



COMPETITIVE ADVANTAGE: MARKET ORIENTATION AND INNOVATION FOR THE PERFORMANCE OF FURNITURE SMEs

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ABSTRACT

The purpose of this study is to analyze market orientation on the performance of furniture SMEs in Jepara, analyze the influence of innovation on the performance of furniture SMEs in Jepara, analyze the influence of market orientation on the competitive advantage of furniture SMEs in Jepara, analyze the influence of innovation on the competitive advantage of furniture SMEs in Jepara and analyze the influence of competitive advantage on the performance of furniture SMEs in Jepara. The approach used in this study is a quantitative approach. The research sample was 155 respondents from furniture SME owners in Jepara, Data collection using questionnaires and analyzed using SEM. The results of the study indicate that market orientation can improve business performance in furniture SMEs in Jepara. Innovation can improve business performance in furniture SMEs in Jepara. Market orientation can improve competitive advantage in furniture SMEs in Jepara. Innovation can improve competitive advantage in furniture SMEs in Jepara. Competitive advantage can improve business performance in furniture SMEs in Jepara, but the findings of this study on the weakest contribution are in market orientation, this is due to unstable market conditions due to the increasing development of information media throughout the world with the support of the digitalization era.

Keywords: competitive advantage; digitalization and SME business performance; innovation.and market orientation

INTRODUCTION

Market orientation is an approach in business management that emphasizes the importance of understanding and meeting consumer needs and desires as a top priority in every Company activity (Apriliani, 2018). Customer orientation and competitor orientation include all activities involved in obtaining information. Interfunctional coordination is based on customer and competitor information and consists of coordinated business efforts (Apriliani, 2018). Market orientation as the most effective and efficient organizational culture for creating behaviors (Satwika and Dewi, 2018). Market orientation as an organizational culture will focus on external market needs, market desires and demands as a basis for formulating strategies (Rahmadi, et al, 2020).

Market orientation is based on certain considerations that classify that the concept is not the responsibility of the marketing function, but all departments participate in collecting, disseminating and following up on market intelligence. Market orientation is also a determining factor in business performance regardless of the external environmental conditions in which the company operates (Anjaningrum & Slidi, 2018) & (Dewi & Ekawati, 2017). The company considers that market orientation as an organizational culture focuses on external market needs, market desires and demands as a basis for strategy formulation. Increasing market orientation can improve business performance. Market orientation is built using indicators of customer orientation, competitor orientation and coordination between functions. The success of the company supports organizational culture and has a commitment and participation in organizational members which ultimately becomes continuous learning by the organization and

its members so as to produce added value for customers.

Marketing performance is a common construct used to measure the impact of a company strategy (Mardiyono, 2017). In addition to market orientation, innovation is also needed. Innovation usually refers to adjectives such as: updating, changing, or creating processes or products. Innovation does not always create, innovation can mean changing business models or designs so that they adapt to changes in the environment which can ultimately provide better products or services (Lestari et al. 2020). Innovation is a broader concept that discusses the application of new ideas, products or processes (Apriliani, 2018). Innovation is a process of turning opportunities into marketable ideas. Innovation is more than just a good idea (Reniata, 2018). In carrying out innovation, companies need to develop a formal and comprehensive strategy (Apriliani, 2018).

Schumpeter (1934) stated that innovation is a new combination of production factors which includes the introduction of new products, new production methods, new markets, new sources of raw materials, or new forms of industrial organization. Rogers (2003) explains innovation as an idea, practice, or object that is perceived as new by an individual or unit of adoption (Everett & Rekha (2006:108); (Jennifer M. George & Gareth R. Jones, 2012:24-25). Innovation is built using indicators of product innovation, process innovation and marketing innovation. Marketing innovation where an innovation applies a new marketing method. Companies that use online social media networks exchange information with customers, providing fast solutions. (Angelo Kinicki & Brian K.Wiliams, 2008, p.334). This innovation is very much needed to increase sales levels and consumer engagement. market advantages that will then win in the competition. Thus, product innovation and product quality are very much needed by a company, because competitiveness in this era of globalization is very high (Lestari, et al 2020) & (Adietya, 2017).

