

STRATEGY TO INCREASE COMPETITIVE ADVANTAGE: MARKET ORIENTATION, MARKETING STRATEGY AND PRODUCT INNOVATION AS MEDIATION VARIABLES FOR THE STUDY OF THE MSME SECTOR IN PEKANBARU CITY

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Abstract. This study aims to measure the effect of market orientation, marketing strategy, and product innovation as mediating variables on the strategy to increase competitive advantage in the MSME sector moving in the culinary field in Pekanbaru City. This study uses a quantitative approach where primary data is collected through a survey of 100 respondents, and the statistical technique Partial Least Square (PLS) is used to process the data. The study's results confirm a significant effect of market orientation on product innovation and competitive advantage, both direct and indirect impact through product innovation mediating variables. The marketing strategy variable has a direct influence on the product innovation variable. Still, the marketing strategy variable does not directly affect the competitive advantage variable, but some other factors or variables affect the competitive advantage variable. In the indirect effect through the product innovation mediating variable, the marketing strategy variable has an indirect impact on competitive advantage.

Keywords: Market Orientation, Marketing Strategy, Product Innovation, Competitive Advantage, MSME Sector

1. INTRODUCTION

The current business competition, which is increasingly competitive and complex in the era of globalization, must be addressed by investors and business or business stakeholders by implementing the right strategic steps for the continuity of their business in the long term. As a result of the Covid-19 pandemic and the atmosphere and conditions of this kind of economic crisis, the MSME sector needs direct attention from the Government because MSMEs are the largest contributor to GDP (Gross Domestic Product) and are a priority scale or government instrument in absorbing labour, substituting production. Into consumer goods or semi-finished goods. Moreover Amidst the current positive sentiment that economic conditions will be more conducive to making the MSME sector, they were obliged to use its momentum to increase economic growth or development to recover.

The Government has provided incentives for MSMEs through the National Economic Recovery (PEN) program in 2020 and will continue in 2021. The realization of PEN to support MSMEs of IDR 112.84 trillion has been widely enjoyed and felt by more than 30 million MSMEs in 2020. Meanwhile, in 2021, the Government has budgeted and allocated PEN to support the MSME sector with financial assistance of IDR 121.90 trillion to protect the continuation of the momentum of economic recovery and growth. The PEN program to support the MSME sector in 2020 has been recorded as successful and has become a guideline for support from the Government for the business world, specifically for zones or the informal sector, as well as for MSMEs to be able to survive in the face of conditions due to the pandemic. Not only that, but this program can also help in reducing workforce

reduction. As quoted from BPS information, as of August 2020, new job opportunities have been created, with an accumulation of 0.76 million people opening businesses and an increase of 4.55 million informal workers.

The growth of the MSME world, as a barometer of economic development in an area or region, is no exception in Riau Province. Pekanbaru City is one of the cities with a world of UMKM, which is growing and developing rapidly. The information presented by the Pekanbaru City MSME Cooperative Service proves that the growth of the micro, small and medium enterprises in Pekanbaru City proves fluctuations yearly. The number of MSMEs in Pekanbaru City can be seen in Table 1 below:

Table 1. Number of MSME Business Actors in Pekanbaru City

No	City	Amount
1	Pekanbaru	1352 UMKM

Source: Office of Cooperatives, Small and Medium Enterprises Pekanbaru City

MSMEs have a significant role and contribution to increasing economic growth in a country or region. However, there are still some challenges and problems that MSMEs must face internally and externally. Internally, the existence of MSMEs experiences more limitations in terms of capital, production process techniques, mapping market segmentation, management and utilizing technological developments, weak decision making and financial supervision and low maintaining competitive advantage strategies. Meanwhile, they face more problems externally, such as licensing issues, raw materials, marketing locations, difficulty getting bank credit, an unfavourable business climate, public concern, and a lack of guidance.

Competitive advantage is a set of elements that differentiate a company from its competitors and give it a distinct market position, enabling it to outperform its competitors (Zimmerer et al., 2008). Market orientation, marketing strategy, and product innovation are the factors mentioned in this study that can be used to assist the Pekanbaru City MSME Cooperative Service in increasing the competitive advantage of the MSME sector in Pekanbaru City.

