

## The Influence of Market Orientation on Competitive Advantage and Business Performance

Muhammad Aufal Fresky<sup>1</sup>, Zainul Arifin<sup>2</sup>, Yusri Abdillah<sup>3</sup>

<sup>1</sup>Student of Masters Faculty of Administrative Sciences, University of Brawijaya, Malang

<sup>2</sup>Master of Business Administration Faculty of Administrative Sciences, University of Brawijaya, Malang

<sup>3</sup>Master of Business Administration Faculty of Administrative Sciences, University of Brawijaya, Malang

### Abstract

This research aims to examine the influence of Market Orientation (OP) and Competitive Advantage (CA) on Business Performance (BP) through Batik Micro and Small Enterprises in Klampar Village. This research aims to help Micro and Small Batik Enterprises in Klampar Village apply research results to improve market orientation excellence and competitive advantage in all market conditions. The research method used is quantitative. This research was conducted on Batik Micro and Small Businesses in Klampar Village, Pamekasan Regency, with a research sample of 60 Micro and Small Business Owners using non-probability sampling techniques with a census (saturated) sampling approach. Data were analyzed using PLS (Partial Least Square). The results showed that four hypotheses were rejected, three had a significant impact, and hypothesis one had an insignificant impact.: Market Orientation has a significant effect on Competitive Advantage, Market Orientation has an insignificant effect on Business Performance, Competitive Advantage has a significant effect on the Performance of Micro and Small Batik Businesses, and Market Orientation has an indirect impact on Business Performance through Competitive Advantage.

**Keywords:** market orientation orientation, competitive advantage, business performance, MSMEs

### INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have an important role in a country's development and economic growth in developing and developed countries. Apart from that, it also contributes to gross domestic product [1]. MSMEs also play a role in absorbing employment, creating income, and driving the community's economy.

Revealed that the role of MSMEs in the Indonesian economy has been recognized by the wider community [2]. Regions with a strong network of MSMEs will succeed in the domestic and global markets. MSMEs are considered quite dominant as the backbone of the national economy.

MSMEs, as a whole, have experienced good development and growth over the years. For example, in 2012, the total number of MSME units was 52,769,426. Then, in the latest news, that number reached 63 million.

The following is data on the development of MSMEs in Indonesia based on the number of

units and total GDP from 2012 to 2019. The MSMEs sector makes a concrete contribution to national economic growth. One part of the MSMEs sector is the creative industry, which includes the batik industry. Batik is also considered to have many roles in the lives of Indonesian people, not only as everyday clothing but also as clothing for important ritual events.

Based on information from the Ministry of Industry's Center for Crafts and Batik (BBKB), there are approximately 3,159 registered batik business units throughout Indonesia. Of this number, large and medium-scale batik businesses numbered 208, and small and medium-scale batik businesses totaled 2,951 units. If we assume further, the number of small-scale batik businesses is 1,794 units, the largest compared to other business groups. Then, the private company class has 815 units, and the medium business class has 342 units.

Based on the data collection results by the Pamekasan UKM Cooperative and Naker Service in 2022 in the Pamekasan Regency, there are as many as 47,000 MSME actors. The Pamekasan Regency Government's Department of Investment, One-Stop Integrated Services and Manpower (DPMPSTP-Naker) noted that the

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Correspondence address:

**Muhammad Aufal Fresky**

Email : aufalfresky@student.ub.ac.id

Address : Jl. MT. Haryono 169 Malang, 65145

sales turnover of hand-written batik in Pamekasan in 2020 reached IDR 1.5 billion.

Pamekasan has a famous batik center with many batik MSMEs and batik craftsmen, namely in Klampar Village. Argue that Klampar Village is the area with the largest focus on the written batik industry, whose development is strongly influenced by social aspects. [3]

However, this sector is also not free from various problems. One of them is a problem in the marketing sector. MSME problems in the marketing sector center on competition and product problems [4], problems with access to market information, and institutional problems that support MSMEs. [5]

Small business failure can be caused by several things, namely management incompetence, lack of experience, weak financial control, failure to develop strategic planning, uncontrolled growth, and poor business location. The level of competition in the business world requires that every MSME, especially batik MSMEs in Klampar Village, can carry out their marketing activities more effectively and efficiently. [6]

MSMEs develop not only based on production capabilities but also on the market mechanisms that occur. This market orientation practice for MSMEs pays attention to the interests and needs of consumers. However, market orientation has not yet become a business culture interacting with most MSMEs, including batik MSMEs in Klampar Village. Even though it is a major problem for the sustainability of a fiercely competitive environment, to win the competition, MSMEs can apply market orientation.