Competitive advantage occurs when a company implements a value creation strategy that is not simultaneously implemented by competitors. Competitive advantage is a construct whose measurement is still fragmented, differentiated products, market sensing, and market responsiveness as dimensions of competitive advantage. This heterogeneous measure of competitive advantage increases the difficulty in knowledge accumulation (Kiyabo and Isaga, 2020). Creating a competitive advantage, companies need to have the ability to utilize the ability to handle problems. A company is said to have a competitive advantage when the company implements a value creation strategy which in the process will produce professional workers (Adietya, 2017). Competitive advantage is an advantage over competitors obtained by offering consumers greater value (Porter, 2013:48). Competitive advantage along three dimensions, namely cost, differentiation and focus with competitors who try to organize themselves. Another way to gain competitive advantage is related to the value seen by customers, either through attractive and specific elements in the offering (differentiation) or making consumers feel that all their needs have been found with the best quality and competitive prices. (Rahmadi et al, 2020). Competitive advantage is built using indicators of product uniqueness, product quality and competitive prices (Bhegawati and Yuliastuti, 2019). Competitive advantage is the ability of a company or organization to produce higher value for customers compared to its competitors, either through lower costs, product differentiation, or unique services, thereby creating a stronger position in the market.

In an era of increasingly competitive business competition, companies are required to continuously adapt to market dynamics. Two key factors that are often considered crucial in facing this challenge are market orientation and innovation. Market orientation allows

companies to better understand and meet customer needs and desires, while innovation provides a foundation for companies to create added value and product differentiation. However, market orientation and innovation do not necessarily improve business performance without a competitive advantage that connects strategy input and performance results (Hurley & Hult, 1998). Competitive advantage is a company's ability to offer better value than competitors, either in the form of low costs, product differentiation, or quick response to market needs (Barney, 1991). By having a sustainable competitive advantage, companies can improve their market position and ultimately affect overall business performance.

In recent years, business actors in Indonesia, especially Micro, Small, and Medium Enterprises (MSMEs), have faced major challenges in maintaining their business continuity amidst increasingly tight competition and rapid changes in consumer preferences. Based on data from the Ministry of Cooperatives and SMEs (2023), more than 60% of MSMEs experienced a decline in business performance due to weak adaptation to market changes and minimal product innovation. This shows that many business actors have not fully implemented the right market orientation and innovation strategies. This phenomenon is also reflected in empirical studies showing that companies with a high level of market orientation tend to be more sensitive to changes in customer needs and are able to respond more quickly than companies that are not market-oriented (Narver & Slater, 1990). However, without innovation and the creation of new value, market orientation is not enough to provide sustainable competitive advantage (Hurley & Hult, 1998).

Another study by Prajogo (2016) revealed that product and process innovation have a direct influence on competitive advantage and business performance. Companies that are able to consistently produce innovation will find it easier to differentiate themselves from competitors. However, innovation also needs to be directed according to market demand so that it is relevant and has a real impact on business performance. On the other hand, competitive advantage is an important element in bridging the influence between strategy and results. Porter (1985) stated that competitive advantage is obtained through cost leadership, differentiation, or specific market focus. In the context of MSMEs and companies in Indonesia, this advantage is often not built systematically.

This strengthens the urgency of research to empirically examine how market orientation and innovation can improve business performance, especially by considering the role of competitive advantage as a mediating variable. The objectives of the study are to analyze market orientation on the performance of furniture SMEs in Jepara, analyze the effect of innovation on the performance of furniture SMEs in Jepara, analyze the effect of market orientation on the competitive advantage of furniture SMEs in Jepara, analyze the effect of innovation on the competitive advantage of furniture SMEs in Jepara and analyze the effect of competitive advantage on the performance of furniture SMEs in Jepara.

METHOD

This study uses a quantitative approach with an associative research type (Kuncoro, Amin et al 2023). This approach is used to determine the relationship between market orientation variables, innovation, competitive advantage, and business performance. The sample was taken using a purposive sampling technique, with the criteria of business actors who have been operating for at least 3 years and have at least 5 employees. The number of samples is determined by the formula of Hair et al. (2010), at least 5-10 times the number of indicators, so that it is estimated to be 150 respondents.

Primary data were collected by distributing questionnaires arranged based on a Likert scale of

1-5. Each indicator in the questionnaire was adapted from previous research and has gone through a validity and reliability testing process. Data analysis was carried out using the Structural Equation Modeling (SEM) method based on Partial Least Square (PLS) with the help of SmartPLS software. The reason for using SEM-PLS is because this method is able to analyze the relationship between latent variables simultaneously and does not require a normal distribution of data.