2. LITERATURE REVIEW

2.1 Competitive Advantage

Business professionals must be able to construct a competitive business model concept and an excellent competitive advantage plan to maintain a long term presence in the industry. Competitive advantage refers to how a company or industry selects and implements a generic strategy to gain and maintain a competitive advantage. Competitive advantage refers to the ability of a company or business to outperform its competitors. Business actors will be able to develop the correct position, maintain customer loyalty, gain new market share, maximize sales, and produce effective business performance by using the competitive advantage plans made (Kotler, 2012). The company's ability to maintain a competitive advantage is an advantage competitive (Li et al., 2006) (Tracey et al., 1999) Furthermore, (Li et al., 2006) define competitive advantage as the ability of an organization to differentiate itself from its competitors. Competitive advantage is defined by (Foon & Nair, 2010) as something profitable that differentiates a company or company's products from its competitors from the point of view of customers or end users.

2.2 Product Innovation

It is a method for finding new ways to solve existing problems. Excellent but expensive products or cheap but low-quality products are common business problems. According to (Zizlavsky, 2011), at the beginning of the twentieth century, Schumpeter coined the term "innovation." Several additional researchers contributed to the development of his ideas

and research. According to Schumpeter, innovation is defined as goods, processes and organizational changes resulting from a combination of existing technologies and their application in new situations, not from new scientific discoveries. According to (Carboni & Russu, 2018), product innovation is the introduction of new products or services to the market to meet market needs or the development of new products or services to meet the needs of external customers. Innovation is considered one of the most compelling aspects of business economics, which is critical in achieving customer satisfaction and realizing their desires. Product innovation, as defined by (Chang & Chen, 2014), is the invention and introduction of new or better products to assist businesses in achieving improvements and enhancing competitiveness.

Meanwhile, according to (Atalay et al., 2013), product innovation is defined as the introduction and continued production of new products that are different from past products and modifying existing product deficiencies by prioritizing quality. According to empirical studies, product innovation can significantly mediate the effect of product creativity on competitive advantage. However, based on empirical study findings, it cannot act as a mediator of the effect of market orientation on competitive advantage (Andika et al., 2021). The product innovation variable mediates a positive and sizable influence on competitive advantage variables, according to subsequent research (Syukron & Ngatno, 2016).

2.3 Market Orientation

According to (Narver & Slater, 1990), the most successful organizational culture is to build essential behaviours to create higher value for buyers and commercial performance. Market orientation requires the involvement of all areas of the company, cross-functional market intelligence efforts, and identification of the demands of market participants, especially the demands of consumers, suppliers (suppliers), and competitors (competitors). (Aldas-Manzano et al., 2005) They said that market orientation concerns how information is obtained, disseminated and implemented within the company; these three elements are interconnected. In small businesses, market orientation is a continuous response to consumer demands and needs to facilitate sales. Market orientation establishes several norms regarding information gathering and organizational-wide responsiveness to information relating to customers (potential and actual) so that companies can precede competitors in market analysis and react to their needs (Ghorbani et al., 2014). Market orientation is an organizational culture and capability that can provide a competitive advantage (Roach et al., 2014). According to (Na et al., 2019), market orientation is a tendency for organizational activities to respond better to market demands than competitors and predict changes in markets well to build sustainable competitive advantages and high profits.

2.4 Marketing Strategy

It is a very fundamental instrument for achieving company goals by building long-lasting competitive advantages through accessible markets and marketing programs used to serve target markets, Tull and Kahle (Tjiptono, 2008). Marketing strategy directs variables such as market segmentation, identification of target markets, positioning or placement of marketing mix elements, and marketing mix costs. Marketing strategy is essential to the company's overall business strategy because it directs all management functions. The primary approach that business units will use in achieving predetermined targets is the marketing strategy, which includes essential decisions about the target market, product placement in the market, marketing mix, and the marketing costs required by Kotler's business (Triyaningsih, 2012). According to (Kotler, 2012), marketing strategy is a marketing logic in which companies hope to create value for customers and achieve profitable relationships with customers.