Apart from that, several previous studies have examined the influence of competitive advantage on business performance. Research [7]; [8] competitive advantage significantly affects business performance. Competitive advantage and company performance are two variables that have a complex relationship.

States that market orientation has a significant positive influence on company performance. His research revealed that the more market-oriented a company is in formulating or making its products, the more it will improve company performance [9]. On the other hand, the research results reveal the opposite: there is no relationship or influence of market orientation on company performance.

Stated that competitive advantage is the heart of company performance. This means

companies with competitive advantages can improve performance [10]. Company performance can be achieved if driven by the spirit of developing a superior competitive position in the market. [11]

Competitive advantage is an important dimension in surviving high levels of business competition and is at the heart of company performance [12]. Research conducted by [13], [14], Campbell, and Park (2017) found that competitive advantage has a positive effect on business performance. The greater the competitive advantage a company obtains, the higher the increase in business performance [15]. This means that if a company has a competitive advantage, it will improve company performance. Research results from Talaja Teguh and Devie also show that competitive advantage significantly affects business performance [16].

Furthermore, the research results showed the opposite results. Namely, competitive advantage does not affect the performance of MSMEs. The research also revealed that competitive advantage does not mediate the influence of entrepreneurial orientation on business performance.

Based on several previous research results, it can be stated that market orientation can influence company performance. The inconsistent results from previous findings motivated researchers to re-examine the influence of market orientation on company performance by considering the mediating role of competitive advantage. It is very possible to create research results that are not the same as past scientists' explorations. This is due to differences in circumstances, financial conditions, attributes, and various social qualities of the inspection objects. Therefore, this research aims to test and analyze the influence of market orientation on business performance both directly and indirectly through competitive advantage, as well as test and analyze the influence of competitive advantage on business performance in batik MSMEs in Klampar Village.

## **MATERIAL**

Market Orientation Concept. Market orientation is a company's ability to study customers, competitors, and environmental forces to understand the market continuously and take action in prospective and bright markets. Furthermore, describes market orientation as the degree to which a business

unit obtains and uses information from customers, develops a strategy that finds customer needs, and implements the strategy by listening to customer needs and shortcomings. Market orientation aims to obtain information about customers and competitors in the target market to create new products that meet customer needs. [17]

Market orientation is the most effective organizational culture in creating important behavior to create superior value for buyers and performance in business. Market orientation in this research measure includes customer orientation, competitor orientation, and inter-functional coordination. Customer and competitor orientation includes all activities to access information about customers and competitors in the target market and disseminate it throughout the business (organization). International coordination is based on customer and competitor information. [18]

**Competitive Advantage Concept.** Competitive advantage is the goal of strategic thinking and the main focus in achieving business success. Competitive advantage is a benefit strategy for companies collaborating to create a more effective advantage over their competitors in the market [19]. Competitive advantage is anything a company can do much better than rival companies [20]. When a company can do something competitors cannot, this represents a competitive advantage. To achieve a competitive advantage, a company must offer more value to its products than competitors, providing more buyer benefits [21].

**Business Performance Concept.** Business performance is used as a measure of success in a certain period and can also be used as input for improving or increasing business performance in the future (Westhead et al., 2001). Apart from being a reflection of the success or failure of a company, business performance can also describe the results achieved by the company from a series of work functions or activities within a certain period [22]. Business success is a description of the level of achievement of an activity program or policy in realizing organizational priorities, targets, vision, and objectives as outlined in an organization's strategic planning [23]. Another opinion regarding business performance is that business performance is the level of achievement or results that a company has achieved and usually takes the form of a positive result. Company

performance is related to realizing the vision of what is aimed at and what must be achieved by the company [24].

