


**THE EFFECT OF MARKET ORIENTATION, ENTREPRENEURIAL ORIENTATION, INNOVATION AND COMPETITIVE ADVANTAGE ON BUSINESS PERFORMANCE OF INDONESIAN MSMEs**

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ARTICLE INFO	ABSTRACT
<p><b>Article history:</b></p> <p><b>Received</b> 31 January 2023</p> <p><b>Accepted</b> 10 April 2023</p>	<p><b>Purpose:</b> The objective of this study was to determine the effect of market orientation, entrepreneurial orientation, innovation, and competitive advantage on MSMEs (Micro Small and Medium Enterprises) business performance.</p>
<p><b>Keywords:</b></p> <p>Market Orientation; Entrepreneurial Orientation; Innovation; Competitive Advantage; MSMEs Business Performance.</p>	<p><b>Design/methodology/approach:</b> This type of research is quantitative with a case study research design. The implementation of the research was carried out in Indonesia, especially in Lamongan district, East Java, Indonesia. The research subjects were MSMEs owners/managers with a total sample of 302 using SPSS-AMOS 22 SEM (Structural Equation Modeling) analysis.</p>
	<p><b>Findings:</b> The results of this study indicate that there is an significant influence of market orientation, entrepreneurial orientation, competitive advantage on business performance, while innovation has no significant influence on MSMEs business performance.</p> <p><b>Research, Practical &amp; Social implications:</b> The theoretical implication of this research is to increase knowledge about market orientation and entrepreneurial orientation as well as increase innovation and competitive advantage to get maximum MSMEs business performance. The results of this study can provide information to the government and organizations related to MSMEs. In this case, the Office of Cooperatives and Micro Enterprises, the Office of Industry and Trade in Lamongan district, East Java, Indonesia.</p> <p><b>Originality/value:</b> The results of the Structural Equation Modeling evaluation with the univariate normality test showed an excellent critical skewness ratio value, and the kurtosis indicated data was normally distributed, and the data is feasible to use. Than 7 methods (X2-Chi square, Sign Probability, CMIN/DF, GFI, AGFI, TLI, CFI, and RMSEA) are used to measure the fit of the model in SEM there are 6 criteria that are fit from 7 existing criteria, so it can be concluded that this measurement model has a good fit level. The results of hypothesis testing affect market orientation has a significant on MSMEs performance, entrepreneurial orientation has a significant on MSMEs performance, competitive advantage has a significant on MSMEs performance, market orientation has a significant on innovation, market orientation has a significant to competitive advantage, entrepreneurial orientation has a significant on innovation, entrepreneurial orientation has a significant on competitive advantage, competitive advantage has a significant on innovation, and innovation has not a significant on MSMEs performance.</p> <p>Doi: <a href="https://doi.org/10.26668/businessreview/2023.v8i4.1563">https://doi.org/10.26668/businessreview/2023.v8i4.1563</a></p>

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## O EFEITO DA ORIENTAÇÃO PARA O MERCADO, ORIENTAÇÃO EMPREENDEDORA, INOVAÇÃO E VANTAGEM COMPETITIVA NO DESEMPENHO DE NEGÓCIOS DAS MPME INDONÉSIOS

### RESUMO

**Objetivo:** O objetivo deste estudo foi determinar o efeito da orientação para o mercado, orientação empreendedora, inovação e vantagem competitiva no desempenho dos negócios das MPMEs (Micro Pequenas e Médias Empresas).

**Projeto/metodologia/abordagem:** Este tipo de pesquisa é quantitativa com um projeto de pesquisa de estudo de caso. A implementação da pesquisa foi realizada na Indonésia, especialmente no distrito de Lamongan, East Java, Indonésia. Os sujeitos da pesquisa foram proprietários/gerentes de MPMEs com uma amostra total de 302 usando a análise SPSS-AMOS 22 SEM (Structural Equation Modeling).

**Resultados:** Os resultados deste estudo indicam que há uma influência significativa da orientação para o mercado, orientação empreendedora e vantagem competitiva no desempenho dos negócios, enquanto a inovação não tem influência significativa no desempenho dos negócios das MPMEs.

**Pesquisa, implicações práticas e sociais:** A implicação teórica desta pesquisa é aumentar o conhecimento sobre orientação para o mercado e orientação empreendedora, bem como aumentar a inovação e a vantagem competitiva para obter o desempenho máximo dos negócios das MPMEs. Os resultados deste estudo podem fornecer informações para o governo e organizações relacionadas às MPMEs. Neste caso, o Escritório de Cooperativas e Microempresas, o Escritório de Indústria e Comércio no distrito de Lamongan, East Java, Indonésia.

