company's strategic response to market demands and opportunities. That is why market orientation enhances the development of marketing capabilities, where companies generate strategies (product, price, advertising, and distribution) to effectively respond to market demands.

Marketing Capabilities and Competitive Advantage

Capabilities refer to a set of skills and accumulated knowledge utilized through organizational processes that enable a company to coordinate their activities and leverage their assets to engage in typical activities such as new product development, service delivery, etc. (Kayabaşı & Mtetwa, 2016). Marketing capabilities are created to achieve competitive advantage and are characterized by the ability to develop and deliver superior value to customers by combining existing resources (Martin et al., 2020).

Cacciolatti & Lee (2016) state that two main types of marketing capabilities can be identified from previous research. The first type of capability is related to tactical marketing goals rather than strategic goals or organizational dynamics. The second type of capability consists of intangible resources that underlie marketing performance, not just financial performance. Kayabaşı and Mtetwa (2016) argue that the integrated processes of a company that utilize its knowledge, skills, and resources can be referred to as marketing capabilities. The ability to handle specific tasks to achieve these goals is referred to as capabilities. Marketing capabilities are defined as an integrative process designed to apply the necessary resources of a company to meet its market needs, providing opportunities for the company to create value and meet competitive demands (Martin et al., 2020). Current marketing research focuses on a company's strategies to surpass its competitors, while capabilities are present to cultivate competitive advantages (Kamboj & Rahman, 2017).

According to Kamboj & Rahman (2017), the measurement of marketing capabilities can be done using three indicators. Product development, refers to the company's ability to develop new products and services while continuously adapting to market needs. Communication, marketing communication helps manage customer expectations regarding the company's value proposition. Channel linking, represents the company's ability to manage its distribution channels effectively. These indicators provide insights into different aspects of a company's marketing capabilities and its effectiveness in meeting customer needs and expectations.

There are two functions of capabilities, namely marketing capabilities and operational capabilities, that have a positive contribution to firm performance. They play a crucial role in activities related to what is produced, how it is produced, and how products are delivered to consumers. In this case, crucial resources for competitive advantage and superior performance are the capabilities. Therefore, the contribution of capabilities in these two functions supports firm performance outcomes.

The subsequent finding is that marketing capabilities have a positive and significant impact on competitive advantage, as evidenced by the coefficient estimate of 0.645 and a p-value of $0.003 < 0.05$. This finding supports the results of the study conducted by Kamboj & Rahman (2017) that to achieve competitive advantage, companies are required to enhance their marketing capabilities. Similar findings have also been presented in a study by Mainardes et al. (2021), which states that the better the marketing capabilities of a company, the better its competitive advantage.

Marketing Capabilities and Performance

Marketing capabilities are a set of complex knowledge, skills, and routines that enable a company to leverage marketing-related resources to perform marketing tasks and adapt to market changes (Gnizy, 2019). Furthermore, Gnizy (2019) states that specifically, intermediate and high-level marketing capabilities (such as research, planning, communication & advertising, product specifications, pricing) that are distributed outside the firm have evolved into important forms that can be harnessed to build capabilities and facilitate competitive advantage and performance.

Marketing capabilities are one of the processes that contribute to marketing performance. Marketing capabilities are measured by a company's ability to implement marketing strategies, communicate effectively, and provide responsive customer service. If a company can effectively implement and communicate its marketing efforts, as well as be responsive in serving customers, it can achieve its marketing objectives and enhance marketing performance.

Many studies note that a company's marketing capabilities contribute to its performance advantage across various business disciplines and industry sectors (Martin et al., 2020). Koo et al. (2016) emphasize that marketing capabilities influence the relationship between market orientation and performance.

Marketing capabilities have a negative but non-significant impact on business performance, as evidenced by the coefficient estimate of -0.161 and a p-value of $0.070 > 0.05$. Based on these results, the initial hypothesis stating that marketing capabilities have a positive impact on business performance is rejected. The findings of this study indicate that marketing capabilities have a negative impact on business performance. However, these results have a significant level above 0.05, so the finding of marketing capabilities decreasing business performance is not supported.