### **Hypothesis**

Market Orientation and Competitive Advantage. An organization can be considered to have a competitive advantage if the strategy used by the organization is impossible for its competitors to imitate or if they are forced to incur high costs. The results of research conducted prove that market orientation has a positive influence on competitive advantage [25]. Companies that implement market orientation have advantages in terms of customer knowledge, and this advantage can be used as a source for creating products that suit customers' wants and needs. The relationship between market orientation and competitive advantage has also been studied [26]. The research results of Safarnia show a significant relationship between all the independent variables studied and each dependent variable. In general, it can be said that market orientation significantly influences competitive advantage. Thus, this research proposes a hypothesis:

H1: Market orientation has a positive effect on competitive advantage.

Competitive Advantage and Business Performance. Competitive advantage refers to the special capabilities a company does not have/are better than competitors. Competitive advantage is like the heart of a company's performance [13]. Many studies have proven a significant relationship between competitive advantage and company performance. Research shows that competitive advantage, as measured by the ability to minimize production costs, market exploration ability, and ability to win competition, can be a driving factor in having a superior position in the market, which ultimately positively impacts company performance [7]. The results of research conducted [16]; [8]; Ferreira and Fernandes show that competitive advantage can improve business performance [11]. Competitive advantage is very important in achieving company performance. The superior the company's position in the market compared to its competitors, the higher its performance will be [24]. Other research conducted also shows that competitive advantage has a positive and important influence on the success of MSMEs, so the hypothesis proposed in this research is:

H2: Competitive advantage has a positive effect on business performance.

Market Orientation and Business Performance. Explain that market orientation is a set of cultures. This means that market orientation is the most effective and efficient business culture to increase superior value for the company so that it can lead the company to superior performance [18]. In their research on MSMEs in South Kalimantan, Zainul revealed that market orientation has a positive and significant effect on the performance of MSMEs in South Kalimantan [27]. Conducted research on garment business owners at Tanah Abang Market, Central Jakarta. The result is that market orientation positively affects the performance of MSMEs in the garment manufacturing sector. The results prove a positive and significant influence between market orientation and the performance of small businesses engaged in retail services. Based on this description, the research hypothesis is prepared as follows:

H3: Market orientation has a direct effect on business performance.

Market Orientation, Competitive Advantage, and Business Performance. The contribution of market orientation to company performance, researchers recognize the importance of examining the relationship between market orientation and competitive advantage [18] in developing and strengthening corporate strategy. The research was conducted on market orientation and company performance through competitive advantage. The results of his research show that market orientation on company performance, which is mediated by competitive advantage, has a positive effect. Therefore, it is necessary to test whether the role of competitive advantage can act as a mediator. Based on the mediation results on the influence of market orientation on business performance, formulating the following hypothesis:

H4: Market orientation indirectly affects business performance through competitive advantage.

Framework. Guided by the background and literature review, both theoretically and empirically relevant to this research, the framework of thought developed and tested in

this research is shown in Figure 1 below.

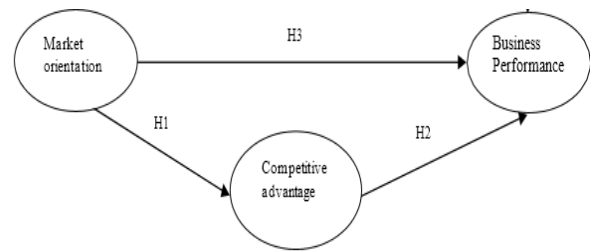


Figure 1: Framework

## METHOD

Research Approach. This research uses a quantitative approach analyzed using the PLS (Partial Least Square) method, intended to describe, confirm, and prove the hypothesis of the observed phenomenon. Based on its objectives, this type of research is explanatory. Explanatory research is research that aims to obtain an explanation of the relationship or cause and effect between existing variables through hypothesis testing [29].

Population and Sample. The population in this research is all Micro, Small, and Medium Enterprises (MSMEs) in Klampar Village that produce and sell batik craft products, namely 100 MSMEs. The sampling method in this research is using non-probability sampling techniques. The technique by which the researcher will select the sample. This sampling method is also intentional; here, the sample will lose the opportunity to become a research sample.