2.5 Relationship between Concepts

Effect of Market Orientation on Product Innovation

According to (Kumar et al., 2011), market orientation is the capability and culture that become the company's principles. The main objective of market orientation is to deliver superior value or value to customers based on knowledge derived from customer and competitor analysis, where the knowledge obtained is then disseminated to all elements of the company. From this knowledge, companies must be able to meet customer needs and desires through product innovation, both in the form of creating new products and developing existing products, so that they can provide superior value to their customers on an ongoing basis and can become the company's significant capital to win the competition (Putra & Rahanatha, 2017) so that it can be said that market orientation has an influence on the creation of various products as a result of the innovation process. This is in line with research findings (Andika et al., 2021), (Wilches A Naranjo Valencia JJiménez Jiménez, 2018), (Na et al., 2019) and (Shaher & Ali, 2020) which show that market orientation has a positive effect and is significant for the creation of innovation. Based on the description above, the hypothesis in this study can be formulated as follows:

H₁: Market orientation has a significant effect on product innovation

Effect of Marketing Strategy on Product Innovation

In the context of business development, (Knight, 2000) states that marketing strategy is a tactic that the business sector can use in developing its business capacity to face globalization. Thus it can be stated that the marketing strategy can have positive implications for product innovation as a whole because product innovation is something that needs to get the immediate attention of the company, considering that this strategy is closely related to marketing activities carried out by companies and the business sector in the ability to see and create product-market opportunities, build marketing capabilities to they were responding to identified market opportunities and the ability to pursue opportunities quickly. Research conducted (by Quaye & Mensah, 2019) integrates marketing competencies (marketing resources and marketing capabilities) and innovative marketing activities to provide a marginal increase in competitive advantage. Subsequent research conducted (Elwisam & Lestari, 2019) showed that marketing strategies influence the marketing performance of MSMEs

H₂: Marketing strategy has a significant effect on product innovation

Effect of Market Orientation on Competitive Advantage

Market orientation establishes several norms regarding information gathering and general organizational responsiveness to information related to customers (potential and actual) so that companies can get ahead of competitors in market analysis and react to their needs (Ghorbani et al., 2014). The impact of a market-oriented company has a tremendous competitive advantage in helping to understand customer preferences, competitor strategies and changes in the overall market scenario so that companies can differentiate, design, position and improve their products and services by creating value for customers (Waheed et al., 2018). This is in line with the findings (of Udriyah et al., 2019), (Pratono et al., 2019), (Kumbara & Afuan, 2020) and (Puspaningrum, 2020), which reveal that market orientation influences the creation of competitive advantage. Based on the description above, the hypothesis in this study can be formulated as follows:

H₃: Market orientation has a significant effect on competitive advantage

Effect of Marketing Strategy on Competitive Advantage

According to (Assauri, 2014), marketing strategy is a series of goals and objectives, policies and rules that give direction to the company's marketing efforts from time to time, at each level and references and their allocation, especially as the company's response in dealing with the environment and circumstances ever changing competition. MSMEs must

continuously innovate, develop exciting and unique ideas in marketing strategies, and excel in competition. An MSME will find it easier to develop if the business actors need to understand how to market a product or introduce their products to the market or potential customers (Suindari & Juniariani, 2020). Based on the findings of empirical studies, marketing strategy has a positive effect on competitive advantage, according to research conducted by (Juniariani et al., 2020). Subsequent research conducted by (Purwaningsih & Kusuma, 2015) showed that marketing strategies positively affect the performance of MSMEs. Based on the description above, the hypothesis in this study can be formulated as follows:

H₄: Marketing strategy has no significant effect on competitive advantage

Effect of Product Innovation on Competitive Advantage

Amidst a highly competitive business environment, a company needs to differentiate itself from other competitors in the market and achieve a competitive advantage. In this case, product innovation can play an essential role in achieving this position, and it is also considered a key factor behind the success of various businesses (Salerno et al., 2015). As said (Aksoy 2017), Innovation is a strategy that allows companies to face business competition. Innovation can be a differentiator during business competition, impact competitive advantage, and create new markets. This is in line with the results of research from (Veronicah et al., 2017), (Nuryakin, 2018), and (Prabhu, 2019), which show that product innovation has a significant effect on achieving a company's competitive advantage. Based on the description above, the hypothesis in this study can be formulated as follows:

H₅: Product innovation has a significant effect on competitive advantage significant effect on competitive advantage

Effect of Market Orientation through Product Innovation on Competitive Advantage

The competitive environment in the industrial sector today is very complex, so every company must be able to understand and interpret what is happening in the market and what is the desire of consumers, as well as changes in it, to compete with competitors. This is what is called market orientation. According to (Kumar et al., 2011), the main goal of market orientation is to deliver superior value for customers based on knowledge derived from customer and competitor analysis, where the knowledge obtained is then disseminated to all elements of the company. From this knowledge, companies must be able to meet consumer needs and expectations through product innovation tailored to market needs, either by creating new products or optimizing existing products. As said (Aksoy 2017), Innovation is one strategy that allows companies to face industrial competition. Innovation can be a differentiating factor during business competition and impacts competitive advantage and the creation of new markets. Product innovation can mediate the relationship between market orientation and competitive advantage. Based on the description above, the hypothesis in this study can be formulated as follows:

