Market Orientation, Competitive Advantage and Marketing Performance of Small Medium Enterprises (SMEs)

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ABSTRACT

This study aims to analyze competitive advantage as a variable that mediates the effect of market orientation on marketing performance. This research population is 113,000 SMEs (Small And Medium Enterprises) located in Malang City, which are engaged in food processing, handicrafts, and clothing business units with an observation sample of 100 SMEs. The data analysis technique used in this study is Structural Equation Modeling. The results of this study indicate that SMEs' performance will increase if they can carry out processes and activities related to creating and satisfying customer needs. Besides, market-oriented SMEs contribute to competitive advantage by creating product uniqueness, product quality, and competitive prices, ultimately affecting the performance of SMEs. In order to improve SMEs' performance, efforts must be made to develop marketing strategies, such as paying attention to market orientation, focusing on customer orientation, competitor orientation, and inter-functional coordination, and developing or innovating new products.

1. INTRODUCTION

Small and Medium Enterprises (SMEs) products, such as ceramics, embroidery, furniture, accessories, calligraphy, food, and others, can increase competitiveness in Malang City. From 2007 to 2018, the quality of SMEs in Malang City has never improved. This is inversely proportional to the number of SMEs in Malang, which continues to increase. Based on data from the Malang City Central Statistics Agency, the number of SMEs in Malang City in 2007 was 156 units and increased to 113,000 units in 2018 (www.malangtimes.com).

The development of SMEs in several regions has created a climate of very tight competition among SMEs. Therefore, marketing performance has a crucial role in winning the competition because marketing performance is the achievement of SMEs through the overall marketing process. Ferdinand (2005) states that marketing performance is a factor that can be used to measure the impact of the strategy adopted by the company, as indicated by an increase in the number of sales, number of customers, total revenue, market share, and product popularity.
The success of marketing performance is determined by the extent to which SMEs apply market orientation. Market orientation is a business perspective that focuses on the company's overall activities (Cravens et al., 2009; Raju et al., 2011). Asashi and Sukaatmadja (2017), Baker and Sinkula (1999), and Proteco and Dornberger (2014) prove that market orientation contributes to improving marketing performance. However, this finding contradicts the results of the research conducted by Han et al. (1998) and Hatta (2015) that market orientation factors do not determine marketing performance.

Narver and Slater (1990) state that although several studies on the relationship between market orientation and performance still yield different results, research on the effect of market orientation on performance is still interesting for the benefit of corporate strategy. Companies that can apply market orientation have an advantage in customer knowledge, which can be a competitive advantage. The implementation of practical customer orientation can provide a competitive advantage based on innovation and market differentiation (Matsuo, 2006; Zhou et al., 2009). Market orientation carried out by the company can produce external marketing success, such as market orientation towards performance, finance, and customer satisfaction (Lings & Greenley, 2009; Morgan et al., 2009).

SMEs that can create competitive advantages will improve their organizational performance (Raju et al., 2011). Competitive advantage contributes to improving marketing performance and creating effective marketing performance (Akroush, 2012; Al Serhan et al., 2015; Riswanto et al., 2020). Besides, competitive advantage can also mediate the influence of market orientation on business performance (Kamboj & Rahman, 2017; Sampaio et al., 2019). Competitive advantage mediates the relationship between market orientation and marketing performance in export firms (Murray et al., 2011).

This study is expected to contribute to many things. First, this study identifies various marketing aspects to support performance improvement in the food processing and handicraft business units, which are currently relatively underdeveloped. Second, this study is intended to fill gaps in the results of previous studies related to the effect of market orientation on SME performance. Finally, this study aims to show the role of competitive advantage in mediating market orientation to improve SME performance.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Marketing Performance
Marketing performance is a construct that can be used to measure the impact of corporate strategy because marketing performance is a measure of the company's achievement of marketed products (Ferdinand, 2005; Handayani & Handoyo, 2020; Nasution, 2014; Wrenn, 1997). According to Narver and Slater (1990), marketing performance measurement can be done based on the success of new products, sales growth, and annual profit or net income.

Marketing performance is influenced by various factors, such as marketing mix and market orientation (Julian & O’Cass, 2002). Marketing performance is also inseparable from a definite marketing competitive advantage (Limakrisna & Yoserizal, 2016; Pisicchio & Toaldo, 2020).

Competitive Advantage
Philip and Armstrong (2018) define competitive advantage as an advantage achieved by a company in a competition by offering lower value or more significant benefits than competitors. A company is said to have occupied a competitive advantage position if it has a competitive advantage in resources that can produce superior value at a low cost.

