

## Improving SMEs Marketing Performance through Market Orientation, Product Innovation, and Competitive Advantage in Bali-Indonesia

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### Abstract

During the COVID-19 pandemic, Small and Medium Enterprise (SMEs) as one of the elements driving economic growth had a tremendous impact on business productivity. However, this does not discourage SMI from showing excellent performance and being able to adapt to changes and business competitiveness. This study aims to analyze the role of market orientation as an antecedent in the relationship of product innovation to marketing performance through the competitive advantage of SMIs in Bali Province. This research method is quantitative with a survey approach. The sample size used was 125 samples of SMI managers. The analysis technique in this study uses a structural equation modeling (SEM) approach with the help of SmartPLS 3.2.9 software. The findings show that all the hypothesized variables can be verified.

**Keywords:** Marketing Performance, Product Innovation, Market Orientation, Competitive Advantage

## Meningkatkan Kinerja Pemasaran Industri Kecil Menengah Melalui Orientasi Pasar, Inovasi Produk dan Keunggulan Bersaing di Bali-Indonesia

### Abstrak

Di masa pandemi Covid-19, Industri Kecil dan Menengah (IKM) sebagai salah satu elemen pendorong pertumbuhan ekonomi mendapat dampak yang luar biasa terhadap produktivitas usaha. Namun, hal tersebut tidak menjadikan IKM patah semangat untuk menunjukkan kinerja yang sangat baik dan mampu beradaptasi dalam perubahan dan daya saing bisnisnya. Penelitian ini menganalisis peran orientasi pasar sebagai antededen dalam hubungan inovasi produk terhadap kinerja pemasaran melalui keunggulan bersaing IKM di Provinsi Bali. Metode penelitian ini bersifat kuantitatif dengan pendekatan survei. Ukuran sampel adalah 125 sampel pengelola IKM. Teknik analisis menggunakan pendekatan model persamaan struktural dengan bantuan software SmartPLS 3.2.9 Temuan menunjukkan bahwa semua variabel yang dihipotesiskan dapat dibuktikan kebenarannya.

**Kata kunci:** Kinerja Pemasaran, Inovasi Produk, Orientasi Pasar, Keunggulan Bersaing, Kinerja Pemasaran

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## INTRODUCTION

Competition in the business world is unavoidable, companies are faced with various opportunities and threats both from outside and within the country. Similarly, competition

also occurs in the Small and Medium Enterprise (SMEs) sector. One of the strategies that SMIs can use to win the competition is to innovate products that focus on market orientation to create a sustainable competitive advantage. Market orientation requires innovation, as it is the key to success in increasing business competitiveness (Tavassoli & Bengtsson, 2018) and companies with strong and clear product innovations will have better performance (Chapman & Hyland, 2004). Market orientation strategy is concerned with increasing the introduction of new products to the market and is an important factor that allows companies to understand the market and develop product and service strategies to meet customer needs (Baker & Sinkula, 2009). As also proposed by (Elfahmi & Jatmika, 2019) to focus on external elements that affect performance improvement. Market orientation as the best authoritative culture in making behavior is important for the formation of key incentives for buyers and execution in business.

The difficulty of SMIs in Bali to market their products could certainly affect their marketing performance. Based on our initial survey of five SMEs in Bali, it appears that increasingly fierce competition pressures in the midst of the COVID-19 pandemic have resulted in a decline in business marketing performance. This decline in performance has not only been caused by external environmental factors, but also internal factors such as SMEs having difficulty innovating and having creativity, being unable to compete with big entrepreneurs, and difficulties in marketing products (Pramono et al., 2021). The constraints mentioned above certainly greatly affect marketing performance. Marketing performance refers to a company's ability to satisfy and retain its customers by offering innovative quality products (Al-Zyadaat et al., 2012). Moreover, when a company succeeds in meeting market demand by providing unique products that are difficult to imitate, it could increase superior performance (Isogawa et al., 2012).