Competitive Advantage and Performance

Competitive advantage refers to the application of strategies that are currently not implemented by other companies, providing cost reduction, market opportunity exploitation, or neutralization of competitive threats (Ferreira & Coelho, 2020). Akpınar et al. (2017) state that competitive advantage is the value that a company can create for its customers that surpasses its production costs. Competitive advantage is a specific approach that utilizes dynamic resources and capabilities to differentiate small-scale export crop farming from its competitors and keep it active and thriving (Sachitra & Chong, 2018). Competitive advantage refers to the extent to which a business succeeds in being competitive and efficient compared to its competitors, with innovation playing a crucial role in its achievement (Osorio Tinoco et al., 2020).

Sustainable competitive advantage plays a crucial role in the long-term resilience and success of SMEs. Organizations also continue to focus on identifying unique product strategies, building core competencies related to service delivery, hiring skilled personnel, and accumulating intellectual capital (Eidizadeh et al., 2017). According to Gutierrez-Martinez and Duhamel (2019), sustainable competitive advantage is determined by four transversal dimensions, including leadership orientation, organizational culture, team-based structure, human resources, and management control systems.

There are several statements regarding indicators of competitive advantage. In the study by Sachitra & Chong (2018), five indicators were used to measure competitive advantage. Adapting from that research, this study uses three indicators: competitive pricing, which refers to pricing a product lower than competitors; product quality, which includes the ability to perform its functions, durability, reliability, ease of operation, improvements, and other valuable attributes; and time to market, which measures the time between the initiation of a new product design concept and its launch in the market. Corporate strategies that can create unique and superior value compared to competitors and potential competitors. Competitive advantage refers to the unique position that a company develops to confront competitors and enables the company to consistently outperform them. Companies that excel in competition will undoubtedly have an impact on their performance.

The final finding is that competitive advantage has a positive and significant impact on business performance, as evidenced by the coefficient estimate of 0.758 and a p-value of $0.004 < 0.05$. This finding supports the results of a study conducted by Kiyabo & Isaga (2020). Competitive advantage is a value for

a company resulting from the implementation of its strategies, allowing the company to achieve greater cost savings and value compared to its competitors. This advantage is one of the strengths of the company in attracting more customers and improving business performance (Herman et al., 2018).

CONCLUSION

This study adopts the Resource-Advantage Theory of Competition, which suggests that even though a company possesses abundant resources, it is still crucial for the company to position itself in the market competition. Therefore, continuous learning in the form of market orientation is essential for developing marketing capabilities. In the context of this research, several factors are considered important in shaping competitive advantage. These include offering competitive pricing, which tends to be lower than that of competing companies, providing superior product quality compared to other companies, and ensuring timely product delivery to reach consumers.

Competitive advantage can be achieved by adopting market orientation, which involves customer orientation by understanding what customers want and need, competitor orientation by analyzing the strengths and weaknesses of competitors that can be leveraged by the company, and inter-functional coordination to develop strategies based on the gathered information. Marketing capabilities also play a crucial role in shaping competitive advantage. Marketing capabilities can develop and deliver superior value to customers by leveraging existing resources.

Competitive advantage, market orientation, and marketing capability play a partial role in enhancing their business performance. Business performance is the goal of every organization. It is considered the core of strategic management, and therefore, most of their efforts are directed towards improving business performance. Companies can pay attention to important factors that can influence business performance. In this study, it was found that by focusing on competitive advantage, market orientation, and marketing capability, companies can enhance their business performance.

The use of online survey methods with online instruments prevents the researcher from directly monitoring respondents while answering the questionnaire. As a result, any confusing questions that the respondents may have cannot be directly clarified by the researcher, leading the respondents to answer based on their own understanding. Secondly, the business performance of MSMEs in this study is influenced by three variables: competitive advantage, market orientation, and marketing capability. Beyond this study, there may be other factors that could also affect the business performance of MSMEs. The discussion of the limitations and shortcomings in this study is expected to serve as a foundation for future research to be further improved. Future research is expected to address the identified limitations and shortcomings, analyze, and consider more variables that may influence MSMEs' business performance beyond the scope of this study.