RESULTS AND DISCUSSION

Based on the gender of the respondents, there are two groups, namely male respondents and female respondents, totaling 155 respondents, presented in Table 1.

Table 1
Characteristics of Respondents Based on Gender

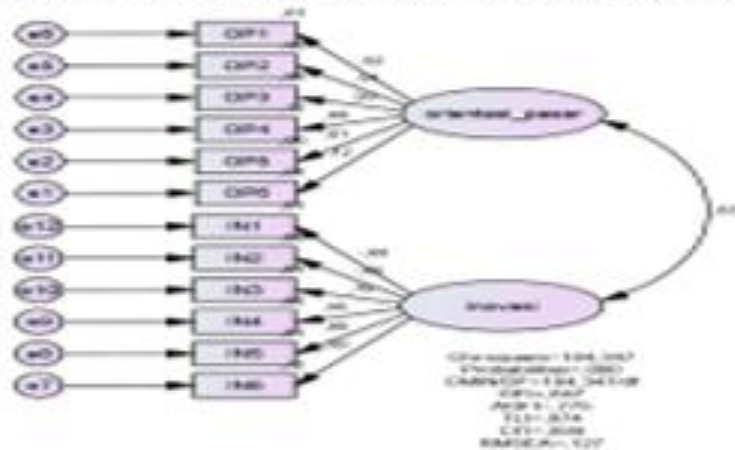
Gender	f	%
Man	93	60
Woman	62	40

Table 1 above shows that out of 155 respondents who were sampled, 93 or 60% were male respondents, while 62 or 40% of the total number of samples were female respondents. Based on the questionnaires collected from 155 respondents, data on the income of the research respondents were obtained. Table 2 shows the identity of the respondents based on their income. It shows that of the 155 respondents who were the sample, the majority were respondents who earned > Rp. 10,000,000, which was 86 people or 55.48%. While the distribution of other education levels was earning < Rp. 10,000,000, which was 69 people or 44.52%.

Convergent Validity

Figure 1

Convergent Validity of Exogenous Variables Stage 1



The explanation of the evaluation criteria for goodness of fit indices of exogenous variables in stage 1 is as follows:

Table 3

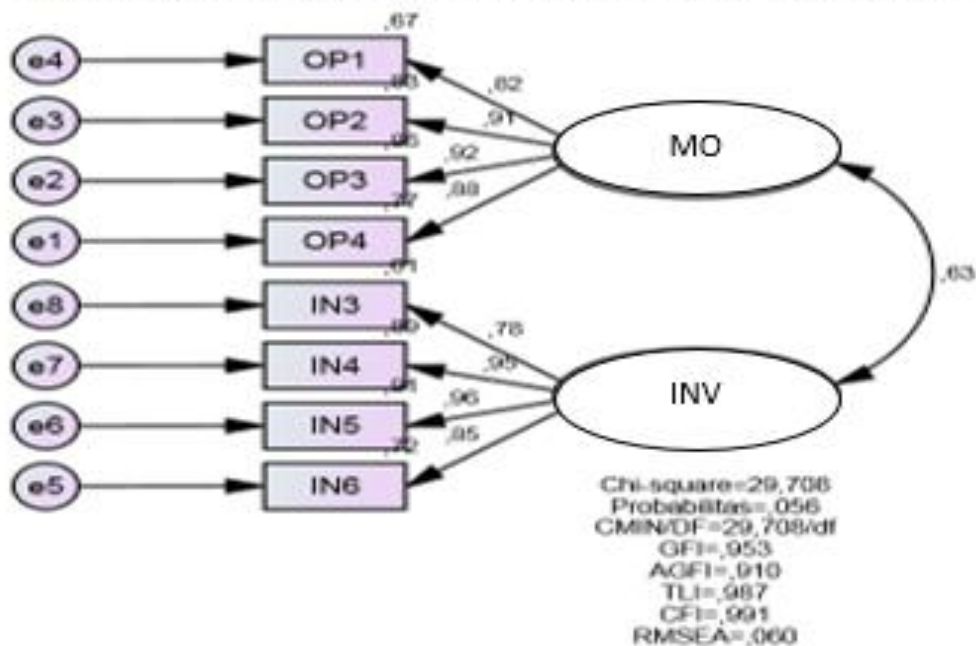
Results of Convergent Validity Test of Exogenous Variables Stage 1