Regarding using PLS as an analytical test, the rule of thumb for the required sample size is that it can be a large or small sample (as low as 30 or even less than 30 samples) [9]. Thus, the sample size of 60 business units has met the criteria for using Partial Least Square (PLS) analysis. Meanwhile, those who were used as respondents were owners/managers of batik micro and small businesses (UMK) in Klampar Village because of their ability to know the existence and business activities carried out thoroughly so they could answer the research instruments related to this research.

Data Collection Procedures. This research uses primary data obtained directly from respondents. Primary data was collected by distributing questionnaires to owners/managers of micro and small batik businesses in Klampar Village. The researcher went directly to the respondents' locations and distributed the questionnaire via Google Forms. Next, they were

asked to complete a questionnaire, which was guided directly by filling in the questionnaire and collecting it at that time. The total number of respondents who participated in the research was 60 people. The survey and data collection were conducted from October 2023 to November 2023.

**Research and Measurement Instruments.** The instrument measurement technique in this research uses a 5-point interval Likert Scale with a range of values ranging from 1, which indicates a statement of strongly disagree, to 5, which indicates a statement of strongly agree. With a Likert Scale, the variables to be measured are translated into variable indicators. Then, these indicators are used as guidelines for compiling instrument items in the form of questions/statements. Researchers adopted question items/statements from previous research. The validity and reliability tests of the research instruments were evaluated using convergent and discriminant validity. An indicator is valid if the outer loading coefficient is > 0.50 [30]. Reliability testing is carried out through the AVE value (> 0.50), composite reliability value, and Cronbach alpha value > 0.70 [30].

**RESULT AND DISCUSSION**

**Characteristics of Research Respondents.** Based on the results of research conducted on 60 respondents, information can be obtained that there are 40 male respondents and 20 female respondents. Judging from the age category of respondents, the majority of respondents in this study were aged 21-30 years. From the respondents' background, it is known that most respondents have SMA/SMK education, namely 35 people. Most respondents have been in the batik business for 5 - 10 years. In terms of workforce, it is known that all respondents have a workforce of <20 people. Referring to the definition of MSMEs published by BPS, businesses that have a workforce of 1-4 are classified as micro-businesses, and those that have a workforce of 5-19 are classified as small businesses. Thus, all respondents in this study are included in micro and small businesses based on this definition.

**Validity and Reliability Test Results.** The results of the validity and reliability tests show that the instruments or statement items for all variables in this study are valid with an outer loading value > 0.50 (Table 1). Meanwhile, the

reliability test results in Table 2 show that the composite reliability and Cronbach alpha values for each research variable are above 0.70, and the AVE value for all constructs is > 0.50, which means all constructs from this research are reliable. Therefore, this data can be used to compile research results reports.

**Table 1.** Outer Loading

Construct	Indicator	Outer Loading	t-statistics	Note
Market orientation (X <sub>1</sub> )	X <sub>1.1</sub> Customer orientation	0,973	6,827	Valid
	X <sub>1.2</sub> Competitor orientation	0,798	3,951	Valid
	X <sub>1.3</sub> Coordination between functions	1,000	2,153	Valid
Competitive advantage (Y <sub>1</sub> )	Y <sub>1.1</sub> Ability to minimize costs	0,825	2,863	Valid
	Y <sub>1.2</sub> Market exploration capabilities	0,856	9,073	Valid
	Y <sub>1.3</sub> Ability to win competition	0,853	6,827	Valid
Business Performance (Y <sub>2</sub> )	Y <sub>2.1</sub> Profitability	0,649	3,951	Valid
	Y <sub>2.2</sub> Sales growth	1,000	2,153	Valid
	Y <sub>2.3</sub> Growth of marketing area	0,901	8,284	Valid

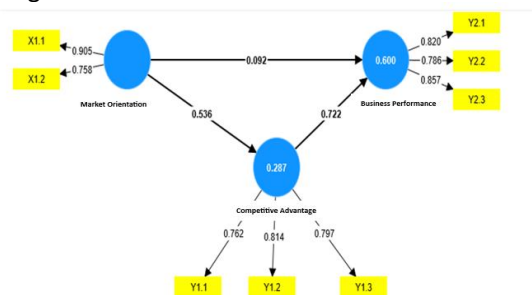
Sources: Processed primary data, 2023

**Table 2.** AVE, Composite Reliability, and Cronbach Alpha values

Construct	AVE	Composite Reliability	Cronbach Alpha
Market Orientation	0,673	0,802	0,712
Competitive Advantage	0,816	0,898	0,756
Business Performance	0,620	0,763	0,848

Sources: Processed primary data, 2023

**Structural Model Evaluation.** The data in this study were analyzed using Partial Least Square (PLS) with SmartPLS software version 4.0. Figure 2 presents the complete results of data analysis using PLS.



