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The Influence of Market Orientation and Product Innovation on the Competitive Advantage and Its Implication toward Small and Medium Enterprises (UKM) Performance

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Abstract

This study aims to: (1) determine the effect of market orientation on competitive advantage; (2) to know the effect of innovation on competitive advantage; (3) to know the influence of market orientation and product innovation together to competitive advantage; (4) the effect of market orientation on the performance of SMEs, (5) to know the effect of product innovation on the performance of SMEs, (6) to know the effect of competitive advantage on SMEs performance, and (7) to know the effect of market orientation, product innovation, and competitive advantage together SMEs.

This research uses an explorative design that aims to conduct a search and reveal the factors that can be estimated as the cause of the occurrence of a condition that is not yet known the cause and the mechanism. The population in this study is the SMEs in Batam city with the type of production business with a population of 153 SMEs. The number of samples was determined using a saturated sample technique in which the entire population in the study was sampled. So the number of samples in this study was as many as 153 SMEs.

From the results of the study found that market orientation has a positive and significant impact on competitive advantage. Product innovation has a positive and significant impact on competitive advantage. Market orientation and product innovation together have a positive and significant impact on competitive advantage with R2 value of 83%. The dominant variable influencing competitive advantage is product innovation with regression coefficient value 0,62. Market orientation has a positive and significant effect on SME's performance. Product innovation has a positive and significant effect on SME's performance. Competitive advantage positively and significantly influence to SMEs performance, market orientation, product innovation and competitive advantage together have positive and significant influence to SMEs performance with R2 value equal to 90%. The dominant variable affecting the performance of SMEs is the advantage of competing with the value of regression coefficient 0.47.

This research offers implementation to SMEs to improve market orientation and product innovation so that it will increase competitive advantage which impact on SMEs performance.

Keywords: Market Orientation, Product Innovation, Competitive Advantage, SMEs Performance.

1.1 Background of the Research

Competitive advantage relates to the way in which companies choose and implement generic strategies into practice. All the parts that exist in organization both in the form of resources and activities can be a competitive advantage. Competitive advantage can be continued through enforcement of barriers to entry by potential competitors such as economies of scale and scope, the influence of experience or learning curves, product differentiation, capital requirements, and costs due to shifting buyers (Porter, 2008).

The more intense the competition facing the company must be flexible, creative, and innovative, so that in the face of competition effectively and efficiently required a competitive advantage of companies that are not easily imitated, durable, and attractive (Paramita, 2015). The phenomenon (the context of competition and competitive advantage) can be understood as every organization seeks to find competitive strategy and the right base of competitiveness to excel. The concept of strategy itself, as Barney (2007) defines, is concerned with the theory of an organization how it performs highly and excels in its business.

There is a very strong positive relationship between a business's performance and competitive advantage. That is, the better the performance of a company, the stronger the company's competitive advantage. Conversely, the poor performance of a company, the thinner the competitive advantage it has. According to Jack Welch, "if you do not have competitive advantages do not try to compete". This means that competitive advantage is an important factor for companies to win the competition. Elements of competitive advantage that need to be considered is; potential competitive advantage, competitive advantage position (compared to competitors), and the resulting performance (Rangkuti, 2005).

The perpetrators of SMEs want their business to gain profit in order to continue to run its business activities. The success of a business certainly cannot be separated from the competitive advantage possessed by the business. The importance of assessing the performance of a business will certainly have an impact on economic decision making on the business. The performance of a business will be used to see if the company's objectives are achieved or not and can also be used as an evaluation material. Whether or not the performance of a

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business certainly cannot be separated from the competitive advantage that owned by the company.

The advantage of a company in competing with other companies can be done by applying market orientation. Companies that implement market orientation have advantages in terms of customer knowledge. This advantage can be used as a source to create products that match the desires and needs of customers. Corporate culture that emphasizes the importance of companies to pay attention to the market (market-oriented) will lead to strengthening the company's competitive advantage (Wahyudin, 2015).

Market orientations are highly valuable, scarce, unchangeable, imperfect, and judged as one of the internal capabilities and resources that can potentially create a competitive advantage (Zhou, Brown, & Dev, 2009). As the results of the research that has been done by Setiawan (2012) states that market orientation affects the competitive advantage.

Innovation is an idea, practice, or object that is understood as something new by each individual or other user units. Innovation decision process is in principle a search and information processing activity in which individuals are motivated to reduce uncertainty about the advantages and disadvantages of innovation (Sumarwan, 2010).

Companies that produce different products from other similar company's products may attract consumers to buy products. This is one way that companies can do to gain competitive advantage. Ongoing innovation within an enterprise is a basic need that will ultimately lead to a competitive advantage.