			Estimate
OP6	<---	market orientation	,117
OP5	<---	market orientation	,007
OP4	<---	market orientation	,876
OP3	<---	market orientation	,925
OP2	<---	market orientation	,913
OP1	<---	market orientation	,816
IN6	<---	inovation	,849
IN5	<---	inovation	,955
IN4	<---	inovation	,946
IN3	<---	inovation	,783
IN2	<---	inovation	-,046
IN1	<---	inovation	-,078

The results of the CFA analysis as seen in table 3, there are 4 indicators out of 12 indicators used in the CFA exogenous variables cannot be used because the loading factor value is <0.6 in the market orientation variables, namely OP5 and OP6, innovation variables, namely IN1 and IN2, so they are removed in data processing. And the results are as follows:

Figure 2

Convergent Validity of Exogenous Variables Stage 2



Source: primary data, 2025

Based on the image above, the estimated values of the standardized parameters (loading factors) of the exogenous variables are more clearly displayed in the following table:

Table 4

Results of Convergent Validity Test of Exogenous Variables Stage 2

			Estimate
OP4	<---	market orientation	,876
OP3	<---	market orientation	,925
OP2	<---	market orientation	,913
OP1	<---	market orientation	,817
IN6	<---	inovation	,850
IN5	<---	inovation	,955
IN4	<---	inovation	,946
IN3	<---	inovation	,783

Based on the table above, the exogenous variables of market orientation and innovation show a loading factor value of > 0.6 from both exogenous variables which have met convergent validity and these indicators can be used for further analysis.

Avarage Variance Extracted (AVE)

The AVE value is used to measure the amount of variance that can be captured by the construct compared to the variance caused by measurement errors. The results of the AVE value calculation are as follows:

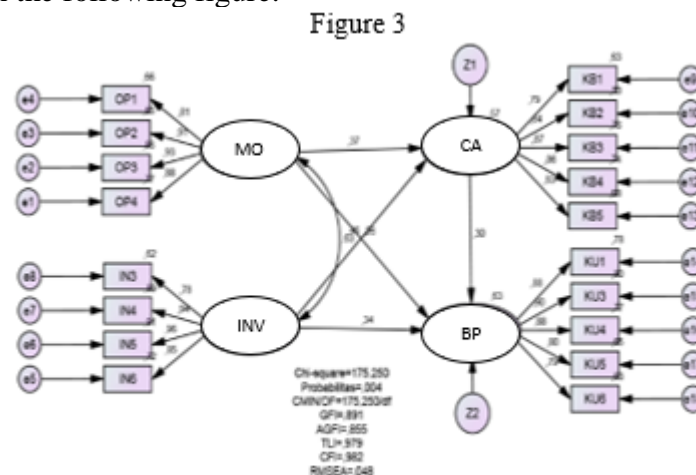
Table 5
Results of Average Variance Extracted (AVE) Test

No	Variable	AVE	Cut-Off
1	market orientation	0,781	0,500
2	Inovation	0,786	0,500
3	Competitive Advantage	0,703	0,500
4	Business Performance	0,725	0,500

Berdasarkan tabel 5 dapat diketahui bahwa nilai *Avarage Variance Extracted (AVE)* masing-masing variabel telah melebihi nilai *cut-off* yaitu sebesar 0,50 sehingga variabel penelitian dapat dilanjutkan ke tahap selanjutnya.

Full Model Structural Equation Modeling (SEM) Analysis

Analysis of data processing results at the full SEM model stage is carried out by conducting suitability tests and statistical tests. The results of data processing for the full SEM model analysis are shown in the following figure:



Source: primary data, 2025

Goodness of Fit Test of Structural Model

The model suitability indices used are the same as in confirmatory factor analysis. SEM model testing is intended to see the suitability of the model. The results of the processing carried out

are presented in the table below:

Table 6
Results of Goodness of Fit Test of Structural Model

Goodness of Fit Indeks	Cut off Value	Model	Model Evaluation
Chi-Square (df= 102)	small (<42,312)	1,131	Good
Probabilitas	≥ 0,05	0,004	Good
RMSEA	≤ 0,08	0,048	Good
GFI	≥ 0,90	0,891	Marginal
AGFI	≥ 0,90	0,855	Marginal
CMIN/DF	≤ 2,00	1,131	Good
TLI	≥ 0,90	0,979	Baik
CFI	≥ 0,95	0,982	Good

Chi-square is very sensitive to sample size. The chi-square value in this study was 1.131 with a probability of 0.004. The chi-square result indicates that the null hypothesis stating that the model is the same as the empirical data is accepted, which means the model is fit. From the overall measurement of goodness of fit above, it indicates that several models show good results so that the model proposed in this study can be accepted.

