

Competitive Advantage and Entrepreneurial Orientation as Intervening Variables Influence of Market Orientation on Business Performance

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ABSTRACT

One of Indonesia's economic development priorities is to develop MSMEs. A large number of MSMEs in Indonesia makes it essential to play their role and contribution as the most significant economic driver by absorbing labor, exports, and investment. This study determined the impact of market and entrepreneurial orientation on competitive advantage and business performance. Then this study assesses whether competitive advantage and entrepreneurial orientation can act as a mediator to achieve business performance. The method uses the Partial Least Square analysis tool with a total sample of 100 respondents who are MSME owners who are members of the Cilacap MSME community. The research findings show that entrepreneurial orientation can act as a full mediator of market orientation relations towards business performance and become a partial mediation of market orientation relations to competitive advantage. Competitive advantage cannot play a role in mediating the relationship between market orientation and entrepreneurial orientation variables to business performance. Market orientation does not directly affect business performance, but entrepreneurial orientation and competitive advantage significantly affect business performance. Market orientation and entrepreneurial orientation directly have a significant positive impact on competitive advantage.

Keywords: Competitif Advantage, Business Performance, Market Based View, Resource Based View, entrepreneurial orientation

1. Introduction

Business performance describes the business's health, usually reflected in various indicators. One analyzes market conditions, external factors, and entrepreneurial orientation derived from internal MSMEs. Both factors create business excellence (Karnowati & Handayani, 2022). This competitive advantage will create an effective strategy for overcoming market competition to achieve maximum business performance. Based on this, it needs to investigate more deeply how market and entrepreneurial orientation can impact business performance. In addition, some studies have been with different results, so they need to be re-examined considering the inconsistencies in the research results. Research conducted by (Rauch et al., 2009) showed a positive relationship between entrepreneurial orientation to business performance, but research (Frank et al., 2010) showed that entrepreneurial orientation harms business performance. Much literature explores the influence of entrepreneurial and market orientation on business performance. (Ferrerias-Memendedez et al., 2021); (Herniso-Perlines et al., 2021) proved that entrepreneurial orientation positively relates to business performance. (Wilson et al, 2014);(Lee & Chu, 2011);(Dabrowski et al., 2019) proved that market orientation positively impacts business performance. Although many studies construct entrepreneurial orientation and market orientation that proves their effect on business performance, different entrepreneurial orientation and market orientation are still a constraint that has not been done maximally by MSMEs (Nuvriasari et al., 2018);(Mustikowati &

Tysari, 2015). Therefore there is a need for research to analyze the role of entrepreneurial orientation and market orientation in supporting the business performance of MSMEs.

2. Literature Review

2.1 Theoretical and Conceptual Background

This study found on strategic management theory, which evolved through three major paradigms: Resource Based View (RBV), Market Based View (MBV), and Dynamic Capabilities Theory (DCT). According to RBV and MBV theory, internal and external factors influence a company's performance (Hansen & Wernerfelt, 1989). RBV theory is typically internal to the company, arguing that companies compete by measuring dynamic resources and capabilities (Barney, 1991). The RBV emphasizes internal analysis of resource endowment differences across firms (even within the same industry) and explains how these differences can be a source of long-term competitive advantage. Resources contribute to these performance advantages to the extent that they are valuable, scarce, expensive to imitate, and non-replaceable. Resources are valuable when they help improve the firm's efficiency and effectiveness (Barney, 1991).

MBV theory, based on the Competitive Force Model developed (Porter, 1980), is oriented to external companies. According to MBV Theory, in order to achieve business performance, companies must prioritize market orientation (Porter, 1985). MBV model that focuses on the firm's inherited market power is also developing. MBV supporters would argue that because the transformation process occurs gradually over time, such market power provides a valuable foundation for competing in an evolving environment. the firm's sources of value. The firm's sources of value embedded are in the competitive situation that characterizes its external product markets. An organization's ability to build and integrate its competencies to deal with a rapidly changing environment is called dynamic capability (Teece, 2017). The Dynamic Capabilities Theory explains a company's ability to create and assimilate knowledge and skills in order to maintain an advantage in a competitive environment that is constantly changing (Teece et al., 1997). According to (Eisenhardt & Martin 2000), dynamic capabilities are a process of integrating, reallocating, acquiring, and abandoning resources in response to market change (D'Aveni et al., 2010) emphasize the importance of dynamic adjustment capability for short-term competitive advantages in a hyper-competitive environment with scarce resources.