Understanding competitive advantage requires a comprehensive picture of business advantages and competitors (Clark & Montgomery, 1999; Day & Nentukadi, 1994) because competitive advantage comes from many different activities, such as product-related areas (Leonidou et al., 2015; Schiefer & Hartmann, 2008), market characteristics (Carbone et al., 2020), service quality (Johnson & Sirikit, 2002; Pauline & Pauric, 1999; Rapert & Wren, 1998), distribution (Hoffman & Novak, 1996), and marketing ecosystem (Zhang & Watson IV, 2020).

Competitive advantage can be measured in many ways, such as production capability, marketing capability, product quality, excellence in pricing (Katsikeas, 1994), and innovation and cost leadership (Chandler & Hanks, 1994). According to Song and Parry (1997), SMEs' competitive advantage can be seen from the uniqueness of their products, product quality, and competitive product prices.

Market Orientation
Along with the increase in competitiveness and changes in customer needs, market orientation plays a vital role, because all companies realize that customers are assets that can improve company
performance. Uncles (2000) states that market orientation is a process of company activities related to the creation of customer needs and satisfaction. According to Narver & Slater (1990), customer orientation, competitor orientation, and coordination between functions are elements of market orientation. Customer orientation and competitor orientation are activities that involve information about buyers and competitors in the target market and disseminated through the business. Interface communication is the coordinated use of company resources in creating superior value for targeted customers.

One of the measures used to assess the success of the company's strategy is marketing performance because every company has an interest in knowing the market achievement of the products being marketed (Ferdinand, 2000). The success of marketing performance is determined by how effective the company is in creating a market orientation (Cravens et al., 2009). Asashi and Sukaatmadja (2017), Protcko and Dornberger (2014), and Riswanto et al., (2020) prove that market orientation contributes to improving marketing performance.

Based on the results of previous research, the first hypothesis is:

H$_1$: Market orientation affects marketing performance.

The market orientation set by the company can make the company tough in achieving a competitive advantage. Zhou et al. (2009) state that the company's customer orientation's effectiveness has an impact on increasing competitive advantage. Lings and Greenley (2009) conclude that market orientation contributes to the success of external marketing, such as company performance, finance, and satisfaction. In line with the results of research conducted by Li (2000), Suendro (2010), and Prakosa (2005), competitive advantage has a positive impact on improving marketing performance.

Competitive advantage can directly affect marketing performance or serve as a mediator of the relationship between market orientation and marketing performance (Kamboj & Rahman, 2017; Murray et al., 2011). Market orientation can improve company performance through product differentiation and competitive advantage (Li & Zhou, 2010; Udriyah et al., 2019; Zhou et al., 2009).

Based on the results of previous research, the second hypothesis is:

H$_2$: Competitive advantage can mediate the effect of market orientation on marketing performance.

Based on the description above, the research model is as follows:

3. RESEARCH METHOD
Population and Research Samples
The population in this study is 113,000 SMEs in Malang City, which is engaged in food processing, handicrafts, and clothing business units. The determination of the number of samples in this study is carried out using a statistical approach, as proposed by Ferdinand (2006), with a margin of 10% error. With a population of 113,000 MSMEs and an inaccuracy level of 10%, the sample size in this study is:

\[
n = \frac{113,000}{1 + (113,000)(0.1)^2}
\]

\[
n = 100
\]

After determining the number of samples, as many as 100 SME owners, the next step is to take samples using the simple random sampling technique, a probability sampling technique where each individual has the same probability of being selected. This means that SME owners have the same opportunity to become respondents.
Operational Definition of Variables

The operational definition of variables is an element of research that tells how to measure a variable that contains indicators that enable researchers to gather data relevant to that variable. The variables in this research are:

1. Market orientation (X1). Market orientation is the process and activities carried out by SMEs related to creating customer satisfaction and needs.

2. Competitive advantage (Y1). Competitive advantage reflects the company's product quality and price advantage over competitors.


The operational definitions of variables and indicators are presented in Table 1.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Indicators</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market orientation</td>
<td>Customer orientation</td>
<td>Narver and Slater (1990)</td>
</tr>
<tr>
<td></td>
<td>Competitor orientation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Inter-functional coordination</td>
<td></td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>The uniqueness of the product</td>
<td>Song and Parry (1997)</td>
</tr>
<tr>
<td></td>
<td>Product quality</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Competitive price</td>
<td></td>
</tr>
<tr>
<td>Marketing performance</td>
<td>The success of new products</td>
<td>Narver and Slater (1990)</td>
</tr>
<tr>
<td></td>
<td>Sales growth</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Annual profit</td>
<td></td>
</tr>
</tbody>
</table>

