

An Investigation on the Relationship between Market Orientation, Innovation, Competitive Advantage and Marketing Performance

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Abstract

MSMEs are the backbone of the economy in developing countries, including Indonesia. In order to support economic growth, it needs to be accompanied by encouraging MSMEs performance to be more optimal. Therefore, the purpose of this study is to examine the effect of market orientation, innovation and competitive advantage on the marketing performance of Batik MSMEs. The research location is in Yogyakarta, Indonesia with a total sample of 43 Batik MSMEs. Analysis using multiple regression and the results of hypothesis testing prove that: (1) market orientation has no significant effect on marketing performance, (2) innovation has a significant positive effect on marketing performance, and (3) competitive advantage has a significant positive effect on marketing performance. The findings of this study indicate that competitive advantage is the dominant factor influencing the marketing performance of Batik MSMEs. Accordingly, MSMEs should focus on developing their competitive advantage and innovation to improve the marketing performance.

Keywords:

Market Orientation, Innovation, Competitive Advantage, Marketing Performance

INTRODUCTION

MSMEs play an important role in the growth of the national economy which is proven to be able to create jobs, absorb labor and reduce poverty. According to a press release from the Coordinating Ministry of Economics of The Republic of Indonesia in 2023, it was explained that The MSMEs sector has a large contribution to the Indonesian economy which has a total of more than 64.2 million business units, contributes 61.9% to the Gross Domestic Product (GDP) and absorbs 97% of the workforce. However, MSMEs in Indonesia face various challenges such as access to finance, marketing, and competitiveness and productivity. These constraints directly or indirectly impact the performance of MSMEs, including their marketing performance.

Batik, an ancient Indonesian art form, has evolved into a significant economic and cultural commodity. Over the years, batik MSMEs in Indonesia have played a pivotal role in the production and promotion of batik, contributing substantially to the nation's economy. However, these enterprises encounter various challenges that impede their growth and

sustainability such as unfamiliarity with digital marketing (Nuvriasari et al., 2023a). Moreover, the lack of innovative culture among batik MSMEs further obstructs MSMEs performance (Nuvriasari et al., 2023b). Despite that, there is limited evidence on how market orientation, innovation and competitive advantage influence batik MSMEs marketing performance.

This research was conducted in Yogyakarta which is one of the provinces that has a large number of Batik MSMEs. On 2022, the number of micro scale Batik firms is 311,540, small scale is 16,069 and medium scale is 2,110. The main purpose of this paper is to examine the effect of market orientation, innovation and competitive advantage on marketing performance of Batik SMEs in Yogyakarta. The results of this study are expected to be able to prove theories regarding the factors that influence marketing performance through empirical testing and become a reference for future research.

LITERATURE REVIEW

Marketing Performance

Marketing performance is a measure of achievement obtained from the process of marketing activities. Marketing performance is an indicator to measure the success of a business (Hatta, 2017), where components of marketing performance can be demonstrated through market share control, customer retention, customer satisfaction, quality and brand equity (Da Gama, 2011). Marketing performance is also the output of all marketing efforts and strategies that have been implemented by entrepreneurs. Measuring marketing performance needs to be done because the business goal is to create customers, as well as being able to make a profit. As a measure of the company's success in marketing its product, marketing performance is a construct that can be used to assess the impact of corporate strategy (Handayani & Handoyo, 2020). Marketing performance can be influenced by several factors such as market orientation (Khamaludin et al., 2022; Agha & Alrubaiee, 2012), innovation (Hoang Nam, 2014; Afriyie et al., 2019) and competitive advantage (Murray et al., 2011; Yasa et al., 2020).

Market Orientation

Market orientation is considered to be the most effective and efficient organizational culture in creating value for buyers and thereby shaping the behaviors necessary to continuously achieve excellence for the company (Zulfikar, 2018). Market orientation plays an important role for SMEs, especially with increasing competition and changing consumer needs. Market-oriented companies focus on customers so that they can affect their business performance (Puspitaningrum, 2020). Market orientation makes the company understand the market, competitors and coordinate information to all members making it easier to implement strategies that can improve its marketing performance as well as the process of creating and satisfying customers by meeting customer needs or wants (Nurhasanah, 2018). Kocak et al. (2017) suggest that a firm's market orientation is reflected in its degree of performance in relation to the external environment. This enables the company to anticipate market needs and build lasting relationships with customers, distributors and suppliers to compete and outperform competitors.