H₆: Product innovation can significantly mediate market orientation toward competitive advantage

Effect of Marketing Strategy through Product Innovation on Competitive Advantage

Marketing strategy is a statement (implicitly or explicitly) about how a brand or product line achieves its goals (Tjiptono, 2008). According to (Salerno et al., 2015), product innovation can be essential in achieving a competitive advantage. Product innovation is also considered a key factor behind the success of various businesses. Product innovation can mediate the relationship between marketing strategy and competitive advantage. Based on the description above, the hypothesis in this study can be formulated as follows:

H₇: Product innovation can mediate a marketing strategy towards a significant competitive advantage

3. RESEARCH METHODS

This study uses explanatory research modelling to test a theory or hypothesis to strengthen or even reject existing research theories or hypotheses or to determine the size of the influence between the independent variables and the dependent variable. The research method used in this study is descriptive, namely, research conducted to determine the value of independent variables, either one variable or more (independent), without making comparisons or connecting between variables (Sugiyono, 2013). In addition, the researcher uses a descriptive and quantitative approach, a research method based on positivism, to examine specific populations or samples. Data collection uses research instruments; data analysis is quantitative or statistical to test the established hypotheses (Sugiyono, 2017).

This research aims to find out and analyze whether market orientation, marketing strategy, and product innovation mediation variables influence the competitive advantage of the Pekanbaru City MSME sector culinary field, both directly and indirectly. Business actors in the MSME sector culinary field in Pekanbaru City are the subject of this research. According to Arikunto (2010), If the population is less than or equal to 100, the sample must be taken entirely; if the population is more significant than 100, then a sample of 10% - 15% or 20% - 25% of the population must be taken. The samples taken amounted to 100 respondents, using a purposive sampling technique. Primary data was collected through a questionnaire-based survey distributed online using Google Docs. Questionnaires (questionnaires) are used to obtain data from consumer responses distributed using closed questions, namely questions with a choice of answers provided by the researcher. The advantage of using a questionnaire is that respondents can understand the contents of the statement and are classified as enthusiastic business actors who take initiatives to increase or maintain the competitive advantage of the MSME sector business. The data is then processed in Partial Least Square (PLS) with the component or variant based Structural Equation Modeling (SEM) model.

4. RESULTS AND DISCUSSION

Convergent validity (*Outer Loading*)

Convergent Validity Order is intended to determine whether the indicator is valid or not in measuring dimensions. The loading factor's size shows each indicator's convergent validity in measuring dimensions. An indicator is declared valid if the loading factor is positive and more significant than 0.5. The results of the Order's convergent validity testing are presented in the following table:

Table 2. Convergent validity

Variable	Loading factor	P Value	Conclusion
Market Orientation (X1)	0.830	<0.001	Valid
Marketing Strategy (X2)	0.841	<0.001	Valid
Competitive Advantage (Y)	0.849	<0.001	Valid
Product Innovation (Z)	0.770	<0.001	Valid

Source: Data Processed by researchers in 2023

Based on the information above, it can be seen that the results of the market orientation variable (X1) produce a loading factor greater than 0.5. the conclusion means that the market orientation variable (X1) is valid in measuring its dimensions. The following results can be seen in the marketing strategy (X2), which produces a loading factor greater than 0.5. the conclusion means that the marketing strategy variable (X2) is valid in measuring its dimensions. In the following results, it can be seen that competitive advantage (Y) results in a loading factor greater than 0.5. the conclusion means that the competitive advantage variable (Y) is valid in measuring its dimensions. The following

results can be seen in product innovation (Z) produces a loading factor greater than 0.5. the conclusion means that the product innovation variable (Z) is valid in measuring its dimensions.

