How Do Market Orientation and Innovation Effect in Increasing Business Performance? Empire Study of MSMEs in the City of Semarang

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Abstract. This study aims to analyze the effect of innovation and market orientation on business performance through competitive advantage. This study focuses on analyzing the effect of innovation and market orientation on business performance through competitive advantage. This research was conducted on the culinary sector SMEs in the city of Semarang. The sample in this study is the culinary sector SMEs, amounting to 150 SMEs. The data analysis technique used in this research is path analysis. The results of the study show that the market orientation variable has a positive and significant effect on competitive advantage. The innovation variable also has a positive and significant effect on competitive advantage. Subsequent analysis shows that the innovation variable has a positive and significant effect on competitive advantage. Then the market orientation variable has a positive and significant influence on business performance. Likewise, the innovation variable also has a positive and significant influence on business performance. Meanwhile, competitive advantage also has the same result, which has a positive and significant effect on business performance. The advice that can be given in this research is that MSME actors, especially MSMEs in the culinary sector, must have sensitivity to market dynamics that are easy to change so that the products they sell can continue to sell well in the market. In addition, innovative strategies and products are needed to remain competitive in the midst of increasingly fierce business competition. This study has limitations in the selection of research objects, namely specifically for SMEs in the culinary sector. Therefore, further research can choose a wider research object.

Keywords: Business Performance · Competitive Advantage · Market Orientation · Innovation

1 Introduction

The era of globalization has an impact on increasingly fierce business competition. Therefore, businesses in various fields are required to be more creative and innovative in order to remain competitive in the midst of business competition [1]. The growing era of globalization also requires business actors to be able to analyze the dynamics
of market developments so that the products they sell are in accordance with the tastes and demands of consumers. The increasingly fierce competition in the business world requires business actors to increase their competitive advantage in order to improve the performance of the business they run [2, 3].

In the midst of increasingly fierce business competition, business actors must have the ability and competence to anticipate market changes [4]. Companies must be able to adapt to be able to create products that suit the wishes and tastes of consumers. In an effort to face increasingly fierce business competition, several strategies are needed. The strategy in question is to increase the company’s competitive advantage so that it will be able to have implications for improving business performance [5, 6].

Competitive advantage is a strategy that aims to provide benefits for the company because it can provide more effective and efficient competitive forces [7]. Competitive advantage can be achieved by utilizing as much as possible the resources owned by the company. Utilization of resources carried out must be able to improve business performance with efficient costs but produce innovative products [8, 9]. Competitive advantage can be achieved by increasing the company’s ability to analyze and adapt to changes that occur in the market. If the company is able to adapt to changes in the existing market, then the company will have a higher competitive advantage [10, 11].

Market orientation is the company’s ability to read market changes which can then have an impact on improving business performance. Market orientation is an effective and efficient company strategy to be able to provide added value for its products in order to compete in increasingly fierce business competition [12]. Market orientation owned by the company must focus on the needs that exist in the market. The desires and tastes of consumers must be able to be accommodated by the company in order to compete with products from other companies [13].

In addition to market orientation, efforts that companies can make to improve their business performance through increasing competitive advantage is through increasing market innovation [10]. Innovation can be carried out by companies by utilizing the development of information and communication technology to produce products that are varied and relatively new so that they can attract consumer interest.

The era of globalization not only has an impact on large-scale companies but also has an impact on MSMEs. This is like what happened to MSMEs in the city of Semarang. As the Capital of Central Java Province, Semarang City as an industrial and trade city has very dynamic business activities and movements. Therefore, MSME actors are required to be able to keep up with existing changes and developments so that the businesses they run remain competitive. The city of Semarang has the potential of SMEs in the culinary field. There are many culinary SMEs in Semarang City with the various products they produce. However, there are still many MSMEs in the culinary sector that have not been able to develop due to the limited competence they have to analyze the market and create business innovations. This makes the performance of the business that is run has not developed much.