**Originalidade/valor:** Os resultados da avaliação da Modelagem de Equações Estruturais com o teste de normalidade univariada mostraram um excelente valor da razão de assimetria crítica, e a curtose indicou que os dados foram distribuídos normalmente e os dados são viáveis para uso. Do que 7 métodos (X<sup>2</sup>-Chi quadrado, probabilidade de sinal, CMIN/DF, GFI, AGFI, TLI, CFI e RMSEA) são usados para medir o ajuste do modelo em SEM, existem 6 critérios que são ajustados a partir de 7 critérios existentes, Portanto, pode-se concluir que este modelo de medição possui um bom nível de ajuste. Os resultados dos testes de hipótese afetam a orientação para o mercado tem um impacto significativo no desempenho das MPMEs, a orientação empreendedora tem um impacto significativo no desempenho das MPMEs, a vantagem competitiva tem um impacto significativo no desempenho das MPMEs, a orientação para o mercado tem um impacto significativo na inovação, a orientação para o mercado tem um impacto significativo na vantagem competitiva, a orientação empreendedora tem um peso significativo na inovação, a orientação empreendedora tem peso significativo na vantagem competitiva, a vantagem competitiva tem peso significativo na inovação e a inovação não tem peso significativo no desempenho das MPME.

**Palavras-chave:** Orientação para o Mercado, Orientação Empreendedora, Inovação, Vantagem Competitiva, Desempenho Empresarial das MPMEs.

## EL EFECTO DE LA ORIENTACIÓN AL MERCADO, LA ORIENTACIÓN EMPRESARIAL, LA INNOVACIÓN Y LA VENTAJA COMPETITIVA EN EL DESEMPEÑO EMPRESARIAL DE LAS MIPYME DE INDONESIA

### RESUMEN

**Propósito:** El objetivo de este estudio fue determinar el efecto de la orientación al mercado, la orientación empresarial, la innovación y la ventaja competitiva en el desempeño empresarial de las MIPYMES (Micro Pequeñas y Medianas Empresas).

**Diseño/metodología/enfoque:** Este tipo de investigación es cuantitativa con un diseño de investigación de estudio de caso. La implementación de la investigación se llevó a cabo en Indonesia, especialmente en el distrito de Lamongan, Java Oriental, Indonesia. Los sujetos de la investigación fueron dueños/administradores de MIPYMES con una muestra total de 302 utilizando el análisis SPSS-AMOS 22 SEM (Structural Equation Modeling).

**Hallazgos:** Los resultados de este estudio indican que existe una influencia significativa de la orientación al mercado, la orientación emprendedora, la ventaja competitiva en el desempeño empresarial, mientras que la innovación no tiene una influencia significativa en el desempeño empresarial de las MIPYMES.

**Implicaciones de investigación, prácticas y sociales:** la implicación teórica de esta investigación es aumentar el conocimiento sobre la orientación al mercado y la orientación empresarial, así como aumentar la innovación y la ventaja competitiva para obtener el máximo rendimiento empresarial de las MIPYME. Los resultados de este estudio pueden brindar información al gobierno y organizaciones relacionadas con las MIPYMES. En este caso, la Oficina de Cooperativas y Microempresas, la Oficina de Industria y Comercio en el distrito de Lamongan, Java Oriental, Indonesia.

**Originalidad/valor:** los resultados de la evaluación del modelo de ecuaciones estructurales con la prueba de normalidad univariante mostraron un excelente valor de relación de asimetría crítica, y los datos indicados de curtosis se distribuyeron normalmente y los datos son factibles de usar. Se utilizan más de 7 métodos (X<sup>2</sup>-Chi cuadrado, probabilidad de signo, CMIN/DF, GFI, AGFI, TLI, CFI y RMSEA) para medir el ajuste del modelo en SEM. Hay 6 criterios que se ajustan a partir de 7 criterios existentes, por lo que se puede concluir que este modelo de medida tiene un buen nivel de ajuste. Los resultados de las pruebas de hipótesis afectan la orientación al mercado tiene un impacto significativo en el desempeño de las MIPYMES, la orientación empresarial tiene un impacto significativo en el desempeño de las MIPYMES, la ventaja competitiva tiene un impacto significativo en el desempeño de las MIPYMES, la orientación al mercado tiene un impacto significativo en la innovación, la orientación al mercado tiene un impacto significativo en la ventaja competitiva, la orientación empresarial tiene un impacto significativo en la innovación, la orientación empresarial tiene un impacto significativo en la ventaja competitiva, la ventaja competitiva tiene un impacto significativo en la innovación y la innovación no tiene un impacto significativo en el desempeño de las MIPYMES.

**Palabras clave:** Orientación al Mercado, Orientación Emprendedora, Innovación, Ventaja Competitiva, Desempeño Empresarial MIPYME.