**Figure 2:** Full Structural Model

Sources: Processed primary data, 2023

To evaluate the accuracy or suitability of the model in this research as a whole, which was

formed through several variables and their indicators, R-Square (R<sup>2</sup>) was used. Figure 2 shows that the R<sup>2</sup> value for the competitive advantage variable is 0.651, so it can be categorized as a moderate to strong model. The business performance variable has an R<sup>2</sup> value of 0.600, which can also be categorized as a moderate to strong model.

**Mediation Test Results.** The mediation test in this research aims to determine the mediating role of competitive advantage on the indirect influence of market orientation on business performance. This hypothesis tests the influence of market orientation, which is mediated by competitive advantage by business performance, which is greater than the t-table (1.96), namely 4.702 with an influence size of 0.083 and a P-value <0.05 of 0.000. So, it can be concluded that the results of hypothesis 4 are accepted.

Research Hypothesis Testing Results. The results of hypothesis testing in this research are presented in Table 3 below.

**Table 3.** Result Path Analysis

Relationship Between Constructs	Coefficient Track	t-statistic	Cut Off	Note
H1: Market Orientation-> Competitive Advantage	0,722	9,639	1,96	Accepted
H2: Competitive Advantage->Business Performance	0,544	5,289	1,96	Accepted
H3: Market Orientation->Business Performance	0,097	1,019	1,96	Rejected

**Sources:** Processed primary data, 2023

Based on the results of the path analysis in Table 3, it is known that hypothesis 1, hypothesis 2, hypothesis 3, and hypothesis 4 are accepted.

**Discussion.** This research found that market orientation can increase competitive advantage. Based on the outer loading test results, it is known that the market orientation of batik MSMEs in Klampar Village is largely reflected by customer orientation. This indicates that to increase market orientation, the owner/manager of batik MSMEs must be able to identify things that make customer orientation different or not owned by competitors. In addition, competitive advantage is more reflected by minimizing production costs and market exploration capabilities. This shows that when batik MSMEs want to gain a competitive advantage, they consider their ability to control production costs and market exploitation better than competitors. Thus, the results of this research align with several previous research findings, which show that market orientation significantly influences

competitive advantage [26]. Apart from that, it is also in line with research that proves that market orientation has a positive influence on competitive advantage [25].

Based on the results of observations by researchers in Klampar Village, most of the batik business owners are young. This is an advantage for them. This is because young people are usually more responsive and proactive to changing times, including market conditions. So, it is unsurprising that most have marketed their batik products online in various marketplaces and social media (social media) such as Facebook and Instagram. Apart from that, it is also known that some batik business owners do not only sell batik in their homes. However, they also sell to several traditional markets in Pamekasan, such as the 17 August Market and Kolpajung Market. This proves that the batik business owner is trying to make it easy for customers to access their products. Consumers who want to buy batik do not have to visit Klampar Village. Apart from that, most batik business owners are not new players in the business world. On average, they have experience in the process of analyzing and serving customers. Some batik business owners have implemented customer orientation in the batik sales process. This is what can differentiate it from other competitors. The research results explain that market orientation significantly affects competitive advantage.

This research also found that competitive advantage can improve business performance in batik MSMEs in Klampar Village. This research indicates that to improve business performance well, it is necessary to increase competitive advantage as best as possible. This finding is in line with the results of research conducted stating that competitive advantage has a positive effect on company performance [10].