Marketing performance is a measure of the success of a company that is measured in a predetermined period as the value of activities that have been compiled and implemented to determine whether the strategies that have been formulated and implemented are correct or vice versa (Kaleka & Morgan, 2017). Furthermore Dewi & Putri Ekawati (2017) also revealed that marketing performance is a concept for measuring a company's marketing achievements of a company. Every company has an interest in knowing its achievements as a reflection of the success of its business in market competition, which illustrates the results of implementing the company's strategy, including customer satisfaction, new product success, increased sales, and company profitability. Business competition is so tight that it requires companies to further improve their company's marketing performance,

Companies that develop product innovations will be able to create superior value for their customers while achieving superior performance sustainability. Product innovation has the potential to provide companies with a significant competitive advantage (Abdu & Jibir, 2018; Karabulut, 2015; Rajapathirana & Hui, 2018). Quaye & Mensah (2019) found that product and packaging design innovation, promotion innovation, retail innovation, and price innovation provide a sustainable market advantage for SMEs. The principle of competitive advantage is the ability of top management to understand the process of how SMIs are managed and transformed into the main ability for companies to create and master

opportunities (Qiu et al., 2020). Especially when an organization acquires equipment and resources that could outperform its competitors by offering more value to its customers (Ionescu & Dumitru, 2015; Huang et al., 2012). Singh & Kota, (2017) find that family businesses are more innovative than non-family businesses. It was also discovered that in family businesses, younger firms were more innovative than older firms. Monteiro et al., (2019) that entrepreneurial orientation has a positive and significant effect on differentiation and export performance. In addition, the results also highlight the role of intangible resources (IR) in the design of differentiation and cost leadership strategies, which drive export performance.

Pramuki & Kusumawati (2021) in his research found that competitive advantage has a positive and significant effect on marketing performance. This study, is also supported by Dhameria et al., (2021); Winarso et al., (2020) and Hidayatullah et al., (2019). This means that if there is an increase in competitive advantage, marketing performance will also increase, and vice versa. Yasa et al., (2020) discovered that competitive advantage partially mediates the relationship between marketing ability and performance. Distanont & Khongmalai (2020) in their research stated that product innovation affects competitive advantage and marketing performance, which is part of the company's innovation strategy on marketing performance. Differentiation advantage also partially mediates the effect of product innovation on marketing performance, while Basuki & Widyanti, (2014) in their research discovered that competitive advantage strategy is a moderating variable in supporting the application of product innovation to improve marketing performance. Different results were found by Setyawati, Abrilia, (2013) that there is an insignificant relationship between competitive advantage and marketing performance.

Based on the problems experienced by SMEs in Bali and previous research gaps, in general, it can be explained that the effect of market orientation, product innovation and competitive advantage on marketing performance is still a debate. One of the strategies that can be applied to improve marketing performance is to build a competitive advantage. Product innovation has a significant impact on competitive advantage; additionally, product innovation is influenced by market orientation and as a result as an antecedent to marketing performance. Increased product innovation could have a competitive advantage, so it has the potential to improve marketing performance. The research conceptual framework can be presented in Figure 1.

A market-oriented company is a company that makes customers and competitors a mecca for the company to run its business. Companies with high market orientation have consequences for high company performance. This is because companies with high market orientation strive to provide higher customer value than competitors' offerings. This high customer value has an impact on increasing customer satisfaction which in turn can improve company performance. Including in the form of company performance to innovate products or services as well as innovation in terms of marketing strategies (Djamaris & Anitawati, 2018; Pinaringsih, 2015). In view of past hypotheses and exploration, the theories that could be advanced are:

**H1.** Market orientation has a positive effect on product innovation.

Alegre et al., (2006) expressed that item development is a cycle that incorporates specialized plan, R&D, assembling, the executives, and business exercises that are associated with the advertising of new (or improved) items. This movement is identified with its promoting procedure, where the showcasing technique that the organization expects is the way to build the quantity of item deals as per the objective (Nasir, 2017).