Competitive Advantage (CA)

MSMEs in Indonesia already play a significant role and contribute to the national economy, but they lack the competitiveness required to promote economic growth and raise people's income (Lantu et al., 2016). Competitive advantage is essential in global market competition, where it will provide more significant challenges and opportunities. CA refers to an organization's ability to gain an economic advantage over competitors in the same industry's market (Porter, 1985). The company can understand the market structure so that it is observant in choosing an effective marketing strategy (Riyanto, 2018). Indicators of competitive advantage in this study refer to opinions (Kotler & Amstrong, 2014) which include the advantages of product differentiation, market segmentation, market-entry, and information technology advantages. Competitive advantage can pursue through high company performance by utilizing resources optimally..

The concept of competitive advantage developed from Porter's generic strategies, namely differentiation, low-cost leadership and focus (Porter, 1985). Competitive advantage creating from

the added value and benefits that the company offers to consumers, whereas if the company is able to excel through one of the three indicators of the generic strategy, the company has a competitive advantage (Aaker, 1995). Several studies conducted research on competitive advantage, including (Paulus, 2022); (Sundjoto, 2018), which combines the concept of competitive the advantage with resources, the ability to assess competitive strategies, and the ability to continue to create competitive advantages. Core competence has a strong and positive impact on competitive advantage and organizational performance, and competitive advantage also has a significant impact on organizational performance.

Market Orientation (MO)

Market orientation is a series of activities carried out by companies by collecting information related to consumer activities and factors that shape these needs (Ozkaya et al., 2015). The information obtained by the company to determine strategies to improve company performance. The motive that underlies the company's market orientation strategy is a dynamic market and the desires and needs of consumers that are always changing with the times (Sumiati, 2019). The company's objective in reviewing market orientation is to improve company performance through information obtained from consumers and market conditions. Market orientation is an important factor determining the performance of micro, small and medium enterprises (Shameem, 2021). Market orientation variable indicators in this study refer to (Narver & Slater, 1990), which explains that the components of market orientation include customer orientation, competitor orientation and inter-functional coordination. Increased company performance as a result of companies carrying out market orientation can be measured by an increase in sales, profits, number of employees and an increase in market share (Migdadi et al., 2017). Market orientation positively impacts competitive advantage and business performance (Udriyah, 2019). Most findings indicate a positive relationship between market orientation and business performance (Deshpandé & Farley, 1998); (Matsuno et al., 2000). Based on the description above, the following hypothesis can be draw:

H 1: Market orientation has a positive effect on competitive advantage.

H 2: Market orientation has a positive effect on business performance.

H 3: Entrepreneurial orientation has a positive effect on competitive advantage

Entrepreneurial Orientation (EO)

The problem faced by MSMEs according (Sri Susilo, 2010), is the low entrepreneurial competence of micro-scale businesses. The primary key for an MSME to compete is a business owner with an entrepreneurial spirit and an innovative spirit (Sri Susilo, 2010). Entrepreneurial characters who have an important role in increasing competitiveness are visionary, ambitious, and performance-oriented (Hunter & Lean, 2014). Entrepreneurship-oriented companies will strive to produce products that are more innovative and brave to face and take risks (Rahmadi et al., 2020). Entrepreneurial orientation, also seen as improving a company's performance, is considered a profitable strategy for companies to compete effectively in the same marketplace (Porter, 1985).

The dimensions that are key to MSMEs are the characteristics of entrepreneurial orientation, namely the willingness to continue to innovate, the tendency to act independently, the courage to take risks, and the tendency to be aggressive towards competitors as well as being proactive about market opportunities (Tambunan, 2008);(Sundjoto, 2018) concludes in his study, that EO plays an essential role ini developing innovative products and results to create CA Indicators of the

entrepreneurial orientation variable refer to (Miller, 1983) namely innovation, proactivity and the courage to take risks. One of the goals of the company's orientation strategy is to create innovations that impact company performance (Doluca et al., 2018). Several previous studies have shown that entrepreneurial orientation has a positive effect on business performance (Kusa et al., 2021);(Lantu et al., 2016);(Rachmania et al., 2012). Based on the description above, the following hypothesis can draw:

H 4: Entrepreneurial orientation has a positive effect on business performance.