The ability of batik MSMEs to adapt to market conditions, both in product design and quality, which is superior to competitors, has implications for the level of business performance produced. The owners/managers of batik MSMEs in Klampar Village believe that Madura batik is not just an ordinary product with economic value. But it also has high artistic value. Drs. H. Ahmadi, owner of Aneka Batik, stated that batik is an art product whose manufacturing process is not instant. Apart from that, some batik MSMEs in Klampar Village are known to be quite adaptable to developments in trends or fashion. This means they produce products with designs/styles/motifs that suit market tastes. Apart from that, some

also maintain local nuances or classic designs with certain standards. This allows batik sellers in Klampar Village to increase their competitive advantage. This directly impacts the business performance of batik MSMEs in Klampar Village. This aligns with those who stated that creating product features and designs that the market wants is a strategy where organizations compete by providing high product quality and performance [21].

The findings in this research also show that market orientation cannot improve the performance of batik MSMEs in Klampar Village. This means that the higher the batik MSME owners' market orientation, the less influence it will have on improving their business performance. This is in contrast to the results of research on MSMEs in South Kalimantan, which revealed that market orientation has a positive and significant effect on the performance of MSMEs in South Kalimantan [27]. Apart from that, it also contradicts the results of the research on retail businesses. The results prove a positive and significant influence between market orientation and the performance of small businesses engaged in retail services.

The difference in research results was allegedly caused by the inability of some batik MSME owners to manage their businesses. In addition, some findings revealed that some batik business owners in Klampar Village inherited their businesses from previous generations. In other words, it is a business passed down from generation to generation. This is quite influential in business governance, which is only oriented towards meeting life's needs and managing appropriately. So, managing the business does not significantly impact business performance.

The results of the mediation test succeeded in proving the influence of market orientation on business performance by involving competitive advantage as a mediating variable. However, the mediating impact of competitive advantage is known to be full mediation. Thus, it can be said that competitive advantage bridges the influence of market orientation on business performance.

Without a competitive advantage, it does not improve the performance of batik MSMEs in Klampar Village. The results of this research align with those who conducted research on market orientation and company performance through competitive advantage. The results of his research show that market orientation on company performance, which is mediated by competitive advantage, has a positive effect [31].

Findings in the field also show that market orientation has a big role in indirectly improving the performance of batik MSMEs through competitive advantage. One of the advantages that batik MSMEs in Klampar Village have is their business location, which is quite strategic, namely in Klampar Batik Village and in several traditional markets. Another advantage is that the batik designs and motifs produced have distinctive characteristics and quite high aesthetic value. This is because the batik craftsmen working for the owners are experienced and professional. So you can create unique and quality products. This is quite difficult for its competitors to imitate. Moreover, most of the batik produced results from hand skills or handmade crafts. Of course, it has great potential to attract market interest. Apart from that, another advantage of batik MSME owners in Klampar Village is that most of them are still young. Certainly, young business owners are more open to adapting and innovating to improve their competitive advantage and business performance.

## **CONCLUSION**

The advantage is that it can increase batik MSMEs' performance in Klampar Village. In addition, competitive advantage is determined as a partial mediation of the influence of market orientation on business performance. This means that without a competitive advantage, increasing market orientation cannot improve the performance of batik MSMEs in Klampar Village. In addition, competitive advantage was found to increase business performance, both sales and profits.

Several practical suggestions are recommended for batik MSMEs in Klampar Village based on research findings, including professional business management, strategic business locations, and skilled workers that competitors do not have, which are important factors that batik MSME owners must consider to strengthen their resource scarcity. , to increase competitive advantage in meeting customer demands and ultimately increase business profitability. MSMEs need to improve the innovation capabilities of workers so that workers are not only skilled at operating production equipment.

Suggestions that can be considered for future researchers include a wider scope of research objects and a larger number of samples to enrich the research results and findings further. Apart

from that, this research uses a quantitative approach, so the data produced is less comprehensive. So, for future research that examines the same topic, it is recommended to use qualitative methods or mixed methods so that the problem formulation can be answered more comprehensively. The overall findings of this research indicate that market orientation is a strategic instrument underlying batik MSMEs in Klampar Village to increase their competitive advantage. Indicators of customer orientation and competitor orientation are important factors in forming market orientation in batik MSMEs in Klampar Village. So, it must be considered when SME owners/managers want to obtain a superior position in the market. Furthermore, competitive depth.

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