The object of this research is Small and Medium Enterprises in Batam City district. Small and Medium Enterprises (SMEs) is one of the pillars and strengths that contribute to the Indonesian economy. This is evidenced by the solidity of SMEs during the monetary crisis hit Indonesia. Even when other sectors of the economy are rearranging the foundations of their businesses after the crisis, SMEs have contributed significantly to the nation's economy (Curatman, 2016).

SMEs sector has been promoted and made as the main agenda of Indonesia's economic development. The SMEs sector has proved resilient and has survived the economic downturn at the time of the crisis in 1998. Meanwhile, the larger sector has been crushed by the crisis. Mudradjad Kuncoro in *Bisnis Indonesia Daily* on October 21, 2008 suggested that SMEs proved resistant to the crisis and able to survive for several reasons; first, no foreign debt; second, not much debt to the banking because they are considered unbankable; third, using local, fourth, export-oriented input. Some reasons why SMEs can survive in the midst of the 1997 financial crisis; First, most SMEs produce consumer goods and services with low demand elasticity of income, the average income level of society does not have much effect on the demand of goods produced. Conversely, the increase in opinion levels also has no effect on demand. Second, most SMEs do not get capital from banks. The implications of the slump in the banking sector and rising interest rates do not significantly affect the sector.

The main obstacle for most UKM activists is the limited capital, making it difficult to develop businesses and innovate the products or services they produce in order to continue to compete. Marketing of products generated, generally products generated by SMEs are merely using low cost-based

promotions, with a relatively small coverage of potential customers.

According to Kuncoro (2007) there is a habit that has been entrenched by most SMEs in Indonesia, namely (1) the lack of clear division of tasks and delegations between administration and operations. The proof, most small businesses are managed without a clear system. This happens because the manager also doubles as the owner. As a result, corporate management also often utilizes labor from family and close relatives by ignoring mechanisms and job competencies, (2) lack of cooperation with financial institutions that result in SMEs more likely to rely on financing with their own capital or other sources such as family, traders, intermediaries or loan sharks, (3) most business actors do not have legal entity status, hence they are difficult to get recognition from the association. In fact, participation in associations provides many benefits for them. This will affect the decrease of productivity and performance for SMEs themselves. The data on Small and Medium Enterprises in the District of Batam City can be seen in the following table:

Table 1.1 Data of Small and Medium Enterprises in Kecamatan Batam Kota

No	Year of Registration	Number of Applicants	Labor
1	2009	11	44
2	2010	19	40
3	2011	54	17
4	2012	34	35
5	2013	15	32
6	2014	54	254
7	2015	33	90
8	2016	14	73
9	2017	1	-
Total		235	585

Source: Batam City Cooperative Office (2017)

Based on data obtained from the Office of Cooperatives Batam, the number of SMEs Batam City district which became the object in this study is as many as 235 SMEs with a total workforce absorbed is as many as 585 people. With this SMEs, at least can help government programs in an effort to reduce the number of unemployed. Due to these SMEs, unemployment due to the unabsorbed labor force in the workforce is reduced. Given the economic condition of the city of Batam is currently in a state of no good, where there has been a decline since 2015 until now. Economic growth rate appear in 2015 (6.01%), 2016 (5.03%) and 2017 (2.02%). Due to the low economic growth of Batam city, many companies collapsed and resulted in the growing number of unemployed. With these SMEs it will be very helpful in the absorption of labor.

To encourage the quality of micro, small and medium enterprise products, it needs to be emphasized to all business actors in order to improve the quality, thus having strong competitiveness. Batam is a city on the border. Access to and out of products from Indonesia to neighboring Singapore and Malaysia is easier. Therefore, SMEs players in the city of Batam should be able to compete amid the proliferation of small and medium enterprises in Batam. Competition is tight enough to make SMEs should find new loopholes and ways to expand its business, including improving product quality, packaging, and marketing strategy.

Based on the background of the above research and the differences and similarities of the results of previous research, the researchers wanted to conduct similar research by adding

the performance variable of SMEs as a result of the company's competitive advantage. Researchers interested in conducting research entitled "The Influence of Market Orientation and Product Innovation on Competitive Advantage and Its Implication on Performance in Small and Medium Enterprises"

1.2. Benefits of research

The benefits of this study are as follows:

- [1] This research can later be used as a reference for the entrepreneurs of Small and Medium Enterprises in creating products to be marketed. So as to increase competitive advantage for Small and Medium Enterprises (SMEs) itself
- [2] This research will be used as a reference about the need for innovation in products to be marketed.
- [3] This research can later be used as a reference for the perpetrators of Small and Medium Enterprises (SMEs) regarding seizing market share with competitive advantage owned by Small and Medium Enterprises
- [4] Please note that, the performance of SMEs will increase in line with the competitive advantages possessed by SMEs themselves, therefore the actors of SMEs are expected to have competitive advantage.