Innovation

SMEs in order to achieve superior marketing performance need to pay attention to developments in the business environment that demand innovation. Companies with innovative capabilities will be able to respond faster and better to environmental challenges than those that are not (Ngamsutti, 2016). Innovation is a specific tool for companies, where innovation can take advantage of changes that occur as an opportunity to run a different business. Innovation can further develop a company's ability to navigate the environment and achieve a competitive advantage that impacts marketing performance (Makmur et al., 2015). Innovativeness show a tendency to use creativity and experimentation through the introduction of new products or services and technological leadership through new processes in R&D (Lin et al., 2008). The level of innovation in SMEs will be affected by external environmental conditions such as market turbulence caused by the economic crisis so that SMEs delay or reduce innovation by considering the accompanying risks (Kraus et al., 2009). The higher level of innovation in a SMEs will have an impact on improving company performance (Nuvriasari, 2020; Taiwo, 2019).

Competitive Advantage

Competitive advantage helps improve marketing performance and create effective marketing performance (Riswanto et al., 2020). Competitive advantage is a firm's ability to achieve economic advantages that exceed those achieved by market competitors in a similar industry. Companies with a competitive advantage are always able to understand the changing market structure and choose effective marketing strategies (Paryanti, 2015). Competitive advantage makes sense when it relates to characteristics valued in the market. Customers should be aware of consistent differences in material characteristics between the manufacturer's products or services and those of competitors. These differences should relate to one of the most important purchasing criteria for the market: product/delivery characteristics (Agha & Alrubaiee, 2012). Companies that have a competitive advantage will significantly affect their marketing performance (Nurhasanah, 2018; Manaming et al., 2018). Through differentiation, the company can attract consumers to use its products/services so that it can be a source of increasing its marketing performance.

METHODOLOGY

Based on the research objectives, this research categorized in explanatory research with quantitative research. The sampling technique used purposive sampling with a total sample of 43 Batik MSMEs in Yogyakarta. The MSMEs studied have been operating for at least three years. Data collection techniques using survey techniques with data collection instruments in the form of questionnaires. Questionnaire distribution was carried out face-to-face with the MSMEs manager or owner. The questionnaire was designed with closed statements and the measurement of the questionnaire items using a five-level Likert Scale from strongly disagree = 1 to strongly agree = 5.

The indicators of the market orientation (6 items), innovation (5 items), competitive advantage (5 items), and marketing performance (6 items) are measured through the perspective of the owners or managers Batik MSMEs. The data collection instrument was tested using a validity test with the Pearson Correlation technique and a reliability test using

Cronbach Alpha. The test results show that the questionnaire meets the criteria of validity and reliability. Statistical tool used is multiple regression analysis which has previously been tested for Classical Assumptions.

RESULTS

Business Profiles

Table 1 exhibits the profiles of enterprises involved in this study. Most enterprise in the sample of the study (72.1%, $n=31$) had been operating between 4 to 15 years. In addition, 51.2% ($n=22$) enterprises hired 1 to 19 workers and 83.7% ($n=36$) owned assets of less than 1 billion rupiah.

Table 1: Business Profiles

Criteria	Frequency	%
Age of operation		
3 years	2	4,7 %
4 -15 years	31	72,1%
> 15 years	10	23,3%
<i>Total</i>	43	100%
Labor		
1 - 19 workers	22	51,2%
20 - 99 workers	18	41,9%
> 99 workers	3	7,0%
<i>Total</i>	43	100%
Asset		
< 1 billion rupiahs	36	83,7%
1 – 5 billion rupiahs	6	14,0%
> 5 – 10 billion rupiahs	1	2,3%
<i>Total</i>	43	100%
Annual Sales		
< 2 billion rupiahs	36	83,7%
2 – 15 billion rupiahs	6	14,0%
> 15 – 50 billion rupiahs	1	2,3%
<i>Total</i>	43	100%
Scope of marketing		
Domestic only	36	83,7%
Domestic and International	6	14,0%
International only	1	2,3%
<i>Total</i>	100	100%

Moreover, the annual sales of 83.7% ($n=36$) of the samples are less than 2 billion rupiah, which concurs with the statement that 83.7% ($n=36$) focus on domestic marketing alone. Only 7 companies (16.3%) carried out marketing internationally.

Multiple Linear Regression Analysis

Multiple linear regression analysis is used to predict whether market orientation, innovation and competitive advantage in the future will increase marketing performance or vice versa decrease it.