Hypothesis Testing

The testing of the research hypothesis was carried out based on the Critical Ratio (CR) value of a causal relationship from SEM processing as in the following table:

Table 6.
Structural Model Estimation Results

No.	Influential Variables	Influenced Variables	C.R.	P	Information
1.	Market Oriented	Business Performance	3,062	0,002	Influential
2.	Inovation	Business Performance	3,866	0,000	Influential
3.	Market Oriented	Competitive Advantage	4,371	0,000	Influential
4.	Inovation	Competitive Advantage	5,237	0,000	Influential
5.	Competitive Advantage	Business Performance	3,172	0,002	Influential

The results of the direct influence of exogenous variables on endogenous variables from table 7 above can be explained as follows:

1. It is known based on data from data processing results that the CR value = $3.062 > 1.96$ and P (probability) = $0.002 < 0.05$. This value shows results that meet the requirements, namely CR (critical ratio) is greater than 1.96 and P (probability) is less than 0.05 so it can be concluded that hypothesis 1 in this study can be accepted. This shows that market orientation has a positive influence on business performance, meaning that the better the furniture SMEs are in orienting themselves to designs/models that suit consumer needs, the business performance will increase.
2. It is known based on data from data processing results that the CR value = $3.866 > 1.96$ and P (probability) = $0.000 < 0.05$. This value shows results that meet the requirements, namely CR (critical ratio) is greater than 1.96 and P (probability) is less than 0.05 so it can be concluded that hypothesis 2 in this study can be accepted. This shows that business innovation has a positive influence on business performance, meaning that the better the furniture SMEs in innovating, the more the market share of furniture SMEs will expand every year.
3. It is known that based on data from data processing results, the CR value = $4.371 > 1.96$ and P (probability) = $0.000 < 0.05$. This value shows that the results meet the requirements, namely CR (critical ratio) is greater than 1.96 and P (probability) is less than 0.05 so that it can be concluded that hypothesis 3 in this study can be accepted. This shows that market orientation has a positive influence on competitive advantage, meaning that furniture SMEs always develop following the development of furniture models so that they are able to produce unique furniture.

2. Based on data from data processing results, it is known that the CR value = $5.237 > 1.96$ and $P(\text{probability}) = 0.000 < 0.05$. This value shows results that meet the requirements, namely CR (critical ratio) is greater than 1.96 and P (probability) is less than 0.05 so it can be concluded that hypothesis 4 in this study can be accepted. This shows that innovation has a positive influence on competitive advantage, meaning that furniture SMEs always innovate in furniture design for consumer satisfaction so that they have a good reputation in the community. 3. Based on data from data processing results, it is known that the CR value = $3.172 > 1.96$ and $P(\text{probability}) = 0.002 > 0.05$. This value shows results that meet the requirements, namely CR (critical ratio) is less than 1.96 and P (probability) is more than 0.05 so it can be concluded that hypothesis 5 in this study can be accepted. This shows that competitive advantage has a positive influence on business performance, meaning that furniture SMEs are able to produce quality furniture so that from a financial perspective, the performance of furniture SMEs has increased.

Direct Effect and Indirect Effect Analysis

Total effect is the influence of an exogenous variable on an endogenous variable through an intervening variable, namely job satisfaction. Based on the results of the analysis carried out, the magnitude of the total effect (table 7).

Table 7
Results of Direct Effect and Indirect Effect Analysis

Variable Endogen	Variable Eksogen	Variable Intervening	Direct Effect	Indirect Effect
Market Orientation	<--- Business Performance	Competitive Advantage	0,257	0,412

There is a positive and significant influence between the market orientation variable on business performance through competitive advantage in furniture SMEs in Pecangaan District, Jepara, as evidenced by the indirect effect value being greater than the direct effect ($0.412 > 0.257$), and this is in accordance with the research hypothesis (alternative hypothesis accepted). 2. There is a positive and significant influence between the innovation variable on business performance through competitive advantage in furniture SMEs in Pecangaan District, Jepara, as evidenced by the indirect effect value being greater than the direct effect ($0.538 > 0.341$), and this is in accordance with the research hypothesis (alternative hypothesis accepted).