Previous research related to the effect of market orientation and innovation on business performance still yields varying findings [8, 14–16]. Market orientation has a significant influence on business performance [17–19]. However, other studies explain that market orientation does not have a significant effect on business performance [20, 21].
Likewise with innovation according to several previous studies explaining that innovation has a significant effect on business performance [22, 23]. However, other studies explain different findings that innovation does not have a significant effect on business performance [24–26]. The findings of previous studies that are still varied provide a gap for further research to be carried out. Therefore, this study aims to analyze the effect of innovation and market orientation on business performance through competitive advantage.

2 Research Methods

This study focuses on analyzing the effect of innovation and market orientation on business performance through competitive advantage. This research was conducted on the culinary sector SMEs in the city of Semarang. The population in this study were all culinary SMEs in the city of Semarang. While the sample in this study is the culinary sector SMEs, amounting to 150 SMEs. The variables in this study consisted of the independent variable, namely innovation and market orientation, the mediating variable, namely competitive advantage and also the dependent variable, namely business performance in the culinary sector of SMEs.

The data used in this study is primary data sourced directly from the field. The method used in data collection is by using a questionnaire. The data analysis technique used in this research is path analysis. Path analysis is an extension of multiple linear regression analysis to test causality relationships between tiered variables based on theory. The structural models in this study are as follows:

Structural Model 1:

\[ Y_1 = \beta_1 X_1 + \beta_2 X_2 + e_1 \]  

(1)

Structural model 2:

\[ Y_2 = \beta_3 X_1 + \beta_4 X_2 + \beta_5 Y_1 + e_2 \]  

(2)

Information:

\[ \begin{align*} 
Y_2 &= \text{Business Performance} \\
Y_1 &= \text{Competitive Advantage} \\
X_1 &= \text{Market Orientation} \\
X_2 &= \text{Innovation} \\
1 \ldots 5 &= \text{Variable Coefficient} \\
e_1 \ldots e_2 &= \text{Error} 
\end{align*} \]

Examination of the assumptions underlying the path analysis, namely the relationship between variables is linear and additive, and the model used is recursive (one-way causal flow). The recursive model can be used if it fulfills several assumptions: (a) Exogenous variables are independent of each other, (b) The effect of causality from endogenous variables is one-way or one-way, (c) Endogenous variables are interval or ratio scale, and (d) Based on valid data and reliable. The method used is OLS, which is ordinary
least squares. From this calculation, the path coefficient of direct influence is obtained. In path analysis, the P coefficient is called the direct effect path coefficient, such as the direct effect of market orientation on competitive advantage \( = (\beta_1) \). The direct effect of innovation on competitive advantage \( = (\beta_2) \). The direct effect of competitive advantage on business performance \( = (\beta_3) \). The direct effect of market orientation on business performance \( = (\beta_4) \). The direct effect of innovation on business performance \( = (\beta_5) \).

3 Results and Discussion

Before conducting path analysis, the first step in this research is to test the validity of each variable. The results of the validity test in this study are presented on the variables as shown in Table 1.

Table 1 explains that all indicators in the variables of market orientation, innovation, competitive advantage and business performance have a Pearson correlation (correlation coefficient) greater than 0.30, so all of these indicators have met the data validity requirements.

After testing the validity, the next step is to test the reliability. Reliability test is a data analysis technique to test whether or not a research variable is consistent. If the alpha coefficient (Cronbach’s Alpha) is above 0.60 or \( r 0.60 \), the correlation is significant and the instrument is reliable to use. The results of the reliability test in this study are shown in Table 2.