## INTRODUCTION

Micro Small and Medium Enterprises (MSMEs) are the pillars of the Indonesian economy because this real sector is a pillar or pillar of the overall economic wheel in almost all sectors (Tetuko, 2021). Based on data from the Ministry of Cooperatives and SMEs for 2018-2019, the MSMEs sector can absorb up to 97% of the total workforce, provide up to 99% of employment, and contribute 81% of the National Gross Domestic Product (GDP). The increase in the number of MSMEs units in East Java is in line with East Java's increasing economic growth and is concentrated in urban areas such as the city of Surabaya and its surroundings (Sidoarjo, Mojokerto, Gresik and Lamongan). Lamongan Regency is one of the areas that has many small businesses, the number of MSMEs in Lamongan Regency is 130,006 MSMEs and absorbs 327,422 workers engaged in the following types of businesses: handicrafts, food processing, agriculture and clothing (Department of Cooperatives and Micro Enterprises of Lamongan Regency, 2019).

The costproduction during the Covid-19 pandemic caused the income of MSMEs actors in Lamongan to drop drastically. Raw materials, storage, staff and other costs are all business expenses that have increased during the pandemic. MSMEs have various strategic preferences, including seeking new markets, finding cheaper sources of raw materials, reducing labor, and calling for payment delays. This situation is certainly not profitable for MSMEs and this will have an impact on the MSMEs themselves in reducing their efficiency and performance (Diskopum Lamongan, 2020).

The lack of creativity and courage to innovate products is one of the factors causing the slow development of MSMEs in Lamongan Regency. The product innovation factor is believed

by many parties to be a determinant in the success of strengthening regional competitiveness. For this reason, MSMEs need to improve product innovation and business performance. Some of the problems that cause MSMEs to lack competitiveness and business performance are one of the factors the limited level of education of MSMEs actors, this causes the knowledge and skills possessed are also low, including in market orientation and entrepreneurial orientation (Apindo, 2012). Business performance is a measure of the success of a business (Westerberg and Wincent, 2008). Improving MSMEs business performance through profit growth, sales growth, customer growth is a benchmark to stay ahead of the competition.

The MSMEs sector has proven to be more resilient in dealing with crises, so MSMEs development needs to receive serious attention from both the government and the private sector so that they are more competitive and have good performance. MSMEs activities still encounter obstacles and problems both internally and externally. According to Rosid (2012) internal barriers to SMEs such as lack of capital, limited human resources (HR), weak business networks and market penetration capabilities. While the external obstacles to MSMEs such as: the business climate is not yet fully conducive, limited facilities and infrastructure, implications for regional autonomy, implications for free trade, the nature of products with short lifetimes, and limited market access. According to Brahmana (2007) competitive advantage is the result of implementing a strategy that utilizes various resources owned by the company. This is supported by the opinion of Morgan *et al.* (2004) which states that competitive advantage is the ability of a business entity (company) to provide more value to its products than its competitors and that value brings benefits to customers.

## LITERATURE REVIEW AND HYPOTHESIS

### Influence Market Orientation to Business Performance

Market orientation as a process and activity related to creating and satisfying customers by continuously assessing customer needs and wants. Application of market orientation will bring increased performance for the company (Uncles, 2000). Market orientation is important to study and research in relation to business performance because market orientation is an important element that influences competitive advantage and achieves high profitability (Narver & Slater, 2000). Market orientation is a business perspective that makes consumers the focus of attention in all company activities. The results of previous research studies on the effect of market orientation on MSME performance have also been carried out by; Fard (2009),

Hutahayan (2021), and Udriyah *et al.* (2019) proves that market orientation has an influence on the performance of SMEs.

**H<sub>1</sub>: Market orientation has a positive effect on business performance**

### **The Effect of Entrepreneurial Orientation on Business Performance**

Companies with a high level of entrepreneurial orientation will try to obtain the resources provided by the environment. These resources can then be allocated towards proactive and innovative projects that enable companies to explore and exploit opportunities to transform resources into superior performance (Rosenbusch, 2011). The entrepreneurial orientation of MSMEs plays an important role in improving company performance (Mohutsiwa, 2012). Entrepreneurial orientation consists of a proactive attitude, dare to take risks, aggressive and autonomy can increase product sales and marketing. Entrepreneurial orientation can be strategic when combined with appropriate sources of competitive advantage (Mahmood and Hanafi, 2013). Kiyabo & Isaga (2020), Rezaei & Ortt (2018), Fadda (2018), Real, *et al.* (2014), Sulistyو & Ayuni (2020), and Patmi R., *et al.* (2021) proves that entrepreneurial orientation has an influence on the performance of MSMEs.

**H<sub>2</sub>: Entrepreneurial orientation has a positive effect on business performance**

### **Effect of Market Orientation on Innovation**

Orientation to competitors can be for example that salespeople will try to gather information about competitors and share that information with other functions within the company, for example to the research and product development division or discuss with company leaders how competitive strengths and innovation strategies are being developed (Ferdinand, 2000). The results of previous research studies on the effect of market orientation on MSMEs innovation have also been carried out by; Na *et al.* (2019), Wang & Chung (2013), Jing Zhang & Zhu (2016), and Setiawan *et al.* (2020) proves that market orientation has an influence on MSMEs innovation.