H 5: Competitive advantage has a positive effect on business performance.

Business Performance (BP)

According to (Rauch et al., 2009), the measure of an organization's performance is growth, while (Beal, 2000) measures performance with the ability to earn a profit (profitability). Good company performance can saw through high marketing performance which reflected in increased sales volume, broad market share, and profits (Ferdinan, 2003). The company's performance is said to be good if the existing resources can increase productivity, creativity, and innovation. Performance can saw from the comparison between the results achieved and the targets set by the business unit within a specific time (Sumiati, 2019).

Business performance results from business processes carried out by the company as measured by financial or non-financial information (Harto et al., 2021). The company can achieve relatively superior performance by achieving the specified target through better efficiency and effectiveness in competing with competitors (Wu, 2019). The performance measurement used in this study refers to (Radyanto & Prihastono, 2020), which includes five essential aspects, namely financial aspects, production aspects, marketing aspects, HR aspects and organizational and institutional aspects. To achieve superior competitiveness can be done by achieving optimal performance (Lestari, 2020)

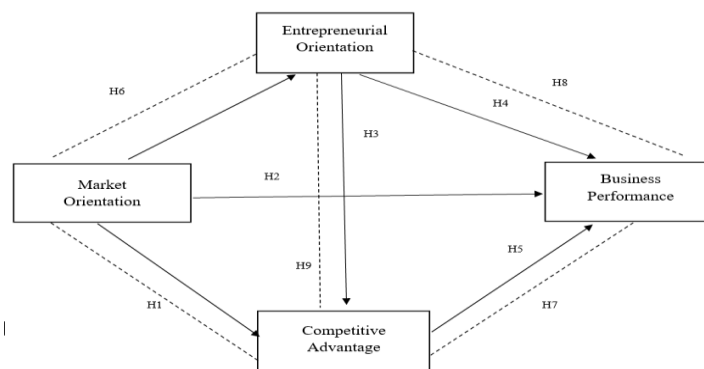
H 6: Market orientation has a positive effect on Entrepreneurial orientation.

H 7: Competitive advantage mediates Market orientation towards Business performance

H 8: Entrepreneurial orientation mediates market orientation towards Business performance.

H 9: Competitive advantage mediates entrepreneurial orientation towards Business performance.

Figure1. Conceptual Framework



3. Research Methodology

The number of respondents was 100 MSME business actors who include in the Cilacap MSME community. Questionnaire Data were analyzed using descriptive statistics with the SPSS Analysis tool to obtain the characteristics of respondents. Then test, the validity and reliability were

measured using Partial Least Square (PLS) with a loading factor of more than 0.5 and parameter validity of composite reliability value above 0.6 (Ghozali, 2015).

4. Results

4.1 Respondent

MSME business owners are dominated by the productive age of 52%, with most business actors being women (71%). The MSME business has been running for 2-5 years, and before the pandemic hit, MSME had existed for more than one year. Business owners answered that the capital obtained to build a business comes from their capital without external party loans of 85%.

4.2 Measurement

The initial stage is to measure the validity and reliability of the parameters of the value loading factor above 0.6. Indicators that are below 0.6 exclude from the model. Validity and reliability test values are present in Table 1, with all loading factors running two being more than 0.6 and the value of Cronbach's alpha being more than 0.6. Then all indicators and signal constructs are valid and reliable so that they can use for further testing