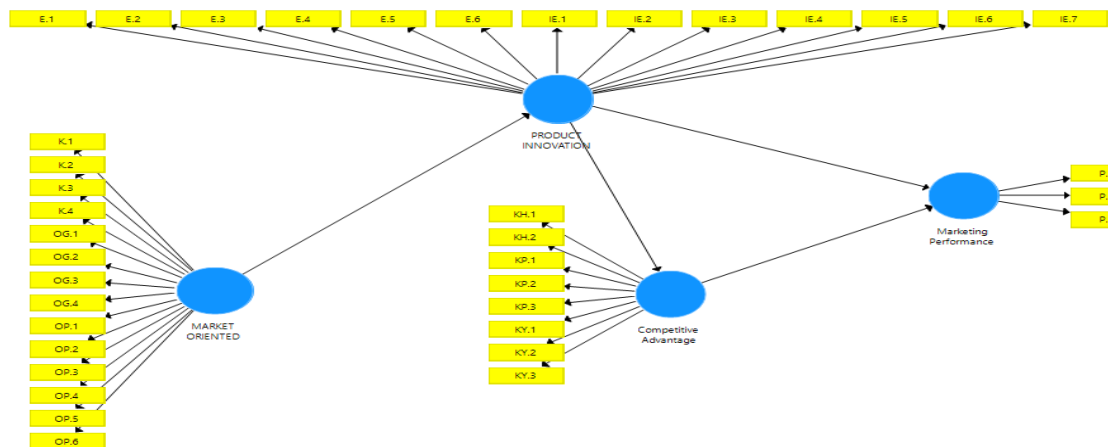


Figure 1. Research Concept Framework

The strategy made by the company is directed to produce performance, especially marketing performance. For small and medium-sized companies, product innovation is important for business continuity in a sustainable manner. Nasir (2017), by using 38 furniture companies in Pasuruan Regency found evidence that product innovation affects marketing performance, therefore the company is emphasized to maintain product quality that consumers have trusted. The better the marketing performance shows success in facing competition. The results showed that product innovation through the creation of new supporting products was able to increase marketing performance. In view of past hypotheses and exploration, the theories that could be advanced are:

**H2.** Product innovation has a positive and significant effect on marketing performance.

Kaleka & Morgan, (2017) clarify that the upper hand concerns the client impression of the organization contributions in specific business sectors against its rivals. Organizations with offers that accomplish the upper hand involve the best situation in client discernments, as predominant worth makers, at that point this would then be able to be considered as a sign of the chance of clients purchasing offers from the organization, accordingly, straightforwardly adding to improving the organization's market execution.

Ayuningrum & Pangestuti, (2018) have demonstrated that manageable upper hand result in advancement. The innovation process is important as it could lead to a competitive advantage. The more innovative the product, the higher the value delivered to customers. Moreover, the diversification level is higher as well. Therefore, the larger the innovation capacity of an organization, the higher the competitive advantage. According, a hypothesis is proposed as follows:

**H3.** Product innovation has a positive and significant effect on competitive advantage.

Besides, Hajar & Sukaatmadja, (2016) investigated an example of 105 limited-scope attire retail locations in Denpasar City as stores and acquired proof that maintainable upper hand can improve showcasing execution. Azizah & Maftukhah (2017) and Merakati & Wahyono, (2017) additionally discover proof that the upper hand is compelling positive and important to advertising execution. In light of past hypotheses and exploration, the speculations that can be advanced are:

**H4.** Competitive advantage has a positive and significant effect on marketing performance.

## **METHOD**

This research is categorized as research using quantitative methods. The population in this study was 464 SMEs managers in the Province of Bali. Bali Province was chosen because Bali is the center of Indonesian tourism destinations, so it justified that the level of economic activity is so high, and the products sold already have a brand name as a tourism icon. By random sampling using the Slovin method with an error threshold of 5%, the number of samples was determined to be 215 SMEs managers in the Province of Bali.

This study used a survey research design by giving questionnaires and direct interviews to the manager as well as the owner of the SMEs. The questionnaire in this study includes 38 statements. Market orientation consists of 14 statements with three dimensions, namely customer orientation, competitor orientation, and inter-functional coordination (Lukas & Ferrell, 2000). Product innovation consists of 13 statements with two dimensions, namely efficacy, and efficiency (Alegre et al., 2006). The competitive advantage consists of 8 statements with three dimensions, namely price advantage, product superiority, and service excellence (Kaleka & Morgan, 2017). Marketing performance consists of 3 statements with three indicators, namely competitor sales growth, market share growth, and industrial sales growth (Kaleka & Morgan, 2017). All items were scored on a 5-point scale from 1 = strongly disagree to 5 = strongly agree.

Data processing for hypothesis testing was carried out using PLS-SEM analysis using the SmartPLS V.3 software. In the PLS-SEM analysis, there types of estimates are obtained from three data iteration processes, the first through testing the outer model to produce a weight estimate, the second through testing the inner model to produce a path estimate, and the third through data interpretation to produce means and constants. Descriptive analysis is used to determine the description of the perceptions of each SMEs manager regarding marketing performance.

## **FINDING AND DISCUSSION**

Data collection was carried out by distributing questionnaires which were distributed directly to respondents. A total of 250 questionnaires were distributed. Of these, 196 questionnaires were returned and completed so that they deserve to be processed further. Based on age characteristics, most of them are aged 31 to 40 years as much as 64%. As many as 53% of respondents are male based on gender, 78% have a high school / vocational

education level and based on the business that has been run it can be seen that most of them have a length of between 5-10 years as much as 54%.