**H<sub>3</sub>: Market orientation has a positive effect on innovation**

### **Effect of Market Orientation on Competitive Advantage**

Market orientation not only makes reference choices real but also makes potential customers. Market orientation is divided into three dimensions, namely customer orientation, market information sharing and coordination between functions within the company, whose

decisions will lead to long-term focus, competitive advantage and increased profits (Esteban, *et al.* 2002). These results indicate that the larger the market-oriented company, the greater the company's competitive advantage. The results of previous research studies on the effect of market orientation on competitive advantage have also been carried out by; Na *et al.* (2019), Udriyah *et al.* (2019), and Osorio Tinoco *et al.* (2020) proves that market orientation has an influence on competitive advantage.

**H4: *Market orientation has a positive effect on competitive advantage***

### **The Effect of Entrepreneurial Orientation on Innovation**

Entrepreneurial orientation fosters a passion for creativity and innovation in developing company products (Zhou *et al.*, 2005). Being proactive in observing market developments and being willing to take risks in trying to produce new goods are the advantages of SMEs in winning the competition. The results of previous research studies on the effect of entrepreneurial orientation on MSMEs innovation have also been carried out by; Makhoulfi *et al.* (2021), Adrie Oktavio *et al.* (2019), Madhoushi *et al.* (2011), Musawa & Ahmad (2019), Iqbal *et al.* (2021), and Sulisty & Ayuni (2020) proves that entrepreneurial orientation has an influence on MSMEs innovation.

**H5: *Entrepreneurial orientation has a positive effect on innovation***

### **The Influence of Entrepreneurial Orientation on Competitive Advantage**

Entrepreneurial orientation shows the company's strategy to achieve competitive advantage (Rauch and Frese, 2009). A proactive attitude responds quickly to market changes and accommodates consumer needs so that the company has a competitive advantage over its competitors. The results of previous research studies on the effect of entrepreneurial orientation on competitive advantage have also been carried out by; Maruta *et al.* (2017), Zeebaree & Siron (2017), Sadalia *et al.* (2020), and Lee & Chu (2011) proves that entrepreneurial orientation has an influence on competitive advantage.

**H6: *Entrepreneurial orientation has a positive effect on competitive advantage***

### **The Influence of Innovation on Competitive Advantage**

Competitive advantage has a broad meaning in market competition. Muscio *et al.* (2013) research results explained not only focus on innovation in the successful food process in Guangxi but also how innovation contributes to enterprise competitiveness. This study provides

some valuable insights into food innovation process activities in Guangxi that have achieved success and are competitive in the open market. Sulisty & Ayuni (2020) empirical study results shows that learning orientation has a positive effect on technical innovation and administrative innovation, technical innovation has a positive effect on competitive advantage, but administrative innovation has no positive effect on competitive advantage. The results of previous research studies on the effect of innovation on competitive advantage have also been carried out by; Udriyah *et al.* (2019), Na *et al.* (2019), Karanja, (2015), Alberto *et al.* (2013), and Ratnawati *et al.*, (2018) proved that innovation has an influence on competitive advantage.

***H7: Innovation has a positive effect on competitive advantage***

### **The Effect of Innovation on Business Performance**

Several studies view the importance of innovation for small businesses (SMEs) as an effort to improve the performance of SMEs. Research conducted by Nybakk (2012) measured the financial performance of SMEs, seen from the direct and indirect influence between learning orientation and firm innovativeness from the aspects of product innovation, process innovation and business system innovation. The results of previous research studies on the influence of MSMEs innovation on MSMEs business performance have also been carried out by; Udriyah *et al.* (2019), Rodriguez & Morant (2016), Hutahayan (2021), Nasser Alyahyaei *et al.* (2020), Kijkasiwat & Phuensane (2020), Sulisty & Ayuni (2020), and Ratnawati *et al.* (2018) proves that innovation has an influence on the business performance of SMEs.

***H8: Innovation has a positive effect on business performance***

### **Influence Competitive Advantage to Business Performance**

MSMEs business performance will be enhanced with competitive advantage through increased profits, increased sales and a large number of customers. According to the research results of Chan *et al.*, (2004), and Majeed (2011), competitive advantage has an influence on company performance. Several indicators have to be created to measure profit including customer loyalty, technology development and product development. Measurement of sales development, customer development, profit development and working capital development are indicators of improving SMEs performance. The results of previous research studies on the effect of competitive advantage on MSMEs business performance have also been carried out by; Udriyah *et al.* (2019), Kiyabo & Isaga (2020), Rua *et al.* (2018), Meutia (2013), and

Sirivanh *et al.* (2014) proves that competitive advantage has an influence on MSMEs business performance.