2. Literature Review

2.1. Market Orientation

Market orientation is the most effective and efficient organizational culture in creating the behaviors necessary to create superior value for customers in order to deliver superior business performance on an ongoing basis. Market orientation has three components: customer orientation, competitor orientation, and interfunctional coordination (Idar, Yusoff, & Mahmood, 2012). The market orientation reflects the extent to which the company creates satisfaction by meeting customer needs and desires as the organizing principle in the company (Baker & Sinkula, 2009).

According to Mauzano quoted by (Sugiyarti, 2016) explains market orientation is the focus of strategic planning of a business unit in fulfilling several demands in the form of all the functions that exist in the company is able to absorb all important information affecting the purchase, decision making strategy done inter functional and inter divisional, and division as well as good coordination function and have a sense of commitment in executing marketing activities. According to Drumond, Ensor, and Ashford (2009) there are 5 things to do to achieve market orientation, namely (1) focus on customer satisfaction, (2) focus on competitors, (3) integrate marketing into business, (4) vision strategic, (5) realistic expectations.

Best (2009) explains that market orientation is not only the responsibility of the marketing function, but the participation of each department in the collection, dissemination and follow-up of market information. In addition, market orientation focuses on markets that include customers and the factors or forces that influence it. The indicators of market orientation are as follows (Wahyudin, 2015)

1. Customer orientation
The willingness of the company to understand the needs and desires of its customers
2. The competitor's orientation
The company's willingness to monitor the strategies that its beaches implement
3. Market information

Enterprise efforts to find information about market conditions of industry

2.2. Product Innovation

Innovation is the social and economic success of discovering new ways or new combinations of old ways of transforming inputs into output in such a way that it succeeds in creating major changes and drastic changes in the relationship between usage value or the value of benefits (perceived by consumers and users) and the monetary value of the price (Fontana, 2011)

According to Hassan, Shaukat, Nawaz, & Naz (2013) product innovation is one of the key factors to organizational success and is an important strategy for increasing market share and business performance.

Larsen (2007) states that one of the most important characters of the entrepreneur is the ability to do innovation. Without innovation the company will not last long. This is due to the needs, desires, and customer demands change. Customers will not always consume the same product. Customers will look for other products from other companies that are perceived to satisfy their needs. For that it is necessary continuous innovation if the company will take place further and remain standing with its business. innovation is something about goods, services, or ideas that are felt by someone. Although the idea has long existed but this can be said an innovation for people who just saw or felt it.

Product innovation indicators are as follows (Son & Ekawati, 2017):

1. Develop attractive designs
2. Develop good product quality
3. Development of product technology

2.3. Competitive Advantages

Competitive advantage is the extent to which an organization is able to create a position that can sustain the market as long as competitors remain. Companies create competitive advantage through competitive ability or priority defined as strategic preferences or dimensions where companies choose to compete in targeted markets (Russell & Millar, 2014).

Continuous competitive advantage plays an important role in improving company performance (Reswanda, 2011). Zhou et al (2009), Li, et al (2010), and Kamukama et al (2011) have research results which suggest that competitive advantage has a significant influence on firm performance.

By having a competitive advantage, then the company will be able to survive to continue the company's life. Absolute competitive advantage must be owned by the company / product to achieve the performance or success of the product (Ekawati, 2016). Competition is so tight business requires the company has a competitive advantage, if not then the company can not last long. The competitive advantage in an organization can be gained by paying attention to superior value for customers, culture and climate to bring improvement to efficiency and effectiveness (Ruzayda & Hapsari, 2014).

The indicators of competitive advantage are as follows (Irfanunnisa., Hartanty., & Ratnawati, 2013):

1. Product uniqueness
2. Quality of product
3. Competitive price

2.4. Performance of Small and Medium Enterprises

Company performance is something produced by a company in a certain period with reference to the standard set. Company performance should be measurable results and describe the empirical conditions of an enterprise of any agreed size. Business performance refers to how well a company is oriented to the market as well as its financial goals (Rahmasari, 2011). Organizational performance (organizational performance) is the actual result or output produced by an organization which is then measured and compared with the expected output or output (Jahanshashi, 2012).