Table 1 description of the analysis of each variable shows a description of the assessment that can be seen from the frequency distribution of respondents on variable statements that are answered with the following criteria: 1) Score 1.00-1.80 is considered very bad / strongly disagree/very low 2) Score of 1.81-2.60 is considered not good/disagree, low, 3) Score of 2.61-3.40 is considered quite good/fairly agree/high enough, 4) Score of 3.41-4, 20 is considered good /agree/high and 5) Score 4.21-5.00 rated very good/strongly agree/very high. According to the frequency distribution of respondents' responses to the statements of the variable studied; it can be concluded that all variables are rated quite high by the respondents.

Table 1. *Variable Description*

Variable	Score	Note
Product Innovation	3.20	High Enough
Market Orientation	3.30	High Enough
Competitive Advantage	3.27	High Enough
Marketing Performance	3.16	High Enough

We perform various forms of testing related to the psychometric properties of the measurement model. The instruments used in this study were assessed from convergent validity, reliability and discriminant validity. First, confirmatory factor analysis (CFA) was performed for all latent variables in the structural model. The results of the CFA test in Table 2 show good convergent validity, this is indicated by all indicators having an outer loading above 0.60 and a minimum AVE value of 0.50 and a minimum Cronbach alpha ( $\alpha$ ) value of 0.60 as suggested and a value of (Hair et al., 2014).

Convergent validity was assessed by testing the significant factor loading on each construct. Discriminant validity was tested by testing the correlation of factors and whether the square root of the extracted mean-variance (AVE) for each construct was greater than its correlation with other factors (Ghozali, 2021). Table 3 presents sufficient evidence of discriminant validity of the constructs where the correlation between all constructs shows that the square root of the AVE of each construct is greater than the correlation between the constructs and all other constructs.

Besides, an assessment of the inward model is an estimation technique to assess the degree of precision of the model in the investigation overall, which is framed through a few factors alongside their markers. In assessing this primary model, it will be brought out through the R-Square (R<sup>2</sup>) approach. R-Square (R<sup>2</sup>) can show the strength and shortcoming of the impact brought about by the needy variable on the autonomous variable. R-Square (R<sup>2</sup>) can likewise show the strength and shortcomings of an examination model.

In light of Table 4, it very well may be clarified that the estimation of the R Square Variable Product advancement (X) is 0.264, which implies that 26.4% of the variety in item development can be clarified by market direction. As a forerunner the excess 73.6% is affected by different factors outside the model. R Square Variable Competitive benefit (M)

is 0.701, which implies that 70.1% of the variety in the upper hand can be clarified by item advancement (X1). While the leftover 29.9% is affected by different factors outside the model. The R Square Value of the Marketing Performance Variable is 0.611, which implies that 61.1% of the variety in advertising execution can be clarified by market direction as a forerunner, item development, and upper hand, while the excess 38.9% is affected by different factors outside the model.

Table 2. *Factor Loading and Conbrach Alpha*

Variables	Indicator	Factor Loading	Conbrach Alpha
Product Innovation	E.1	0.711	0.859
	E.3	0.712	
	E.4	0.696	
	E.5	0.734	
	E.6	0.776	
	IE.1	0.671	
	IE.5	0.696	
Market Orientation	IE.7	0.681	0.789
	K.1	0.839	
	K.2	0.661	
	K.4	0.757	
	OG. 3	0.688	
	OP.1	0.627	
	OP.6	0.773	
Competitive Advantage	P.2	0.753	0.776
	KH. 1	0.750	
	KH. 2	0.703	
	KP. 3	0.817	
Marketing Performance	KY. 2	0.857	0.822
	P.1	0.911	
	P.2	0.753	

Table 3. *Analysis of Correlation*

Variable	AVE	CR	Product Innovation	Competitive Advantage	Marketing Performance	Market Orientation
Product Innovation	0.504	0.890	<b>(0.710)</b>			
Competitive Advantage	0.615	0.864	0.637	<b>(0.784)</b>		
Marketing Performance	0.699	0.822	0.361	0.736	<b>(0.836)</b>	
Market Orientation	0.529	0.870	0.514	0.393	0.362	<b>(0.728)</b>

Table 4. *The value of R square*

	R Square
Product Innovation	0.264
Competitive Advantage	0.701
Marketing Performance	0.611