**H<sub>9</sub>: Competitive advantage influential positive on business performance**

## RESEARCH METHODS

This study uses a quantitative approach and uses Structural Equation Modeling (SEM) data analysis with AMOS 22 software. The sampling method uses probability sampling, with a proportional random sampling technique, which is proportional sampling for each MSMEs with a total of 302 respondents. Data collection used a questionnaire with a Likert scale of 1-5.

### Validity Test

According to Ghazali (2018) the validity test is used to measure the legitimacy or validity of a questionnaire. An instrument or questionnaire is said to be valid if the questions on the instrument or questionnaire are able to reveal something that will be measured by the questionnaire. Table 1 shows that all items from the variables used are valid. It can be seen from the p-value for each valid item which is less than 0.05. Therefore, 51 valid items can be taken and can be used for further tests. It consists of 5 variables namely X<sub>1</sub> (market orientation), X<sub>2</sub> (entrepreneurship orientation), Y<sub>1</sub> (innovation), Y<sub>2</sub> (competitive advantage), and Y<sub>3</sub> (MSMEs business performance) with each indicator having 3 statement items.

Table 1 Test the Validity of the Variable Statement Instrument

Variable	Items	R	p-values	Information
X1 (Market Orientation)	Customer Orientation			
	X1.1.1	0.888	0.000	Valid
	X1.1.2	0.898	0.000	Valid
	X1.1.3	0.915	0.000	Valid
	Competitor Orientation			
	X1.2.1	0.891	0.000	Valid
	X1.2.2	0.901	0.000	Valid
	X1.2.3	0.913	0.000	Valid
	Market Information			
X1.3.1	0.918	0.000	Valid	
X1.3.2	0.913	0.000	Valid	
X1.3.3	0.905	0.000	Valid	
X2 (Entrepreneurial Orientation)	Dare to take risks			
	X2.1.1	0.901	0.000	Valid
	X2.1.2	0.894	0.000	Valid
	X2.1.3	0.901	0.000	Valid
	Proactive			
	X2.2.1	0.895	0.000	Valid
X2.2.2	0.895	0.000	Valid	
X2.2.3	0.894	0.000	Valid	



				Autonomy
	X2.3.1	0.894	0.000	Valid
	X2.3.2	0.894	0.000	Valid
	X2.3.3	0.890	0.000	Valid
				Product Innovation
	Y1.1.1	0.864	0.000	Valid
	Y1.1.2	0.862	0.000	Valid
	Y1.1.3	0.846	0.000	Valid
				Process Innovation
<b>Y1 (Innovation)</b>	Y1.2.1	0.872	0.000	Valid
	Y1.2.2	0.852	0.000	Valid
	Y1.2.3	0.857	0.000	Valid
				Business system network innovation
	Y1.3.1	0.873	0.000	Valid
	Y1.3.2	0.858	0.000	Valid
	Y1.3.3	0.864	0.000	Valid
				Price
	Y2.1.1	0.834	0.000	Valid
	Y2.1.2	0.880	0.000	Valid
	Y2.1.3	0.845	0.000	Valid
				Quality
	Y2.2.1	0.866	0.000	Valid
	Y2.2.2	0.852	0.000	Valid
	Y2.2.3	0.866	0.000	Valid
				Ability in delivery
<b>Y2 (Competitive Advantage)</b>	Y2.3.1	0.843	0.000	Valid
	Y2.3.2	0.838	0.000	Valid
	Y2.3.3	0.855	0.000	Valid
				Product innovation excellence
	Y2.4.1	0.848	0.000	Valid
	Y2.4.2	0.842	0.000	Valid
	Y2.4.3	0.848	0.000	Valid
				Time for the product to reach the market
	Y2.5.1	0.855	0.000	Valid
	Y2.5.2	0.857	0.000	Valid
	Y2.5.3	0.837	0.000	Valid
				Financial performance
	Y3.1.1	0.852	0.000	Valid
	Y3.1.2	0.885	0.000	Valid
	Y3.1.3	0.882	0.000	Valid
				Production Performance
	Y3.2.1	0.896	0.000	Valid
	Y3.2.2	0.879	0.000	Valid
	Y3.2.3	0.883	0.000	Valid
				Marketing Performance
<b>Y3 (MSMEs Business Performance)</b>	Y3.3.1	0.873	0.000	Valid
	Y3.3.2	0.899	0.000	Valid
	Y3.3.3	0.873	0.000	Valid

*Data source: processed by the author*

## Reliability Test

Reliability is an index that shows the extent to which a measuring device can be trusted or relied upon, Usman and Sobari (2013). The reliability test used was Cronbach's Alpha. A

variable can be said to be reliable if it has a reliability coefficient of 0.6 or more, if the value is less than 0.6 it is declared unreliable. The results of the reliability test for all variables are shown in table 2 below:

Table 2 Variable Reliability Test

Variable	Item	Alpha coefficient	Information
X1 (Market Orientation)	9	0.972	Reliable
X2 (Entrepreneurial Orientation)	9	0.969	Reliable
Y1 (Innovation)	9	0.956	Reliable
Y2 (Competitive Advantage)	15	0.973	Reliable
Y3 (MSMEs Business Performance)	9	0.964	Reliable

*Data source: processed by the author*

Based on the table above, it can be seen that each variable and indicator used has a Cronbach Alpha coefficient value greater than 0.6, so the variables in this study are reliable. Once it is known that the statement items used in the questionnaire are valid and the variables used are reliable, then it can proceed to the next research stage.