The performance of the organization can be seen as a multi-dimensional construction consisting of more than just financial performance. Kinerja organization is described as to what extent the organization is able to meet the needs of stakeholders and their own needs for survival (Majeed, 2011). Organizational performance is the most important element in management and business. Various kinds of company performance definitions have been proposed in the literature which often refers to how efficiently and effectively a company utilizes resources in generating economic results (Abdi & Ali, 2013)

Company performance is the key to remaining in the global marketplace. Performance is a construction or a common factor used to measure the impact of a company's strategy. Sitorus (2004) was quoted by Soendoro (2010) as saying that the quality of the company's performance supported by the understanding of the consumers and the superiority of new products are the factors that can increase the success of new products related to the creation of superior value for consumers. The creation of superior value for consumers is a stepping stone for a company to improve its marketing performance. Company performance is a common factor used to measure the impact of a company's strategy. Company strategy is always directed to produce company performance such as the volume of selling, market share and the level of sales growth and financial performance (Ferdinand, 2010).

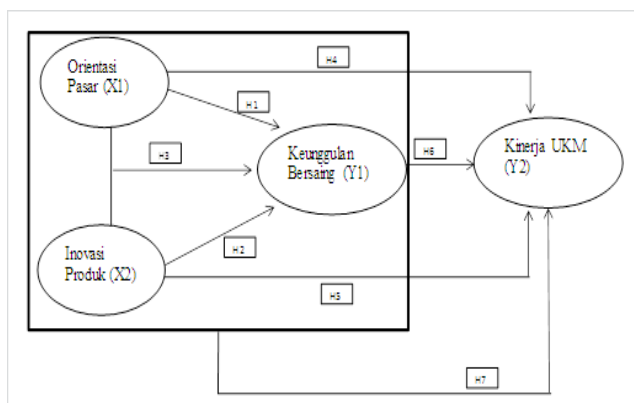
Performance measurement indicators (Jahanshashi et al, 2012):

1. Financial performance
2. Operational performance
3. Market-based performance

In this study, only use two measurements of the three existing measurements, namely financial performance and operational performance. While market-based performance is not used because the object of research is not a company that has a stock.

2.5. Framework

The framework of thought in this study is as follows:



2.6. Hypothesis

1. Market Orientation to Competitive Advantage

Market orientation is a business culture where the organization is committed to creating superior value for its customers (Firmanzah, 2012). Market-oriented companies are companies that make customers a mecca for companies to run their business (Utaminingsih, 2016). Customer-focused organizations and markets will try to maintain and enhance their ability to create superior value (Appiah-Adu, K & Amoako, 2016)

Market orientation promotes the activity of organizational market information processing as well as how it is used in corporate strategy. Market-oriented companies are usually concerned with customers and competitors. Furthermore, market orientation lies in the extent to which firms derive and react to feedback from customers and competitors. For example, market-oriented companies continue to gather information about customers 'needs and competitors' target ability. Then, they use information to continue to create superior customer value. Therefore, market orientation deals with certain processes and routines that create superior value to customers. It also helps the company in gaining a sustainable competitive advantage (Long, 2015).

The results of research conducted by Setiawan (2012) states that market orientation factors significantly affect the competitive advantage. And the results of research Wahyudin (2015) states that market orientation has a positive and significant impact on competitive advantage.

H1: Market orientation has a significant effect on competitive advantage

2. Product Innovation to Competitive Advantage

High innovation, both innovation process and product innovation will improve the company's ability to create quality products. High product quality will increase the company's competitive advantage which ultimately impact on company performance (Hartini, 2012).

Innovation itself is not a guarantee of success; it must be balanced with the core competencies of the company and the overall strategy to succeed. Many technological innovations, for example, can be imitated by other companies and erode a competitive advantage. But despite the risks, innovation is still one of the most important ways to achieve competitive advantage (Dustin, Bharat, & Jitendra, 2014).

The results of research conducted by Djodjobo (2014) states that product innovation has a positive and significant impact on competitive advantage. The research by Setiawan (2012) product innovation has a significant effect on competitive advantage. So also with the results of research conducted by Pardi (2014) states that innovation has a significant effect on competitive advantage.

H2: Product innovation has a significant effect on competitive advantage

3. Market Orientation and Product Innovation Together to Competitive Advantage

According to Ehmke (2008) competitive advantage is an advantage gained more than a competitor by offering customers greater value, either through lower prices or by providing additional benefits and services at a higher price. The company is also expected to create products that can be accepted by the market. Companies must be market-oriented so that the

company's products produced by the company can be in demand by the market thus creating a competitive advantage.

Apart from that, competitive advantage can also be obtained if the company is market-oriented company. Market orientation is very effective in gaining and maintaining competitive advantage, which begins with planning and coordination with all parts of the organization to satisfy the needs and wants of consumers (Supranoto, 2009).