Table 2: Multiple linear regression

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2,564	2,878		,891	,378
1 Market Orientation	-,187	,204	-,185	-,917	,365
Innovation	,816	,254	,619	3,218	,003
Competitive Advantage	,545	,110	,524	4,941	,000

a. Dependent Variable: Marketing Performance

Based on the table above, the multiple linear regression equation is as follows:

$$Y = 2.564 - 0.185 X1 + 0.619 X2 + 0.524 X3 + e$$

The regression equation shows that market orientation (X1) has a negative direction on marketing performance, meaning that if market orientation increases, marketing performance will decrease by a constant. Innovation (X2) and competitive advantage (X3) have a positive direction towards marketing performance, meaning that if innovation and competitive advantage increase, marketing performance will increase by a constant amount.

Coefficient of Determination

Based on the analysis of the coefficient of determination, the value of Adjusted R^2 is obtained a value of 0.656, meaning that market orientation, innovation and competitive advantage can contribute 65.6% to marketing performance, while the 34.4% is influenced by other variables not examined in this study.

Table 3: Coefficient of determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,825 ^a	,681	,656	1,447

Predictors: (Constant), Competitive Advantage, Innovation, Market Orientation

DISCUSSION

The Effect of Market Orientation on Marketing Performance

This study explains that market orientation is not a variable that influences the marketing performance of batik MSMEs. The results of this study indicate that market-oriented MSMEs

or non-market-oriented MSMEs will not affect the level of marketing performance produced. This can be due to the fact that the majority of batik SMEs are micro-scale in business acting as suppliers so that in production they only adjust to the needs of retailers and wholesalers. Thus market orientation is not an essential factor to be considered by these micro-scale businesses. Micro-scale enterprises often lack an understanding of the importance of market orientation for business development, limited resources or an inability to effectively identify consumer needs and wants.

The results of this study are in line with the research of Nuvriasari et al. (2020a, 2022b) which states that market orientation in the form of customer orientation and competitor orientation has no significant impact on the performance of Batik SMEs in Indonesia. Similar findings confirm that market orientation is not a variable that significantly influences marketing performance (Zulfikar, 2018; Amin, 2019).

The Effect of Innovation on Marketing Performance

Based on investigation explains that innovation has a significant effect to marketing performance. Innovation is proven as a variable that influences marketing performance of batik MSMEs. This shows that batik MSMEs that have a high level of innovation will also produce high marketing performance, and vice versa if innovation in MSMEs is low it will have an impact on low marketing performance. Innovations carried out in batik MSMEs include production process innovation, product design development, production technology renewal, material development used and product quality improvement. Innovativeness show a tendency to use creativity and experimentation through the introduction of new products or services and technological leadership through new processes in R&D (Lin et al., 2008). The results of this study support previous research conducted by Lapian (2016), Massie and Ogi (2016), Ulya (2019), Sulaeman (2018), Hayarti and Nursusila (2016) stating that innovation has a positive and significant effect on marketing performance.

The Effect of Competitive Advantage on Marketing Performance

This paper proved that competitive advantage is a variable that influences the marketing performance of Batik MSMEs, in other word competitive advantage has a significant effect to marketing performance. MSMEs that are able to have a competitive advantage compared to similar competitors will produce better marketing performance. In contrast, if MSMEs do not have a competitive advantage, they will lose the competition and have low marketing performance.

The competitive advantage of Batik MSMEs is highlighted by the uniqueness or characteristics of the products produced. MSMEs Batik usually design batik that is different from their competitors, for example in batik patterns and batik-making materials. Especially for MSMEs that specifically produce handmade Batik, they will have more distinctive characteristics. The results of this study support previous research conducted by Titahena et al (2012), Ussvita (2015), Naratika et al (2017), Hajar and Sukaatmadja (2012), Palwaguna and Yasa (2020), state that competitive advantage has a positive and significant effect on marketing performance.

CONCLUSION

This study aims to identify the effect of marketing orientation, innovation and competitive advantage on marketing performance of batik MSMEs. The empirical test results state that: (1) market orientation has no significant effect on the marketing performance of Batik MSMEs in Yogyakarta, (2) innovation has a positive and significant effect on the marketing performance of Batik MSMEs in Yogyakarta, and (3) competitive advantage has a positive and significant effect on the marketing performance of Batik MSMEs in Yogyakarta.

The limitations encountered in this study and which are expected to become recommendations for future research are (1) the number of samples is still very limited compared to the availability of the batik MSMEs population in Yogyakarta, which will be the basis for future researchers to enlarge the sample size used, and (2) MSMEs criteria are not categorized specifically so that marketing performance achievements cannot be distinguished in micro, small and medium scale business.

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