### Confirmatory Factor Analysis (CFA)

In Table 3 it is known whether the indicators for each variable are able to reflect each of these variables.

Table 3 CFA Results

Variable	Indicator	FL	CR	p-values
X1 (Market Orientation)	Customer Orientation	0.999	-	-
	Competitor Orientation	0.978	23.692	0.000
	Market Information	0.989	24.014	0.000
X2 (Entrepreneurial Orientation)	Dare to Take Risks	1.013	-	-
	Proactive	0.984	22.818	0.000
	Autonomy	0.996	22.386	0.000
Y1 (Innovation)	Product Innovation	1.010	-	-
	Process Innovation	0.979	18.981	0.000
	Business System Network Innovation	1.002	19.197	0.000
Y2 (Competitive Advantage)	Price	0.994	-	-
	Quality	1.017	19.021	0.000
	Ability In Delivery	0.968	18.143	0.000
	Product Innovation Excellence	1.013	18.343	0.000
Y3 (MSMEs Business Performance)	Product Time to Market	1.001	17.713	0.000
	Financial performance	1.009	-	-
	Production Performance	0.985	19.370	0.000
	Marketing Performance	1.002	18.881	0.000

*Data source: processed by the author*

Variable used namely  $X_1$  (market orientation),  $X_2$  (entrepreneurship orientation),  $Y_1$  (innovation),  $Y_2$  (competitive advantage), and  $Y_3$  (MSMEs business performance) indicating

that each indicator reflects the variable used with a p-value of less than 0.05, with a factor loading value greater than 0.5, it can be concluded that indicators can be used and are appropriate in reflecting variables.

### Goodness of Fit

There are several types of measurements to test the fit of the SEM model to the data (Good fit), namely Chi-square, probability of Chi-square, RMSEA, GFI, AGFI, CMIN/DF, TLI, and CFI. The following table shows the results of the fit model test.

Table 4 Goodness of Fit Results

Goodness of Fit	Cut Off Value	Model Results	Information
X <sup>2</sup> – Chi square	Expected small	113.525	Marginal Fit
Sign. Probability	≥ 0.05	0.36	Good Fit
CMIN/DF	≤ 2.00	1.04	Good Fit
GFI	≥ 0.90	0.95	Good Fit
AGFI	≥ 0.90	0.94	Good Fit
TLI	≥ 0.95	0.99	Good Fit
CFI	≥ 0.95	0.99	Good Fit
RMSEA	≤ 0.08	0.01	Good Fit

*Data source: processed by the author*

Based on table 4, 7 methods are used to measure the fit of the model in SEM. There are 6 criteria that are fit from 7 existing criteria. So it can be concluded that this measurement model has a good fit level.