Innovative products also contribute greatly to the success or failure of a company. Society as a consumer would never be satisfied with what has been owned or consumed, therefore, the company must continue to innovate on the resulting product. Thus, the company will have an advantage in competing.

H3: Market orientation and product innovation together have a significant effect on competitive advantage

4. Market Orientation to SMEs Performance

Good market orientation has been recognized as a key driver for improving product / service performance (Agarwal, et al, 2003; Cheng and Krumwiede, 2012; Zhou et al., 2005) Market orientation not only provides a mechanism for learning from customers and competitors, but also consider the actual workings to assist in creating custom values (Fan et al, 2016).

It can be concluded that market orientation is a corporate culture with dimension of customer orientation, competitor orientation, and inter-functional coordination (Lapian, 2016). Improved performance and increased competitiveness of enterprises can be done through the development of an organizational culture that is focused on understanding the needs of the market, the desire and demand market that is market oriented. The entrepreneurial orientation allows the company to deliver higher value to its customers than competitors by influencing its market orientation level and will result in better corporate performance (Vega-Vazquez, Cossio-Silva, & Revilla-Camacho, 2016)

Long (2013) states that market orientation has a significant positive effect on organizational performance, in terms of market share growth, sales and profits. The results of research conducted by Manek (2013) states that the influence of market orientation on marketing performance shows a significant value. So also with research conducted by Tsai (2017) states that the ability of market orientation can significantly improve company performance.

H4: Market orientation has a significant effect on SME's performance

5. Product Innovation on SMEs Performance

Product innovation is the thing that needs to get the main attention from the company, considering the product innovation is closely related to the problem of customer satisfaction which is actually the purpose of marketing activities undertaken by the company. Each company must choose the level of the company. Every company must create innovations that will help / support efforts to improve or maintain the position of the product in its target market. Innovation is a major tool to achieve certain product position in carrying out the expected function (Rahayu & Anggarini, 2009)

High creativity in creating unique products more attractive, safe and comfortable more in demand by consumers compared with other competing products. Continuous competitive advantage is the ability of a company to create a product that when a

competitor tries to imitate it will always experience a significant failure (Rahmasari, 2011). According Killa (2014) Enterprises in innovating against a product is believed to improve performance. The results of research conducted (Lapian, 2016) states that product innovation has a significant effect on performance. So also with the results of research conducted by Tsai (2017) states that innovation can significantly improve performance.

H5: Product innovation has a significant effect on SMEs performance

6. Competitive Advantage to Small and Medium Business Performance

Companies that have an advantage in running their business activities will give good things to the performance of the company itself. A superior company will usually be good in terms of the company's performance, whether in financial or non-financial. The company's performance is driven by competitive advantage owned by the company. According to Elshaer (2016) The competitive advantage as the achievement of financial performance above the average relative to the company's competitors in the industry.

The results of research conducted by Sunyoto & Raharti (2014) states that there is a significant influence on the quality of competitive strategies against the performance of the company. The results of research conducted by Pardi (2014) states that competitive advantage significantly influences marketing performance. So also with the results of research conducted by Teeratsirikool (2013) which states that competitive strategy positively and significantly improve the company's performance.

H6: Competitive advantage significantly affects SMEs performance

7. Market Orientation, Product Innovation and Excellence Competing Together to the Performance of Small and Medium Enterprises

Market-oriented companies prioritize consumers as buyers of products produced. Market orientation focuses on the needs of corporate external parties, wants and market demands. Likewise with the Company that always make innovations on products produced, this is done so that consumers are not saturated with existing products. With the continuous innovation of the product, the consumer will remain a loyal customer of the company.

Competitive advantage is more value owned by a company but not owned by a competitor. Companies that have competitive advantage means controlling the market and will be able to survive in running their business activities. Innovation conducted by SMEs will also give good effect for business progress. Where product innovation is something that can be distinguished by the previous through its uniqueness in form, function, and behavior. Product innovation points to the development and introduction of new or successful products developed within the marketing sphere (Trott, 2008).

Company performance is inseparable from the applied market orientation, continuous product innovation, and competitive advantage owned by the company. all of which strongly support the development of SMEs. Therefore, the importance for SMEs to pay attention to things that can improve business performance. The results of research conducted (Lapian, 2016) which states that market orientation and product innovation have a significant effect on performance.

H7: Market orientation, product innovation, and competitive advantage together have a significant effect on SMEs performance

3. Research Method

3.1. Research Design

This research uses an explorative design that aims to conduct a search and reveal the factors that can be estimated as the cause of the occurrence of a condition that is not yet known the cause and the mechanism. In terms of time, this study uses cross sectional design, where a study conducted in one time only and seen from the analysis model, this study uses a quantitative design (Rumengan, 2013).