**Hypothesis testing**

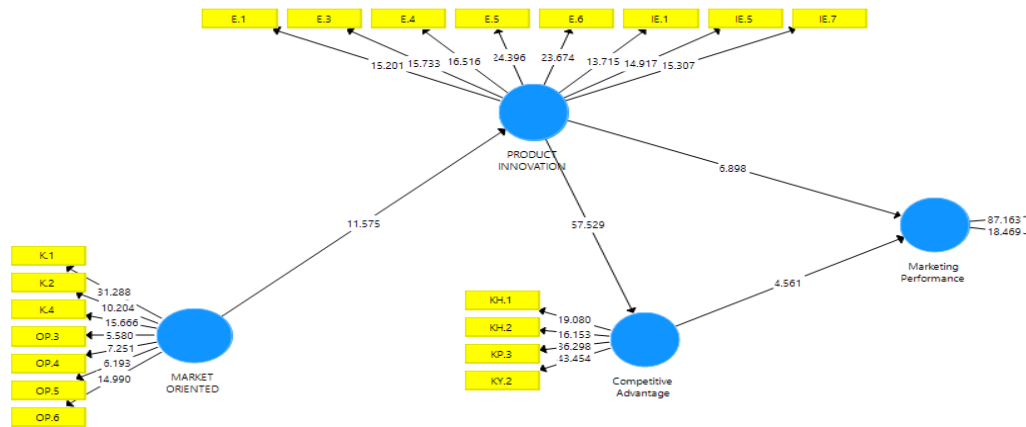


Figure 2. Path Analysis Results (after bootstrapping)

Table 5. *Hypothesis Test Results*

Relations Between Variables	Original Sample (O)	T Statistics	P Values	Information
H1: Market Orientation -> Product Innovation	0.514	9.609	0.000	Significant
H2: Product Innovation -> Marketing Performance	0.484	6.463	0.000	Significant
H3: Product Innovation -> Competitive Advantage	0.837	52.786	0.000	Significant
H4: Competitive Advantage -> Marketing Performance	0.331	4.272	0.000	Significant

**The Influence of Market Orientation on Product Innovation.**

It is found that the coefficient value is equal to positive 0.514 and the relationship is significant, it is proven that market orientation has an effect positive and its significant relationship to product innovation in the SMEs manager in the Province of Bali. Increasingly market orientation through orientation of customer, competitor orientation and coordination between functions will also increase the product innovation strategy carried out by SMEs managers through creating new assessments, new ideas, and offering innovative products and performance improvement services that satisfies customers.

As Narver & Slater, (1990) stated that competitor orientation means that the company understands the short-term strengths, weaknesses, long-term capabilities, and strategies of its potential competitors. This understanding includes whether competitors are using new



technology to retain existing customers. Competitor-oriented companies are often seen as companies that have a strategy and understand how to acquire and give information about competitors, how to respond to competitors' actions, and also how top management responds to competitors' strategies. Along with an understanding of competitors' business strategies, companies that are oriented towards competitors tend to be more active in making product innovations.

The results of this study reinforce the findings of Asashi & Sukaatmadja, (2017) succeeded in proving that market orientation is a predictor of product innovation. Market orientation is the tendency of companies to meet consumer needs and desires to gain a competitive advantage, where a market orientation has three dimensions, namely customer orientation, competitor orientation, and inter-functional coordination.

### **Effect of Product Innovation on Marketing Performance.**

It is found that the coefficient value is equal to positive 0.484 and the relationship is significant. The results of this research have successfully proven the hypothesis that there is a positive and significant effect of product innovation on the marketing performance of SMEs in the Province of Bali. This means that the increasing number of SMEs managers innovate their products through the ease of innovation and efficient processing of their products, then they can significantly increase their marketing performance, which is reflected through the growth in sales of competitors and growth in market share. The magnitude of the influence of the innovation variable shows that SMEs managers want innovation in products, so they tend to assess product innovation as in the good category. SMEs managers feel the need to develop or expand their products to meet consumer needs while still paying attention to consumer tastes or desires so that products that have been sold in the market can be developed again which will have an impact on increasing market share.

The results of this study reinforce the findings of Ayuningrum & Pangestuti, (2018) that the company's ability to continue to innovate its products will keep these products following customer wants and needs. Product innovation is to meet market demand so that product innovation can be used as a competitive advantage for the company.