### Model Structure and Hypothesis

Figure 1 Structural Equation Modeling Results

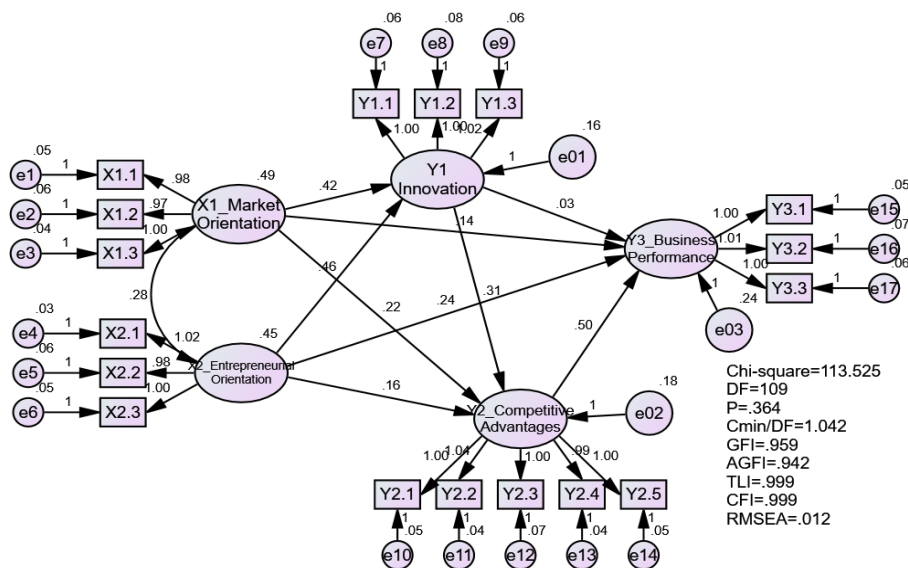


Table 5 Hypothesis Test Results with T-statistics

Influence	Path coefficient	CR	P-values	Information
X1→Y1	0.419	8.544	0.000	Significant
X2→Y1	0.458	8.936	0.000	Significant
X1→Y2	0.206	3.808	0.000	Significant
X2→Y2	0.147	2.615	0.009	Significant
Y1→Y2	0.298	4.354	0.000	Significant
X1→Y3	0.127	2.027	0.043	Significant
X2→Y3	0.220	3.370	0.000	Significant
Y1→Y3	0.032	0.407	0.684	Not significant
Y2→Y3	0.502	6.642	0.000	Significant

Data source: processed by the author

Based on table 5, it shows that market orientation has a positive and significant effect on MSMEs performance, entrepreneurial orientation has a positive and significant effect on MSMEs performance, competitive advantage has a positive and significant effect on MSMEs performance, market orientation has a positive and significant effect on innovation, market orientation has a positive effect and significant to competitive advantage, entrepreneurial orientation has a positive and significant effect on innovation, entrepreneurial orientation has a positive and significant effect on competitive advantage, competitive advantage has a positive and significant effect on innovation, and innovation has not a positive and significant effect on MSMEs performance.

## DISCUSSION

### **Influence Market Orientation to Business Performance**

Variable market orientation has a positive and significant effect on MSMEs business performance with a p-value of  $0.043 < 0.05$ . These results are consistent with the results of previous research studies on the effect of market orientation on the performance of MSMEs that have been carried out by; Fard (2009), Hutahayan (2021), and Udriyah *et al.* (2019) proves that market orientation has an influence on the performance of SMEs.

### **The Effect of Entrepreneurial Orientation on Business Performance**

Variable entrepreneurial orientation has a positive and significant effect on MSMEs business performance with a p-value of  $0.000 < 0.05$ . These results support previous research about the effect of entrepreneurial orientation on the performance of MSMEs that have been carried out by; Kiyabo & Isaga (2020), Rezaei & Ortt (2018), Fadda (2018), Real *et al.* (2014), and Sulistyoy & Ayuni (2020) proves that entrepreneurial orientation has an influence on the performance of MSMEs.

### **Effect of Market Orientation on Innovation**

Variable market orientation has a positive and significant effect on innovation with a p-value of  $0.000 < 0.05$ . This result is in accordance with the results previous research studies on the effect of market orientation on MSMEs innovation that have been carried out by; Na *et al.* (2019), Wang & Chung (2013), Jing Zhang & Zhu (2016), and Setiawan *et al.* (2020) proves that market orientation has an influence on MSMEs innovation.

### **Effect of Market Orientation on Competitive Advantage**

Variable market orientation positive and significant effect on competitive advantage with a p-value of  $0.000 < 0.05$ . The results of this study are in accordance with the results of research studies that have been carried out by; Makhoulfi *et al.* (2021), Adrie Oktavio *et al.* (2019), Madhoushi *et al.* (2011), Musawa & Ahmad (2019), Iqbal *et al.* (2021), and Sulistyoy & Ayuni (2020) proves that entrepreneurial orientation has an influence on MSMEs innovation.

### **The Effect of Entrepreneurial Orientation on Innovation**

Variable entrepreneurial orientation has a positive and significant effect on innovation with a p-value of  $0.000 < 0.05$ . The results of this research study support the results of previous

studies on the influence of entrepreneurial orientation on MSMEs innovation that has been carried out by; Makhloufi *et al.* (2021), Adrie Oktavio *et al.* (2019), Madhoushi *et al.* (2011), Musawa & Ahmad (2019), Iqbal *et al.* (2021), and Sulistyو & Ayuni (2020) proves that entrepreneurial orientation has an influence on MSMEs innovation.

### **The influence of Entrepreneurial Orientation on Competitive Advantage**

Variable entrepreneurial orientation positive and significant effect on competitive advantage with a p-value of  $0.009 < 0.05$ . This is in accordance with the results of previous research studies on the effect of entrepreneurial orientation on competitive advantage that has been carried out by; Maruta *et al.* (2017), Zeebaree & Siron (2017), Sadalia *et al.* (2020), and Lee & Chu (2011) proves that entrepreneurial orientation has an influence on competitive advantage.

### **The Influence of Innovation on Competitive Advantage**

The innovation variable has a positive and significant effect on competitive advantage with a p-value of  $0.000 < 0.05$ . The results of this research study are in accordance with the results of previous research on the effect of entrepreneurial orientation on competitive advantage that has been carried out by; Maruta *et al.* (2017), Zeebaree & Siron (2017), Sadalia *et al.* (2020), and Lee & Chu (2011) proves that entrepreneurial orientation has an influence on competitive advantage.