4. Analysis Results

4.1. The result of suitability test of market orientation model

Model Accuracy Index	Expected Range	Model Index	Information
Chi-Square, $P \geq 0,05$	Small or acceptable value if $P \geq 0,05$	14,65	Good and acceptable
GFI	$\geq 0,90$	0,97	Good fit
RMSEA	$\leq 0,08$	0,077	Good fit
RMR	$\leq 0,05$	0,012	Good fit
CFI	$\geq 0,90$	0,99	Good fit
IFI	$\geq 0,90$	0,99	Good fit
TLI/ NNFI	$\geq 0,90$	0,97	Good fit
NFI	$\geq 0,90$	0,98	Good fit
AGFI	$\geq 0,90$	0,89	Marginal fit

4.2. Test results validity and reliability of market orientation

2 nd CFA	Item	SLF	SLF ²	Error	Validity	Reliability	
		Λ	λ^2	$1 - \lambda^2$		CR	VE
Customer Orientation	OP1	0.84	0.7056	0.2944	Valid	0.8852	0.7946
	OP2	0.94	0.8836	0.1164	Valid		
Competitor Orientation	OP3	0.75	0.5625	0.4375	Valid	0.757	0.6093
	OP4	0.81	0.6561	0.3439	Valid		
Market Information	OP5	0.9	0.81	0.19	Valid	0.8785	0.7835
	OP6	0.87	0.7569	0.2431	Valid		

Description: SLF = Standard Loading Factor (SLF ≥ 0.50 , good) means good validity; CR = Construct Realibility (CR ≥ 0.70 , good); VE = Variance Extract (VE ≥ 0.50 , good) means good reliability

4.3. The results of the suitability test of product innovation model

Model Accuracy Index	Expected Range	Index Model	Information
Chi-Square, $P \geq 0,05$	Small or acceptable value if $P \geq 0,05$	3,84	Good and acceptable
GFI	$\geq 0,90$	0,99	Good fit
RMSEA	$\leq 0,08$	0,00	Good fit
RMR	$\leq 0,05$	0,0047	Good fit
CFI	$\geq 0,90$	1,00	Good fit
IFI	$\geq 0,90$	1,00	Good fit
TLI/ NNFI	$\geq 0,90$	1,01	Good fit
NFI	$\geq 0,90$	1,00	Good fit
AGFI	$\geq 0,90$	0,97	Good fit

4.5. The results of validity testing and product innovation reliability

2 nd CFA	Item	SLF	SLF ²	Error	Validity	Reliability	
		Λ	λ^2	$1 - \lambda^2$		CR	VE
Develop attractive designs	IP1	0.85	0.7225	0.2775	Valid	0.8618	0.7573
	IP2	0.89	0.7921	0.2079	Valid		
Developing Good Product Quality	IP3	0.93	0.8649	0.1351	Valid	0.9329	0.8743
	IP4	0.94	0.8836	0.1164	Valid		
Product Technology Development	IP5	0.9	0.81	0.19	Valid	0.884	0.7922
	IP6	0.88	0.7744	0.2256	Valid		

Description: SLF = Standard Loading Factor (SLF ≥ 0.50 , good) means good validity; CR = Construct Realibility (CR ≥ 0.70 , good); VE = Variance Extract (VE ≥ 0.50 , good) means good reliability.

4.5. The results of suitability tests of competitive advantage models

Model Accuracy Index	Expected Range	Index Model	Information
Chi-Square, $P \geq 0,05$	Small or acceptable value if $P \geq 0,05$	21,61	Good and acceptable
GFI	$\geq 0,90$	0,95	Good fit
RMSEA	$\leq 0,08$	0,07	Good fit
RMR	$\leq 0,05$	0,0067	Good fit
CFI	$\geq 0,90$	0,99	Good fit
IFI	$\geq 0,90$	0,99	Good fit
TLI/ NNFI	$\geq 0,90$	0,96	Good fit
NFI	$\geq 0,90$	0,98	Good fit
AGFI	$\geq 0,90$	0,89	Marginal fit

4.7. Test results validity and reliability competitive advantage

2 nd CFA	Item	SLF	SLF ²	Error	Validity	Reliability	
		λ	λ^2	$1 - \lambda^2$		CR	VE
Product Uniqueness	KB1	0.91	0.8281	0.1719	Valid	0.9005	0.8191
	KB2	0.9	0.81	0.19	Valid		
Product quality	KB3	0.93	0.8649	0.1351	Valid	0.9008	0.8197
	KB4	0.88	0.7744	0.2256	Valid		
Competitive price	KB5	0.92	0.8464	0.1536	Valid	0.9222	0.8557
	KB6	0.93	0.8649	0.1351	Valid		

Description: SLF = Standard Loading Factor ($SLF \geq 0.50$, good) means good validity; CR = Construct Realibility ($CR \geq 0.70$, good); VE = Variance Extract ($VE = \geq 0.50$, good) means good reliability.