REFERENCES

- Akpinar, M., Can, Ö., & Mermercioglu, M. (2017). Assessing the sources of competitiveness of the US states. *Competitiveness Review*, 27(2), 161–178. <https://doi.org/10.1108/CR-02-2016-0014>
- Ali, S., Wu, W., & Ali, S. (2021). Managing the product innovations paradox: the individual and synergistic role of the firm inside-out and outside-in marketing capability. *European Journal of Innovation Management*. <https://doi.org/10.1108/EJIM-05-2021-0234>

-
- Aziz, N. N. A., & Samad, S. (2016). Innovation and Competitive Advantage: Moderating Effects of Firm Age in Foods Manufacturing SMEs in Malaysia. *Procedia Economics and Finance*, 35(October 2015), 256–266. [https://doi.org/10.1016/s2212-5671\(16\)00032-0](https://doi.org/10.1016/s2212-5671(16)00032-0)
- Bamfo, B. A., & Kraa, J. J. (2019). Market orientation and performance of small and medium enterprises in Ghana: The mediating role of innovation. *Cogent Business and Management*, 6(1), 484–491. <https://doi.org/10.1080/23311975.2019.1605703>
- Benhayoun, L., Ayala, N. F., & Le Dain, M. A. (2021). SMEs innovating in collaborative networks: how does absorptive capacity matter for innovation performance in times of good partnership quality? *Journal of Manufacturing Technology Management*, 32(8), 1578–1598. <https://doi.org/10.1108/JMTM-11-2020-0439>
- Bodlaj, M., & Čater, B. (2022). Responsive and proactive market orientation in relation to SMEs' export venture performance: The mediating role of marketing capabilities. *Journal of Business Research*, 138(September 2021), 256–265. <https://doi.org/10.1016/j.jbusres.2021.09.034>
- Boohene, R., Gyimah, R. A., & Osei, M. B. (2020). Social capital and SME performance: the moderating role of emotional intelligence. *Journal of Entrepreneurship in Emerging Economies*, 12(1), 79–99. <https://doi.org/10.1108/JEEE-10-2018-0103>
- Buli, B. M. (2017). Entrepreneurial orientation, market orientation and performance of SMEs in the manufacturing industry: Evidence from Ethiopian enterprises. *Management Research Review*, 40(3), 292–309. <https://doi.org/10.1108/MRR-07-2016-0173>
- Cacciolatti, L., & Lee, S. H. (2016). Revisiting the relationship between marketing capabilities and firm performance: The moderating role of market orientation, marketing strategy and organisational power. *Journal of Business Research*, 69(12), 5597–5610. <https://doi.org/10.1016/j.jbusres.2016.03.067>
- Dionysus, R., & Arifin, A. Z. (2020). Strategic Orientation on Performance: The Resource Based View Theory Approach. *Jurnal Akuntansi*, 24(1), 131. <https://doi.org/10.24912/ja.v24i1.661>
- Eidizadeh, R., Salehzadeh, R., & Esfahani, A. C. (2017). Analysing the role of business intelligence, knowledge sharing and organisational innovation on gaining competitive advantage. *Journal of Workplace Learning*, 29(4), 250–267. <https://doi.org/10.1108/JWL-07-2016-0070>
- Ferreira, J., & Coelho, A. (2020). Dynamic capabilities, innovation and branding capabilities and their impact on competitive advantage and SME's performance in Portugal: the moderating effects of entrepreneurial orientation. *International Journal of Innovation Science*, 12(3), 255–286. <https://doi.org/10.1108/IJIS-10-2018-0108>
- Gnizy, I. (2019). The role of inter-firm dispersion of international marketing capabilities in marketing strategy and business outcomes. *Journal of Business Research*, 105(August), 214–226. <https://doi.org/10.1016/j.jbusres.2019.08.015>
- Gutiérrez-Martínez, I., & Duhamel, F. (2019). Translating sustainability into competitive advantage: the case of Mexico's hospitality industry. *Corporate Governance (Bingley)*, 19(6), 1324–1343. <https://doi.org/10.1108/CG-01-2019-0031>
- Haryanto, A. T., Haryono, T., Sri, H., & Sawitri, R. (2017). Market Orientation , Learning Orientation and Small Medium Enterprises Performance: The Mediating Role of Innovation. *International Review of Management and Marketing*, 7(1), 484–491.
- Herman, H., Hady, H., & Arafah, W. (2018). The Influence of Market Orientation and Product Innovation on the Competitive Advantage and Its Implication toward Small and Medium Enterprises (Ukm) Performance. *International Journal of Science and Engineering Invention*, 4(08), 8–21. <https://doi.org/10.23958/ijsei/vol04-i08/02>
- Hoelter, J. W. (1983). The analysis of covariance structures: Goodness-of-fit indices. *Sociological Methods & Research*, 11(3), 325–344.
- Iqbal, M., Mawardi, M. K., Sanawiri, B., Alfisyahr, R., & Syarifah, I. (2023). Strategic orientation and its role in linking human capital with the performance of small and medium enterprises in