### **The Effect of Innovation on Business Performance**

The innovation variable has no positive effect on MSMEs business performance with a p-value of  $0.684 > 0.05$ . The results of this study contradict the results of previous research studies regarding the influence of MSME innovation on MSMEs business performance carried out by; Udriyah *et al.* (2019), Rodriguez & Morant (2016), Hutahayan (2021), Nasser Alyahyaei *et al.* (2020), Kijkasiwat & Phuensane (2020), Sulistyو & Ayuni (2020), and Ratnawati *et al.* (2018) proves that innovation has an influence on the business performance of SMEs.

### **Influence Competitive Advantage to Business Performance**

The competitive advantage variable has a positive and significant effect on MSME business performance with a p-value of  $0.000 < 0.05$ . The results of this research study are in

accordance with the results of previous research on the effect of competitive advantage on MSME business performance conducted by; Udriyah *et al.* (2019), Kiyabo & Isaga (2020), Rua *et al.* (2018), Meutia (2013), and Sirivanh *et al.* (2014) proves that competitive advantage has an influence on MSMEs business performance.

## RESEARCH IMPLICATIONS

### Theory Implications

The market orientation studied in this study involves aspects of customer orientation, competitor orientation, and market information carried out by MSMEs centers in Lamongan Regency. The use of business resources, in this case related to information resources, workforce skills, business networks and product quality, is the key to success insofar as the business performance of each MSMEs.

Entrepreneurial orientation is an entrepreneurial attitude carried out by MSMEs centers in Lamongan Regency which refers to processes, practices, decision-making styles and behaviors in organizations consisting of being proactive, taking risks, and being independent in achieving business performance.

The implications of the results of this study for the grand theory of Resource Based View (RBV) are innovation and competitive advantage as the ability of MSMEs originating from the internal environment to support improving business performance. This reinforces the RBV theory that the resources and assets owned by MSMEs can improve business performance which will be followed by market orientation and entrepreneurial orientation.

The implications of the results of this study for the grand theory of Market Based View (MBV) are market orientation and entrepreneurial orientation as MSMEs strategies to respond to markets originating from the external environment, which are also points of success for MSMEs businesses in Lamongan. Market and competitor information that develops in the external environment can become an orientation idea for marketing programs and entrepreneurial orientation which can later have an impact on improving business performance.

### Practical Implications

The results of this study provide practical implications for MSMEs in improving business performance by maximizing their resources. Resources in this case relate to information resources, workforce skills, business networks and product quality. Business

competition is getting tougher in the current era, making MSMEs have to adapt by collaborating with market orientation and entrepreneurial orientation.

The results of this study can provide information to the government and organizations related to MSMEs. In this case, the Office of Cooperatives and Micro Enterprises, the Office of Industry and Trade in Lamongan Regency. In addition, private companies engaged in the craft business sector as well as community organizations that focus on MSMEs development. The information that needs attention is that the role of market orientation and entrepreneurial orientation on MSMEs business performance is very large, but until now it has not been optimal. So that there is a need for support from relevant stakeholders through programs that can accelerate the MSMEs business scale. For example, by providing training and assistance to improve access to capital, production processes and marketing networks which will ultimately have an impact on MSMEs business performance.

#### **LIMITATIONS OF THE RESEARCH**

The limitations in this study can be described as follows:

1. MSMEs that are not included in the center are not sampled, but it is possible to be sampled in further research. This research is also limited to MSMEs in Lamongan Regency, so the results may be different in other areas.
2. The sample used in this study has not been divided based on the criteria for the size of MSMEs in the category of micro, small and medium enterprises.
3. Samples with a business length range of 6-10 years and more than 10 years, the proportion with a difference of 15%. This allows for different research results, discussions and recommendations, if tested separately.

#### **CONCLUSION**

Based on the results of data analysis, it shows that market orientation has a positive and significant effect on MSMEs performance, entrepreneurial orientation has a positive and significant effect on MSMEs performance, competitive advantage has a positive and significant effect on MSMEs performance, market orientation has a positive and significant effect on innovation, market orientation has a positive effect and significant to competitive advantage, entrepreneurial orientation has a positive and significant effect on innovation, entrepreneurial orientation has a positive and significant effect on competitive advantage, and competitive advantage has a positive and significant effect on innovation.



The theoretical implication of this research is to increase knowledge about marketing strategies in the MSMEs sector by integrating market orientation and entrepreneurial orientation to improve business performance. Further research can develop from the results of this study by examining other factors that can affect MSMEs business performance. Future research can also develop in terms of methodology and other research objects, such as using in-depth interviews with business actors or MSMEs outside the Lamongan district, Indonesia. It is hoped that with this different information can be obtained and result in a more in-depth discussion about the marketing strategy and business performance of MSMEs.

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