Data Analysis Method

The analytical method used in this research is Structural Equation Modeling (SEM). The presence or absence of direct influence is tested using the t-test, with a significance level of 5%. The criteria for accepting or rejecting hypothesis testing are as follows: if the probability value is <5%, then H0 is rejected, or H1 is accepted if the probability value is > 5%, then H0 is accepted or H1 is rejected. Competitive advantage serves as a mediator of the effect of market orientation on marketing performance (Baron and Kenny, 1986). A mediation test is conducted to find out whether a variable can act as a mediating variable. The mediation test is carried out using full or partial mediation.
Figure 2 shows a framework for testing the effects of mediation (Baron & Kenny, 1986).
1. If (a) and (b) are significant while (c) is insignificant, it can be said that the mediation is full (complete mediation).
2. If (a) and (b) are significant while (c) is significant, where the coefficient value of (c) is smaller (down) than (d), it can be said the mediation is partial.
3. If (a) and (b) are significant while (c) is significant, where the coefficient value of (c) is almost the same as (d), it can be said that it is not as a mediating variable.
4. If either (a) or (b) is not significant, it can be said that it is not a mediating variable.

Table 2. Instrument Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Item</th>
<th>Correlation</th>
<th>Status</th>
<th>Coefficient</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Orientation</td>
<td>X1.1</td>
<td>0.878</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X1.2</td>
<td>0.915</td>
<td>Valid</td>
<td>0.880</td>
<td>Reliable</td>
</tr>
<tr>
<td></td>
<td>X1.3</td>
<td>0.906</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitive Advantage</td>
<td>X2.1</td>
<td>0.857</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X2.2</td>
<td>0.813</td>
<td>Valid</td>
<td>0.797</td>
<td>Reliable</td>
</tr>
<tr>
<td></td>
<td>X2.3</td>
<td>0.870</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing Performance</td>
<td>Y1.1</td>
<td>0.830</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Y1.2</td>
<td>0.709</td>
<td>Valid</td>
<td>0.678</td>
<td>Reliable</td>
</tr>
<tr>
<td></td>
<td>Y1.3</td>
<td>0.819</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Results of Goodness of Fit SEM Analysis
The theoretical model developed within a conceptual framework can provide a fit model if supported by empirical data. The results of the Goodness of fit overall model test are used to determine whether the developed model is supported by empirical data, as seen in Figure 3.

Figure 3. The Goodness of Fit Overall Model Test

4. DATA ANALYSIS AND DISCUSSION
Validity and Reliability
The results of the validity and reliability test of the instrument are presented in Table 2 below. Table 2 shows that all variables used in this study are reliable because the reliability value is more than 0.6. This means that the data contained in the questionnaire can be used in this study. The results of the validity test (Corrected item-total Correlation) also show that the validity value of each indicator is more than 0.4, which indicates that the respondents understand all the answer choices used in the questionnaire.
The results of the analysis related to the model feasibility index are set out in Table 3.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Cut-off value</th>
<th>Model Results</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>Small</td>
<td>34.809</td>
<td>Good model</td>
</tr>
<tr>
<td>p-value</td>
<td>≥ 0.05</td>
<td>0.071</td>
<td></td>
</tr>
<tr>
<td>CMIN/DF</td>
<td>≤ 2.00</td>
<td>1.450</td>
<td>Good model</td>
</tr>
<tr>
<td>GFI</td>
<td>≥ 0.90</td>
<td>0.932</td>
<td>Good model</td>
</tr>
<tr>
<td>AGFI</td>
<td>≥ 0.90</td>
<td>0.872</td>
<td>Marginal Model</td>
</tr>
<tr>
<td>TLI</td>
<td>≥ 0.95</td>
<td>9.347</td>
<td>Good model</td>
</tr>
<tr>
<td>CFI</td>
<td>≥ 0.95</td>
<td>0.964</td>
<td>Good model</td>
</tr>
<tr>
<td>RMSEA</td>
<td>≤ 0.08</td>
<td>0.067</td>
<td>Good model</td>
</tr>
</tbody>
</table>

Based on the results of Goodness of Fit Overall test in Figure 3 and Table 3, it can be seen that the model is good and meets the cut-off value, so the model can be said to be “fit” and suitable for use, and the interpretation can be made for further discussion.

### Hypothesis Test Results

Structural Equation Model (SEM) analysis using AMOS 6.0 is used to test the proposed hypothesis. As a basis for testing the hypothesis, the Critical ratio (Cr) of Weight regression output is used. The results of hypothesis testing are presented in Tables 4 and 5 below.