- Indonesia. *Journal of Research in Marketing and Entrepreneurship*.
<https://doi.org/10.1108/jrme-11-2021-0150>
- Jin, B., & Cho, H. J. (2018). Examining the role of international entrepreneurial orientation, domestic market competition, and technological and marketing capabilities on SME's export performance. *Journal of Business and Industrial Marketing*, 33(5), 585–598.
<https://doi.org/10.1108/JBIM-02-2017-0043>
- Kamboj, S., & Rahman, Z. (2017). Market orientation, marketing capabilities and sustainable innovation: The mediating role of sustainable consumption and competitive advantage. *Management Research Review*, 40(6), 698–724. <https://doi.org/10.1108/MRR-09-2014-0225>
- Kayabaşı, A., & Mtetwa, T. (2016). Impact of marketing effectiveness and capabilities, and export market orientation on export performance: evidence from Turkey. *European Business Review*, 28(5).
- Kiyabo, K., & Isaga, N. (2020). Entrepreneurial orientation, competitive advantage, and SMEs' performance: application of firm growth and personal wealth measures. *Journal of Innovation and Entrepreneurship*, 9(1). <https://doi.org/10.1186/s13731-020-00123-7>
- Kline, R. B. (2010). *Promise and pitfalls of structural equation modeling in gifted research*.
- Kocak, A., Carsrud, A., & Oflazoglu, S. (2017). Market, entrepreneurial, and technology orientations: impact on innovation and firm performance. *Management Decision*, 55(2), 248–270.
<https://doi.org/10.1108/MD-04-2015-0146>
- Kolbe, D., Frasquet, M., & Calderon, H. (2022). The role of market orientation and innovation capability in export performance of small- and medium-sized enterprises: a Latin American perspective. *Multinational Business Review*, 30(2), 289–312.
<https://doi.org/10.1108/MBR-10-2020-0202>
- Koo, K. R., Kim, S. J., & Kim, K. H. (2016). The effects of internal marketing capability on export marketing strategy, B2B marketing mix and export performance. *Journal of Global Scholars of Marketing Science*, 26(1), 51–65. <https://doi.org/10.1080/21639159.2015.1122956>
- Loehlin, J. C., & Beaujean, A. A. (2001). Latent variable models. *PSYKOLOGIA*, 36(3), 189.
- Mainardes, E. W., Cisneiros, G. P. de O., Macedo, C. J. T., & Durans, A. de A. (2021). Marketing capabilities for small and medium enterprises that supply large companies. *Journal of Business and Industrial Marketing*, 37(1), 47–64. <https://doi.org/10.1108/JBIM-07-2020-0360>
- Mamun, A. Al, Mohiuddin, M., Fazal, S. A., & Ahmad, G. Bin. (2018). Effect of entrepreneurial and market orientation on consumer engagement and performance of manufacturing SMEs. *Management Research Review*, 41(1), 133–147. <https://doi.org/10.1108/MRR-04-2017-0102>
- Martin, S. L., Javalgi, R. (Raj) G., & Ciravegna, L. (2020). Marketing capabilities and international new venture performance: The mediation role of marketing communication and the moderation effect of technological turbulence. *Journal of Business Research*, 107(September 2019), 25–37. <https://doi.org/10.1016/j.jbusres.2019.09.044>
- Osorio Tinoco, F. F., Hernández-Espallardo, M., & Rodriguez-Orejuela, A. (2020). Nonlinear and complementary effects of responsive and proactive market orientation on firms' competitive advantage. *Asia Pacific Journal of Marketing and Logistics*, 32(4), 841–859.
<https://doi.org/10.1108/APJML-01-2019-0058>
- Priatin, Y., Surya, D., & Suhendra, I. (2017). Pengaruh Orientasi pasar dan Orientasi Kewirausahaan terhadap Kinerja Pemasaran dengan Inovasi Produk sebagai Variabel Intervening (Studi pada Kelompok Usaha Bersama (KUB) Gerabah di Desa Bumi Jaya Kecamatan Ciruas Kabupaten Serang). *JRBM Tirtayasa: : Jurnal Riset Bisnis Dan Manajemen Tirtayasa*, 1(1), 81–96.
- Rincon, M. L. C., Diaz, M. L. A., & Castro, R. P. (2021). Is entrepreneurship enough to achieve superior performance in SMEs in emerging countries ? Multiple mediation of market orientation and
-