Market orientation as four strategic consumer target determinations and building an organization that focuses on customer service, provides a basis for competition that focuses inward, provides services that meet consumer expectations, so that it succeeds in winning a competition. Market orientation reflects competence in understanding customers. Companies that succeed in controlling the market are companies that always place customer orientation and competitor orientation as their main focus. So that it produces better marketing performance (Kotler, 2016:73).

The results of this study support the results of research by Satwika and Dewi (2018) and Apriliani (2018) showing that market orientation affects business performance. Product innovation is any activity that cannot be produced with just one try, but rather a long and cumulative process. Includes many decision-making processes, from the discovery of ideas to their implementation in the market. Devi (2018) argues that product innovation is often associated with technology, because technology makes it easier for companies to develop ideas that will help achieve company goals. Product innovation is seen as very important, especially in the development of new products, because it can help companies with economic benefits and

produce new technologies.

The results of this study support the results of research by Apriliani (2018) and Udriyah, et al. (2019) showing that innovation has an effect on business performance. Market orientation is a corporate culture that can lead to increased marketing performance. Companies that implement market orientation have advantages in customer knowledge and these advantages can be used as a source of competitive advantage by creating products that are in accordance with customer desires and needs. It can be interpreted that market orientation has an effect on competitive advantage (Aprizal, 2018).

The results of this study support the results of research by Rahmadi, et al. (2020) and Puspaningrum (2020) showing that market orientation has an effect on competitive advantage. Product innovation is also used as a strategy in achieving competitive advantage. Companies must really understand what consumers need for a product to be produced. Consumers tend to prefer companies that produce products with attractive and innovative features. For companies, their success in innovating products means that the company is one step ahead of its competitors. This can be interpreted that product innovation has an effect on competitive advantage (Dewi, 2014:73).

The results of this study support the research results of Satwika and Dewi (2018) and Lestari, et al. (2020) which show that innovation has an impact on competitive advantage. Good organizational performance ultimately produces several results that are enjoyed and then produce competitive advantages for the company. The competitive advantages that have been achieved by the company should be maintained because with the advantages, more and more competitors will pay attention to the company's weak points, therefore the company must continue to be consistent in maintaining its advantages. Competitive advantages can also be seen through customer evaluations that can be created by the company through service facilities that can accommodate all kinds of complaints or suggestions directed at consumers for the company for improvement towards a higher quality. Good strategy setting is the key to success for a company to be at the forefront with anticipation in market competition (Porter, 2013:62).

The results of this study support the results of research by Satwika and Dewi (2018) and Udriyah, et al. (2019) showing that competitive advantages affect business performance. Market orientation as the most effective organizational culture in creating important behaviors for creating superior value for buyers and performance in business. Market orientation as a process and activity related to the creation and satisfaction of customers by continuously assessing customer needs and desires. Implementing market orientation will bring increased performance to the company (Indriantoro and Supomo, 2015:134).

The results of this study support the results of research by Jayaningrum and Sanawiri (2018) and Andiyanto, et al. (2017) showing that market orientation influences business performance through competitive advantage. Kotler and Armstrong (2018:69) 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 position of competitive advantage if it has a competitive advantage in resources that can produce superior value at low cost. Understanding competitive advantage requires a comprehensive picture of business and competitor advantages because competitive advantage comes from many different activities, such as product-related areas, market characteristics, distribution, and marketing ecosystems. The results of this study support the results of research by Jayaningrum and Sanawiri (2018) and Andiyanto, et al. (2017) showing that market orientation influences

business performance through competitive advantage.

CONCLUSION

The results of the study indicate that market orientation is able to improve business performance in furniture SMEs in Jepara. Innovation is able to improve business performance in furniture SMEs in Jepara. Market orientation is able to improve competitive advantage in furniture SMEs in Jepara. Innovation is able to improve competitive advantage in furniture SMEs in Jepara. Competitive advantage is able to improve business performance in furniture SMEs in Jepara, but the findings of this study on the weakest contribution are in market orientation, this is due to unstable market conditions due to the increasing development of information media throughout the world with the support of the digitalization era.

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