4.8. The result of fit test of performance model of small to medium business

Model Accuracy Index	Expected Range	Index Model	Information
Chi-Square, $P \geq 0,05$	Small or acceptable value if $P \geq 0,05$	2,07	Good and acceptable
GFI	$\geq 0,90$	0,99	Good fit
RMSEA	$\leq 0,08$	0.064	Good fit
RMR	$\leq 0,05$	0,0011	Good fit
CFI	$\geq 0,90$	1,00	Good fit
IFI	$\geq 0,90$	1,00	Good fit
TLI/ NNFI	$\geq 0,90$	0,99	Good fit
NFI	$\geq 0,90$	1,00	Good fit
AGFI	$\geq 0,90$	0,93	Good fit

4.8. Test results validity and reliability performance of small and medium enterprises

2 nd CFA	Item	SLF	SLF ²	Error	Validity	Reliability	
		λ	λ^2	$1 - \lambda^2$		CR	VE
Financial performance	KIN1	0.91	0.8281	0.1719	Valid	0.9332	0.8749
	KIN2	0.96	0.9216	0.0784	Valid		
Operational Performance	KIN3	0.97	0.9409	0.0591	Valid	0.9644	0.9313
	KIN4	0.96	0.9216	0.0784	Valid		

Description: SLF = Standard Loading Factor ($SLF \geq 0.50$, good) means good validity; CR = Construct Realibility ($CR \geq 0.70$, good); VE = Variance Extract ($VE = \geq 0.50$, good) means good reliability.

4.9. Hypothesis Testing Results and Discussion

Hypothesis	Description	T Count	T tabel	Conclusion
1	Market orientation influences competitive advantage	3,06	1,976	Accepted
2	Product Innovation to Competitive Advantage	5,52	1,976	Accepted
3	Market Orientation to SMEs Performance	2,74	1,976	Accepted
4	Product Innovation on SME Performance	2,40	1,976	Accepted
5	Competitive Advantage to SMEs Performance	3,88	1,976	Accepted
Hypothesis	Description	F Count	F tabel	Conclusion
6	Market Orientation and Product Innovation Together to Competitive Advantage	369,112	3,04	Accepted
7	Market Orientation, Product Innovation, and Competitive Advantage on SMEs Performance	460,118	2,65	Accepted

4.9.1. Market Orientation to Competitive Advantages

Based on the result of hypothesis testing, it can be seen that market orientation has positive and significant influence to competitive advantage. It can be seen from the value of estimation parameter of market orientation test to competitive advantage have positive correlation value equal to 0,32 and t-count value equal to 3,06, while t-table value equal to 1,976. So it can be concluded that t-count (3.06) > t-table (1.976). Thus it can be concluded that market orientation has a positive and significant impact on competitive advantage. Market orientation has a positive influence on competitive advantage indicates that if the higher the value of market orientation, it will increase competitive advantage. The market orientation has a positive influence on the competitive advantage of 0.32. The first hypothesis is accepted.

The market orientation has three components: customer orientation, competitor orientation and interfunctional coordination (Idar, Yusoff, & Mahmood, 2012). Customer orientation and competitor orientation are activities that are always involved in obtaining information about consumers and competitors in the target market, while interfunctional coordination is based on customer and competitor information and consists of coordinated business ventures. If these three components are implemented and implemented by the company, then the company will be able to apply market orientation in searching various market information so that can be the basis for the company to determine the next step. A business that implements market orientation will certainly know the information about the buyer so that the company can easily get customers or customers. The application of this market orientation will also be oriented to competitors, where this activity is an activity to know the weaknesses or shortcomings of products produced by competitors, so the company can produce a better product than competitors. With the implementation of this market orientation, it will increase the competitive advantage of a company.

4.9.2. Product Innovation to Competitive Advantage

Based on the results of hypothesis testing, it can be seen that product innovation has a positive and significant impact on competitive advantage. It can be seen from the value of estimation parameter of product innovation test to competitive advantage have positive correlation value equal to 0,62 and t-count value equal to 5,52, while t-table value equal to 1,976. T-count value (5.52) > t-table (1.976). Thus it can be concluded that product innovation has a positive and significant impact on competitive advantage. The second hypothesis is accepted.