- marketing capabilities. *Journal of Entrepreneurship in Emerging Economies*.
<https://doi.org/10.1108/JEEE-03-2021-0115>
- Rizki Aulia, Astuti, M., & Ridwan, H. (2019). Meningkatkan Kinerja Pemasaran melalui Orientasi Pasar dan Orientasi Kewirausahaan. *Jurnal Ilmiah Manajemen Dan Bisnis*, 1(2), 27–38.
- Sachitra, V., & Chong, S. C. (2018). Resources, capabilities and competitive advantage of minor export crops farms in Sri Lanka: An empirical investigation. *Competitiveness Review*, 28(5), 478–502. <https://doi.org/10.1108/CR-01-2017-0004>
- Sasongko, D. (2020). *UMKM Bangkit, Ekonomi Indonesia Terungkit*. Kementerian Keuangan Republik Indonesia. <https://www.djkn.kemenkeu.go.id/artikel/baca/13317/UMKM-Bangkit-Ekonomi-Indonesia-Terungkit.html>
- Sivageahnam, K., Al-Mamun, A., & Nasir, W. (2015). Innovation, strategic orientation and performance of Malaysian manufacturing SMES: a review. *International Seminar on Entrepreneurship and Business*, October.
- Theodosiou, M., Kehagias, J., & Katsikea, E. (2012). Strategic orientations, marketing capabilities and firm performance: An empirical investigation in the context of frontline managers in service organizations. *Industrial Marketing Management*, 41(7), 1058–1070. <https://doi.org/10.1016/j.indmarman.2012.01.001>
- Usman, I., Maupa, H., Idrus, M., Haerani, S., & Nurjanna, N. (2020). Moderation effect of competence of knowledge and innovation: case of Bali. *Business Process Management Journal*, 26(6), 1307–1327. <https://doi.org/10.1108/BPMJ-06-2019-0236>
- Zacca, R., & Alhoqail, S. (2021). Entrepreneurial and market orientation interactive effects on SME performance within transitional economies. *Journal of Research in Marketing and Entrepreneurship*, 23(2), 268–281. <https://doi.org/10.1108/JRME-08-2019-0067>

This page is intentionally left blank