### **The Effect of Product Innovation on Competitive Advantage**

It is found that the coefficient value is equal to positive 0.837 and the relationship is significant it is proven that product innovation affects positively and its significant relationship to product competitiveness. This means that the increasing number of SMEs managers to innovate their products through the ease of innovation and efficient processing of their products will automatically increase competitiveness as reflected by product excellence, price advantage, and service excellence. That innovation is a corporate mechanism to adapt to a dynamic environment. Therefore, companies are required to be able to create new assessments, and new ideas and offer innovative products and performance improvements service that satisfies customers.

These findings support the concept of RBV theory that in a completely uncertain environment, and the level of competition is higher, the competitive advantage of business organizations becomes shorter and difficult to maintain. Facing this situation, a strategy is needed to maintain a competitive advantage sustainably. One of the efforts that can be done, is through technological capabilities and dynamic abilities in managing the resources owned to produce an idea so that the products offered can survive through product innovation. Empirically, these findings are in line with (Pattipeilohy, (2018) and Nasir, (2017) who stated that competitive advantage can be increased if companies sustainably innovate products.

### **Effect of Competitive Advantage on Marketing Performance**

It is found that the coefficient value is equal to positive 0.331 and the relationship is significant. The results of the study have successfully proven the hypothesis that there is a positive and significant effect of competitive advantage on marketing performance at SMEs in the Province of Bali. This means that the increasing competitiveness is reflected by price advantages, product advantages, and service excellence life can improve the marketing performance of SMEs in the Province of Bali which is reflected by sales growth and growth in market share. Competitive advantage grows from the values or benefits created by the company for the buyers. Customers generally prefer to buy products that have more value than what they want or expect. However, this value will also be compared with the price offered. Product purchases will occur if the customer considers the price of the product following the value it offers. Thus, SMEs that can create competitive advantages can have the strength to compete with other SMEs because their products are still in demand by customers. SMEs that can create the next competitive advantage have the strength to compete with other companies because their products are still in demand by customers. Thus, a competitive advantage has a positive influence on increasing the company's marketing performance.

The result of the research reinforces the findings of merakati & wahyono, (2017)) and azizah & maftukhah, (2017) who discovered a positive influence between competitive advantage and performance as measured through sales volume, profitability, market share, and return on investment. Competitive advantage can be obtained from the company's ability to manage and utilize its resources and capital. Companies that can create competitive advantages can have the power to compete with other companies because their products can have the power to compete with other companies because their products are still in demand by customers. Thus, a competitive advantage has a positive influence on increasing the company's marketing performance.

### **CONCLUSION**

This study aims to determine whether product innovation, competitive advantage, and market orientation affect the marketing performance of SMIs in Bali Province. Based on the results of the research in the previous discussion, it can be concluded that the marketing performance of the SMIs managers in the Province of Bali can be improved with the role of

product innovation which is reflected by creating new assessments, new ideas, and offering innovative products and performance improvements service which satisfies customers.

The marketing performance of SMIs managers in the Province of Bali can also be enhanced by the role of a competitive advantage which is reflected by price advantages, product advantages, and service excellence. Competitive advantage for SMIs managers in the Province of Bali can also be directly enhanced by the strategic role innovation product and subsequent roles strategy product innovation can be enhanced by the role of market orientation as an antecedent reflected by orientation customer, competitor orientation, and coordination between functions.

This research contributes to strategic marketing in the following ways. First, this study shows that customer involvement could lead to innovation performance. Second, market orientation plays a significant role in developing long-term relationships with customers. Practically, this paper could be a guideline for SMI's managers with regards to how market orientation could lead to innovation. Managers could create a new unique product that is relevant to the market. Product uniqueness and product quality could enhance competitiveness and subsequently improve marketing performance. The government should also provide some supports for SMI in several programs including training on managerial competences as well as on how to enter national and international markets. New ideas and creativity could arise if all stakeholders could work together.

This study has limitations because there are still partial and incomplete questionnaires indicator-indicators that must be issued in preparing the reconstruction of the marketing performance model for SMIs managers in the Province of Bali. Understandably, this research took place during the COVID-19 pandemic, when respondents might not focus on providing. The answers to the questionnaire questions were caused by the existence of a "social distancing" policy to break the chain of the spread of Covid-19. Further research can be suggested to consider the questionnaire distribution model indirectly via email or social media based on the Google form application so that respondents become more focused.

To strengthen the marketing performance research model, further research can be suggested to use other variables such as the role of the marketing competition environment because due to less economic contact in the COVID-19 pandemic, inevitably SMIs managers use digital-based marketing platforms to improve their marketing performance.

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