#### Table 4. The Effect of Market Orientation on Marketing Performance with Competitive Advantage as Mediator

<table>
<thead>
<tr>
<th>Effect between Variables</th>
<th>Estimate</th>
<th>C.R.</th>
<th>P</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Orientation → Competitive Advantage</td>
<td>0.381*</td>
<td>2.968</td>
<td>0.003</td>
<td>Accepted</td>
</tr>
<tr>
<td>Competitive Advantage → Marketing Performance</td>
<td>0.437*</td>
<td>2.704</td>
<td>0.007</td>
<td>Accepted</td>
</tr>
<tr>
<td>Market Orientation → Marketing Performance</td>
<td>0.355*</td>
<td>3.117</td>
<td>0.002</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

*Significance level of 5%

#### Table 5. The Effect of Market Orientation on Marketing Performance without Competitive Advantage as Mediator

<table>
<thead>
<tr>
<th>Effect between Variables</th>
<th>Estimate</th>
<th>C.R.</th>
<th>P</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Orientation → Marketing Performance</td>
<td>0.570*</td>
<td>3.946</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

*Significance level of 5%

Based on the results of the mediation test using competitive advantage as a mediating variable with reference to Baron & Kenny (1986), it can be explained that the variable of market orientation has a significant effect on competitive advantage with an estimated value of 0.381 (a). The variable of competitive advantage has a significant effect on marketing performance, with an estimated value of 0.437 (b). Meanwhile, the variable of market orientation, which is mediated by competitive advantage, has a significant effect on marketing performance with an estimated value of 0.355 (c).

Furthermore, market orientation affects marketing performance without a competitive advantage as a mediating variable, with an estimated value of 0.570 (d). Thus, partially competitive advantage mediates the indirect effect of market orientation on marketing performance.

### The Effect of Market Orientation on Marketing Performance

Based on the hypothesis testing results, an increase in the marketing performance of SMEs in Malang can occur because they apply market orientation
effectively. These results can be explained that market-oriented SMEs, as part of the processes and activities related to the creation and fulfillment of customer needs and satisfaction, will influence increasing marketing performance. This condition occurs because SMEs with strategic efforts, that are oriented towards market conditions, consumer demands, and consumer desires, will have a high level of sensitivity to the behavior or strategies adopted by their competitors. Thus, market orientation will trigger the desire of SMEs to create and fulfill customer needs. These results reinforce the results of research conducted by Asashi and Sukaatmadja (2017), Protcko & Dornberger, (2014), and Riswanto et al., (2020) that market orientation has a positive influence on increasing marketing performance.

Competitive Advantage Mediates the Effect of Market Orientation on Marketing Performance

Market orientation is an essential strategy for SMEs in line with increased competition and changes in customer needs. All SMEs realize that they must always be close to customers. Also, market-oriented SMEs continue to strive to be committed to creating value for customers. The achievement of value creation for customers through marketed products contributes to the competitive advantage, which is implemented in the uniqueness of the products being marketed, the quality of the products produced, and the competitive price. If SMEs can achieve a competitive advantage, they can improve their marketing performance, which is shown by creating new products, an increase in sales growth, and an increase in profit every year.

The results of this study reinforce the results of the research conducted by Zhou et al. (2009) that the effectiveness of customer orientation by the company has an impact on increasing competitive advantage. Lings and Greenley (2009) state that market orientation contributes to the success of external marketing, such as company performance, finance, and satisfaction. According to Li and Zhou (2010), competitive advantage positively impacts improving marketing performance. Market orientation can increase the company's product differentiation and competitive advantage, which in turn, improves its marketing performance (Kamboj & Rahman, 2017; Murray et al., 2019; Udriyah et al., 2019; Zhou et al., 2009).

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Market orientation has a positive effect on improving the marketing performance of SMEs, which means that SMEs’ performance will increase if SMEs can carry out processes and activities related to creating customer needs and satisfaction. Competitive advantage can mediate the effect of market orientation on the marketing performance of SMEs. This result can be explained by the fact that market-oriented SMEs contribute to competitive advantage by creating unique products, quality products, and competitive prices, which in turn have an impact on the performance of SMEs.

This study has several limitations. First, the research sample only includes small and medium enterprises in one area, so the results cannot be generalized. Second, this study has not considered the role of technology in influencing competitiveness and marketing performance. Therefore, further research needs to expand the sample coverage and assess the impact of technology.

This study’s results indicate that SMEs need to develop marketing strategies, including paying attention to market orientation with an emphasis on customer orientation, competitor orientation, and inter-functional coordination and developing or innovating new products. The development of the right market orientation can provide product and price advantages.

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