Table 1. Test Results Validity and Reliability

Variables	Indicators	Loading Factors Running 1	Loading factors Running 2	Cronbach's Alpha	AVE	Composite Reliability
Market Orientation (MO)	MO1	0.749	0.748	0.820	0.632	0.867
	MO2	0.798	0.798			
	MO3	0.653	0.655			
	MO4	0.629	0.634			
	MO5	0.794	0.792			
	MO6	0.691	0.690			
Entrepreneurial Orientation (EO)	EO1	0.711	0.717	0.881	0.720	0.900
	EO2	0.755	0.776			
	EO3	0.788	0.810			
	EO4	0.598	Rejected			
	EO5	0.805	0.811			
	EO6	0.873	0.887			
Competitive Advantage (CA)	CA1	0.592	Rejected	0.810	0.612	0.869
	CA2	0.387	Rejected			
	CA3	0.632	0.600			
	CA4	0.329	Rejected			
	CA5	0.617	0.645			
	CA6	0.434	Rejected			
	CA7	0.736	0.782			
	CA8	0.804	0.823			
	CA9	0.657	0.694			
	CA10	0.694	0.760			
Business Performance (BP)	BP1	0.811	0.808	0.878	0.680	0.913
	BP2	0.405	Rejected			
	BP3	0.834	0.830			
	BP4	0.808	0.822			
	BP5	0.835	0.843			

	BP6	0.701	0.718			
	BP7	0.605	0.603			
	BP8	0.716	0.735			

The value R-Square predicted among variables presented in Table 2, where market orientation and entrepreneurial orientation contribute 30.6% to competitive advantage. At the same time, business performance can explain its relationship with MO, EO, and CA by 21.9%. MO has a contribution of 41.1% to EO.

Tabel 2. Value of R-Square

	R Square	Adjusted R Square
Business Performance (BP)	0.219	0.195
Competitive Advantage (CA)	0.306	0.291
Entrepreneurial Orientation (EO)	0.411	0.405

Figur 2. Structural Equation Model

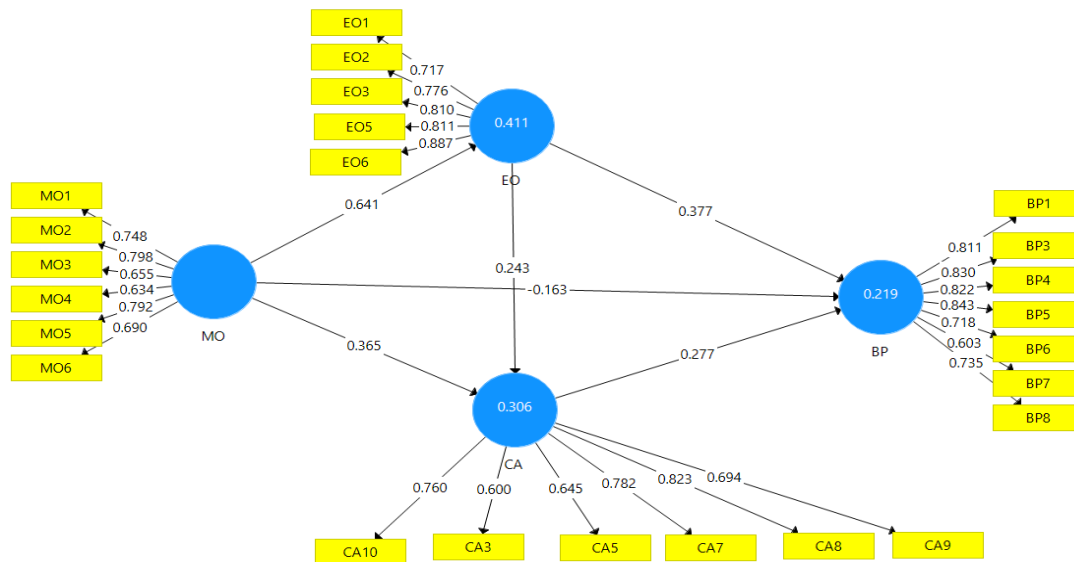


Figure 2 shows the results of the hypothesis testing research model tested with the SmartPLS Analysis tool. Statistical test results are present in Table 4, with findings H1, H3, H4, H5, and H6 accepted, but H2 rejected. H8 results showed that CA mediated the relationship between EO and BP, but CA did not mediate the relationship between MO and BP. The role of mediation showed in EO, the intervening variable between MO and BP.