<table>
<thead>
<tr>
<th>Number</th>
<th>Variable</th>
<th>Indicator</th>
<th>Correlation coefficient</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Market Orientation (X1)</td>
<td>X11</td>
<td>0.712</td>
<td>Valid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X12</td>
<td>0.798</td>
<td>Valid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X13</td>
<td>0.702</td>
<td>Valid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X14</td>
<td>0.664</td>
<td>Valid</td>
</tr>
<tr>
<td>2</td>
<td>Innovation(X2)</td>
<td>X21</td>
<td>0.782</td>
<td>Valid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X22</td>
<td>0.772</td>
<td>Valid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X23</td>
<td>0.674</td>
<td>Valid</td>
</tr>
<tr>
<td>3</td>
<td>Competitive Advantage (Y1)</td>
<td>Y11</td>
<td>0.812</td>
<td>Valid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y12</td>
<td>0.795</td>
<td>Valid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y13</td>
<td>0.804</td>
<td>Valid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y14</td>
<td>0.832</td>
<td>Valid</td>
</tr>
<tr>
<td>4</td>
<td>Business Performance (Y2)</td>
<td>Y21</td>
<td>0.933</td>
<td>Valid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y22</td>
<td>0.676</td>
<td>Valid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y23</td>
<td>0.791</td>
<td>Valid</td>
</tr>
</tbody>
</table>

Source: Data processed, 2022
Based on Table 2, it can be explained that the four research instruments, namely market orientation, innovation, competitive advantage and business performance variables have Cronbach’s Alpha coefficients greater than 0.60. It can be said that all instruments are reliable so that they can be used to conduct research.

The calculation of the path coefficients was carried out by regression analysis through SPSS 18.0 for Windows software, the analysis of the path of substructure 1 obtained the following results:

\[
Y_1 = 0.282 \times X_1 + 0.432 \times X_2 \\
Se = 0.054 \\
t = 2.7836 \\
Sig t = 0.000 \\
R^2 = 0.838 \\
F = 82.376 \\
Sig F = 0.000
\]

Based on the results of the analysis of substructure path 2, the structural equation is as follows:

\[
Y_2 = 0.251 \times X_1 + 0.317 \times X_2 + 0.258 \times Y_1 \\
Se = 0.062 \\
t = 3.372 \\
Sig t = 0.023 \\
R^2 = 0.690 \\
F = 74.017 \\
Sig F = 0.000
\]

The results of the path coefficients on the research hypothesis can be described in Fig. 1.

Based on the path diagram in Fig. 1, it can be calculated the amount of direct influence between variables, indirect between variables and total effect, which are summarized in Table 3.
How Do Market Orientation and Innovation Effect in Increasing Business Performance?

Market Orientation ($X_1$) and Innovation ($X_2$) have a significant influence on Competitive Advantage ($Y_1$) and Business Performance ($Y_2$).

**Figure 1.**

**Table 3. Direct and Indirect Effects Between Variables**

<table>
<thead>
<tr>
<th>Variable Effect</th>
<th>Direct Influence</th>
<th>Indirect Influence</th>
<th>Total Influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>$X_1 \rightarrow Y_1$</td>
<td>0.282</td>
<td>-</td>
<td>0.282</td>
</tr>
<tr>
<td>$X_1 \rightarrow Y_2$</td>
<td>0.251</td>
<td>0.113</td>
<td>0.364</td>
</tr>
<tr>
<td>$Y_1 \rightarrow Y_2$</td>
<td>0.258</td>
<td>-</td>
<td>0.258</td>
</tr>
<tr>
<td>$X_2 \rightarrow Y_1$</td>
<td>0.432</td>
<td>-</td>
<td>0.432</td>
</tr>
<tr>
<td>$X_2 \rightarrow Y_2$</td>
<td>0.317</td>
<td>0.104</td>
<td>0.421</td>
</tr>
</tbody>
</table>

Source: Data processed, 2022

Based on Table 3, it can be explained that market orientation has a significant influence on competitive advantage with a significance value of $0.000 < 0.05$ (alpha 5%) with a coefficient value of 0.282. This shows that $H_0$ is rejected and $H_1$ is accepted, which means that the market orientation variable has a positive and significant effect on competitive advantage.

Innovation has a significant effect on competitive advantage with a significance value of $0.000 < 0.05$ (alpha 5%) with a coefficient value of 0.432. This shows that $H_0$ is rejected and $H_1$ is accepted, which means that the innovation variable has a positive and significant effect on competitive advantage.