Composite Reliability

Calculations that can be used to test construct reliability is composite reliability. The test criteria state that if the composite reliability is more significant than 0.6 then the construct is declared reliable. The results of composite reliability calculations can be seen through the summary presented in the table as follows:

Table 3. Composite Reliability

Variable	Criteria	Composite Reliability	Conclusion
Market Orientation (X1)	> 0.70	0.865	Reliabel
Marketing Strategy (X2)	> 0.70	0.871	Reliabel
Competitive Advantage (Y)	> 0.70	0.884	Reliabel
Product Innovation (Z)	> 0.70	0.822	Reliabel

Source: Data Processed by researchers in 2023

Based on the table above, it can be seen that the composite reliability value on market orientation (X1), marketing strategy (X2), competitive advantage (Y) and product innovation (Z1) is more significant than 0.6. Based on the calculation of composite reliability, all variables that measure dimensions are declared reliable.

Inner Model

a. Goodness of Fit Model (Structural Model / Inner Model)

The goodness of fit model is used to determine the ability of exogenous variables to explain the diversity of endogenous variables, or in other words, to determine the magnitude of the contribution of exogenous variables to endogenous variables. The goodness of fit model in the PLS analysis is carried out using the coefficient of determination (R-Square) and Q-Square predictive relevance (Q2). The results of the Goodness of fit Model are summarized in the table below :

Table 4. Results of the Goodness of Fit Model

Endogen	R Squared	Q Squared
Competitive Advantage (Y)	0.605	0.592
Product Innovation (Z)	0.543	0.534
Q Square = $1 - [(1 - R_1^2) * (1 - R_2^2)]$		
Q Square = $1 - [(1 - 0.605) * (1 - 0.543)] = 0,82$		

Source: Data Processed by researchers in 2023

Based on Table 4 above, the R-squared competitive advantage variable (Y) is 0.605 or 60.5%. At this stage, it can be shown that the competitive advantage variable (Y) can be explained by the market orientation variable (X1) and marketing strategy (X2) of 60.5%, or in other words, the contribution of the market orientation variable (X1) and marketing strategy (X2) to the competitive advantage variable (Y) is 60.5%. In comparison, the remaining 39.1% contributes to other factors not discussed in this study.

R squared product innovation variable (Z) is 0.543 or 54.3%. At this stage, it can be shown that the product innovation variable (Z) can be explained by the market orientation variable (X1) and marketing strategy (X2) of 54.3%, or in other words, the contribution of the market orientation variable (X1) and marketing strategy (X2) to the variable product innovation (Z) of 54.3%, while the remaining 45.7% contribute to other factors not discussed in this study.

Q-square on the competitive advantage variable (Y) is 0.82 or 82%. This can indicate that the competitive advantage variable (Y) can be explained by the overall model of 82%, or in other words, the contribution of the market operations variable (X1), marketing strategy (X2) and product innovation (Z) as a whole to the competitive advantage variable (Y) of 82%. In comparison, the remaining 18% is contributed by other factors not discussed in this study. In the figure below, we will describe path analysis as follows:

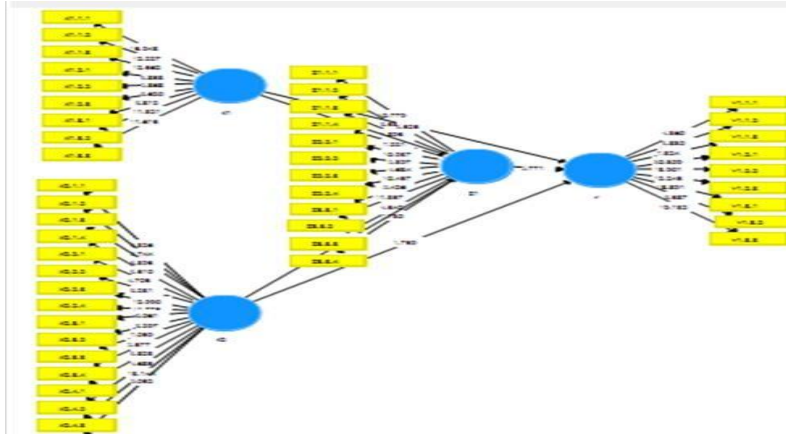


Figure 1. Bootstrapping Model

Testing the Direct Effect Hypothesis

Testing the direct effect hypothesis is used to test whether exogenous variables have a direct influence on endogenous variables. The test criteria state that if the p-value \leq level of significance ($\alpha = 5\%$), then it is indicated that there is a significant influence of exogenous variables on endogenous variables. The results of hypothesis testing can be seen in Table 1.4 below:

Table 5. Results of the Direct Effect Hypothesis

Eksogen	Endogen	Path Coefficient	SE	P Value	Conclusion
Market Orientation	Competitive Advantage	0.337	0.096	<0.001	Significant
Market Orientation	Product Innovation	0.329	0.103	<0.001	Significant
Marketing Strategy	Competitive Advantage	0.203	0.115	0.079	Not Significant
Marketing Strategy	Product Innovation	0.479	0.097	<0.001	Significant
Product Innovation	Competitive Advantage	0.341	0.123	0.006	Significant

Source: Data Processed by researchers in 2023

Based on the tests listed in Table 5 above, it can be concluded that:

- The effect of market orientation on competitive advantage produces a p-value of <0.001. The test results show the p-value < level of significance ($\alpha = 5\%$). At this stage, it means that there is a significant influence of market orientation on product innovation
- The effect of market orientation on product innovation produces a p-value of <0.001. The test results show the p-value < level of significance ($\alpha = 5\%$). At this stage, it means that there is a significant influence of market orientation on product innovation.
- The effect of marketing strategy on competitive advantage produces a p-value of

0.079. The test results show that the p-value > level of significance (alpha = 5%). At this stage, it means that there is no significant effect of marketing strategy on competitive advantage.

- d. The effect of marketing strategy on product innovation produces a p-value of <0.001. The test results show the p-value < level of significance (alpha = 5%). At this stage, it means that there is a significant influence of marketing strategy on product innovation.
- e. The effect of product innovation on competitive advantage produces a p-value of 0.006. The test results show the p-value < level of significance (alpha = 5%). At this stage, it means that there is a significant influence of product innovation on competitive advantage

Mediation Analysis

The criteria for testing the Sobel test are if the Zscore > Ztable proves that the mediating variable can act as a mediator between the independent variable and the dependent variable or if the P value <0.05, it can be concluded that the mediation is statistically significant. Based on the results of the mediation analysis using the Sobel test can be explained in the table below :

Table 6. Sobel Test Mediation Analysis

Variable	Sobel test		
	Competitive Advantage (Y)		
	Z Score	P Value	Conclusion
Market Orientation (X1)	2.255	0.024	Mediation role & Sig
Marketing Strategy (X2)	2.608	0.009	Mediation role & Sig

Source: Data Processed by researchers in 2023

The criteria for testing the Sobel test are if Zscore > Ztable, then it proves that the mediating variable is capable of acting as a mediator between the independent variables and Dependent variable Yay, (2017), or If Pvalue < 0.05, it can be concluded that mediation is statistically significant Dastgeer et al., (2020). Based on the analysis of the Sobel test, the effect of the market orientation variable (X1) on the competitive advantage variable (Y) mediated by the product innovation variable (Z) obtained a Zscore value of 2.255 > 1.96 and a P value of 0.024 < 0.05. This means that the product innovation variable (Z) can act as a mediator in the effect of market orientation (X1) on competitive advantage (Y). Based on this, it can be interpreted that the indirect impact of the market orientation variable on competitive advantage will increase if the result is through product innovation

Sobel test analysis of the effect of marketing strategy variable (X2) on competitive advantage variable (Y) mediated by product innovation variable (Z) obtained a Zscore of 2.608 > 1.96 and a P-value of 0.009 <0.05. This means that the product innovation variable (Z) can act as a mediator in the influence of marketing strategy (X2) on competitive advantage (Y). Based on this, it can be interpreted that the direct effect of marketing strategy variables on competitive advantage is higher than the effect through product innovation.

CONCLUSION

The results of this study provide a perspective that market orientation influences product innovation and competitive advantage, both directly and indirectly, through the mediation of product innovation variables. Market orientation helps companies determine strategies and approaches to understand the market and provide a better understanding of the environment. Businesses adopt market orientation to meet customer needs better. For marketing strategy variables to have a direct influence on product innovation variables,

marketing strategy variables do not have a direct impact on competitive advantage variables. However, some other factors or variables influence competitive advantage variables. An indirect effect through Product innovation mediation variables and marketing strategy variables indirectly impacts competitive advantage. To win the increasingly competitive business competition, the marketing strategy is a way in which a marketing function conducts its activities to achieve profitable growth in sales at the marketing mix level, and marketing strategy is a mindset used to develop the company. The method applied links several marketing elements, such as market segmentation, marketing mix, positioning, goals, etc. Marketing strategy is all efforts for the short and long term in marketing. This is closely related to the initial condition analysis of the company's strategy. In general, the strategy starts from the formulation, then evaluates and selects the strategy and its contribution to the company's or business's goals.

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