Tabel 3. Hypothesis Test Results

Hypothesis	Relationships	Original Sampel	T.Statistic	P-Value	Result
1	MO → CA	0.365	2.821	0.005	Accepted
2	MO → BP	-0.163	1.129	0.208	Rejected
3	EO → CA	0.243	2.196	0.029	Accepted
4	EO → BP	0.377	3.405	0.001	Accepted
5	CA → BP	0.277	2.556	0.011	Accepted
6	MO → EO	0.641	7.111	0.000	Accepted

7	MO→ CA→ BP	0.101	1.731	0.084	Rejected
8	MO→ EO→ BP	0.156	2.146	0.006	Accepted
9	EO→ CA→ BP	0.067	1.157	0.117	Accepted

Discussion

5.1 Direct Relationship Between Variables

The findings of the H1 test are that MO has a positive effect on CA, so it can explain that a higher degree of MO can increase the degree of CA. Consistent with the findings (Guimares et al., 2018); (and Zhou et al., 2009) that to create superior value that competitors do not have in the market, MSMEs must pay attention to MO, which is closely related to consumers and competitors. Market conditions are always dynamic and changing at any time, forcing MSMEs to pay more attention to the needs and desires of consumers and pay attention to consumer development as a reference for improvement and innovation.

The findings of the H2 test are MO does not have an impact on BP, so that these findings are different from the results of the study (Migdadi et al., 2017); (Narver & Slater, 1990) who argue MO has a positive effect on the NT. However, these findings support the research results (Setyawati, 2013), which state that in adapting to the environment, MSMEs cannot respond quickly to changes, so MO derived from environmental factors does not affect BP.

The findings of the H3 test are that EO has a positive effect on CA, so the higher the degree of EO can increase the effect on CA. These results are in line with the results of research (Hunter & Lean, 2014), which explains that the entrepreneur's character, which includes visionary and ambitious, can increase competitive advantage. MSME units that focus on EO strive to create more innovative products that can face competition with various risks (Rahmadi et al., 2020).

The findings of the H4 test are that EO has a positive effect on BP, so these findings explain that the higher the degree of EO, the higher the degree of BP is increasing. Consistent with the findings (Lantu et al., 2016);(Herniso-Perlines et al., 2021), who considered that EO is one of the resources for creating CA. The nature of a very dynamic environment forces MSME business owners to be able to create and innovate to create unique products and dare to take risks to achieve the expected business performance.

The finding of H5 testing is that CA has a positive effect on BP where these results are consistent with the study (Lorenzo et al., 2018); (Cantele & Zardini, 2018), which explains the positive relationship between CA and BP due to the supporting resources and strategic capabilities implemented by business people. The strategic advantage created from proper resource management and the ability to analyze the market implemented in a strategy to face competition so that MSMEs have superior value compared to competitors. These findings concluded that the higher the degree of CA, the more it increases BP.

The findings of the H6 test are that MO has a positive effect on EO, which explains that the higher the degree of MO, can increase the degree of EO. Analysis of MO, which includes orientating customers and competitors and the speed of coordination between functions, encourages MSMEs to innovate and actively set strategies to face competition. Dynamic and challenging market

conditions are a decisive driving factor for business people to be EO-oriented to achieve business performance (Karnowati & Handayani, 2022).

5.2 Role of CA and EO as Intervening variables

CA acts as a partial mediation between MO and BP variables where MO directly positively affects BP. The presence of CA variables as intervening also shows a significant positive direction so that CA mediates the relationship between the two. However, CA cannot mediate the MO relationship to BP where the MO relationship does not directly affect BP. This study found the role of the variable EO as an entire mediation relationship MO to BP. So it can be explained that EO is instrumental in creating a relationship between MO and BP.

6. Conclusion

MSME entrepreneurs can analyze MO and EO to formulate the best strategy to create CA and reach BP. Getting profit and good business performance can do this by creating a competitive advantage. Very tight market competition forces MSMEs to be encouraged to create unique advantages to compete and maintain their business. It follows the study's findings that MO and EO directly affect CA. The weakness of MSMEs is that they are slow to adapt to the rapid changes in the market Cause MO does not directly affect BP, but this study found the role of EO in mediating the relationship between MO and BP. This study provides evidence that to face the rapid market competition, EO can be a mediator between MO and BP to achieve the performance of MSMEs.

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