Based on Table 3, it can be explained that market orientation has a significant influence on business performance with a significance value of $0.023 < 0.05$ (alpha 5%) with a coefficient value of 0.251. This shows that $H_0$ is rejected and $H_1$ is accepted, which means that the market orientation variable has a positive and significant effect on business performance.

Innovation has a significant effect on business performance with a significance value of $0.003 < 0.05$ (alpha 5%) with a coefficient value of 0.317. This shows that $H_0$ is rejected and $H_1$ is accepted, which means that the innovation variable has a positive and significant effect on business performance.
Competitive advantage has a significant effect on business performance with a significance value of $0.044 < 0.05$ (alpha 5%) with a coefficient value of 0.258. This shows that H0 is rejected and H1 is accepted, which means that the competitive advantage variable has a positive and significant effect on business performance.

4 Discussion

The results of the analysis of the influence of market orientation show that the market orientation variable has a positive and significant effect on competitive advantage with a coefficient value of 0.282. This shows that when market orientation increases by one unit, competitive advantage will also increase by 0.282. The results of this study are in line with previous research which explains that market orientation has a significant influence on competitive advantage [27, 28]. When MSMEs are able to adapt to market changes and are able to capture the tastes desired by consumers, they will have a higher competitive advantage [29].

The results of the analysis of the influence of innovation indicate that the innovation variable has a positive and significant influence on competitive advantage with a coefficient value of 0.432. This shows that when innovation increases by one unit, competitive advantage will also increase by 0.432. The results of this study are in line with previous research which explains that innovation has a positive and significant effect on competitive advantage [30, 31]. The increasingly fierce business competition, the MSME actors in the city of Semarang must be able to innovate in order to have new products and strategies so that they can compete in the market [32].

The results of the analysis of the influence of market orientation show that the market orientation variable has a positive and significant influence on business performance with a coefficient value of 0.251. This shows that when market orientation increases by one unit, business performance will also increase by 0.251. The results of this study are in line with previous research which explains that market orientation has a positive and significant effect on business performance [33, 34]. Market conditions in this era of globalization often experience erratic changes. Therefore, MSME actors need to adapt to existing changes so that they can improve the performance of the business they run [35].

The results of the analysis of the influence of innovation show that the innovation variable has a positive and significant effect on business performance with a coefficient value of 0.251. This shows that when innovation increases by one unit, business performance will also increase by 0.251. The results of this study are in line with previous research which explains that innovation has a positive and significant effect on business performance [36, 37]. The increasingly strong business competition today requires MSME actors to be able to increase creativity and innovation in the businesses they run. They must be able to innovate to create innovative products and strategies in order to attract consumers to buy the products they offer [38, 39].

The results of the analysis of the effect of competitive advantage show that the competitive advantage variable has a positive and significant effect on business performance with a coefficient value of 0.258. This shows that when competitive advantage increases by one unit, business performance will also increase by 0.258. The results of this study are
in line with previous research which explains that competitive advantage has a positive and significant effect on business performance [40–42]. The tight business competition in the culinary sector needs to be a concern for MSME actors. When MSME actors want to improve their business performance, they must continue to spur competitive advantage in their business. When they are able to compete in the competition, it will have implications for improving business performance.

5 Conclusion

Based on the analysis of the results and the previous discussion, it can be explained that the market orientation variable has a positive and significant effect on competitive advantage. The innovation variable also has a positive and significant effect on competitive advantage. Subsequent analysis shows that the innovation variable has a positive and significant effect on competitive advantage. Then the market orientation variable has a positive and significant influence on business performance. Likewise, the innovation variable also has a positive and significant influence on business performance. Meanwhile, competitive advantage also has the same result, which has a positive and significant effect on business performance. The advice that can be given in this research is that MSME actors, especially MSMEs in the culinary sector, must have sensitivity to market dynamics that are easy to change so that the products they sell can continue to sell well in the market. In addition, innovative strategies and products are needed to remain competitive in the midst of increasingly fierce business competition. This study has limitations in the selection of research objects, namely specifically for SMEs in the culinary sector. Therefore, further research can choose a wider research object.

References