Product innovation is the thing that needs to get the main attention from the company, considering the product innovation related to the problem of consumer satisfaction which is actually the purpose of marketing activities undertaken by the company. Every company must create innovations that will help a business in improving or maintaining the position of the product in its market. Innovation is a major tool to achieve the position of a particular product in carrying out the expected function.

The perpetrators of SMEs must know the consumer's desire for a product. Consumers will certainly feel bored with a product that is not innovated. Therefore, to continue to attract consumers to buy products, then SMEs should always make innovations in its products. This innovation is not only done once, but done continuously.

Innovation is done on the product is needed in order to maintain consumer buying interest in the product. Effective product innovation with high intensity can determine the competitive advantage of SMEs. By innovating products, SMEs will create competitive advantage.

4.9.3. Market Orientation and Product Innovation Together to Competitive Advantage

Based on the results obtained note that the f-count value of 369.112 and with the value of f-table of 3.04. So the f-count (369.112) is greater than the f-table value (3.04). From these data it can be concluded that market orientation and product innovation together have a significant effect on competitive advantage. The effect of market orientation and product innovation on competitive advantage is 0.83, which means that market orientation and product innovation have a positive influence on competitive advantage. The higher the value of market orientation and product innovation, the higher the values of competitive advantage get. The third hypothesis is accepted.

Competitive advantage is the heart of marketing performance in the face of competition or as a corporate benefit strategy in cooperation to create competitive advantage effectively in the market. This strategy needs to be designed to realize sustainable competitive advantage so that it dominates both in markets and new markets. The competitive advantage grows from the values that the company creates for its customers. In general, customers buy products that have more value than desired. The value will be compared to the price offered. Purchase of products will occur if customers consider the price of the product in accordance with the offered value (Sugiyarti & Mardiyono, 2017).

Market orientation is a way for SMEs to know what prospective buyers want. By applying market orientation, SMEs will get information to win the competition. In order for the offered product to be well received by the consumer, then the product offered must be the product that has the difference from the competitor's product. SMEs actors should innovate the products they produce, and hopefully this innovation will continue to be sustainable.

SMEs actors who apply market orientation and innovate the products produced will have a positive effect on the company's competitive advantage. The results of this study are in accordance with research conducted by Fatah (2013) which states that market orientation and product innovation together have a significant effect on competitive advantage.

4.9.4. Market Orientation to SMEs Performance

Based on hypothesis test results, it can be seen that market orientation has a positive and significant impact on SMEs performance. It can be seen from the value of estimation parameter of market orientation test to the performance of SMEs have positive correlation value equal to 0,25 and t-count value equal to 2,74, while t-table value equal to 1,976. T-count value (2.74) > t-table (1.976). Thus it can be concluded that market orientation has a positive and significant effect on the performance of SMEs. The fourth hypothesis is accepted.

Market-oriented SMEs actors will be better prepared to face their competitors. The perpetrators of SMEs certainly know the weaknesses of competitors and know what the market needs. With the implementation of this market orientation by SMEs, it will improve the performance of SMEs themselves. The

components that exist in market orientation is an inseparable sequence to improve the performance of SMEs themselves.

Improved performance and increased competitiveness of enterprises can be done through the development of an organizational culture that is focused on understanding the needs of the market, the desire and demand market that is market oriented. The entrepreneurial orientation allows the company to deliver higher value to its customers than competitors by influencing its market orientation level and will result in better corporate performance (Vega-Vazquez et al., 2016)

4.9.5. Product Innovation on SMEs Performance

Based on the results of hypothesis testing, it can be seen that product innovation has a positive and significant effect on the performance of SMEs. This can be seen from the value of estimation parameters of product innovation testing on the performance of SMEs has a positive correlation value of 0.28 and t-count value of 2.40, while the t-table value of 1.976. T-count value (2.40) > t-table (1.976). Thus it can be concluded that the product innovation has a positive and significant effect on the performance of SMEs. The fifth hypothesis is accepted.

Product innovation developed will be able to improve the ability of SMEs to produce quality products and different from competitors' products. To be able to produce products that have good quality, then the business must be able to continue to develop the product so that the product will be generated always generated by continuous innovation.

Globalization of the market presents a challenge for every company to be able to innovate on an ongoing basis in order to offer unique and superior products and services. The introduction of new products plays an important role in improving corporate profitability, while process innovation plays a role as a strategy in reducing costs (Tjiptono, 2008: 458).

Innovation is risky, but more risky if the SMEs do not make innovations on the products produced, given the desire of consumers will be a product satisfaction is not limited. If the SMEs do not innovate the product, it is likely that the product will be abandoned by the consumer. This will result in losses for the SMEs themselves. Consumers will look for products that can meet the satisfaction of consuming the product. Therefore, SMEs should continue to innovate sustainable products. By innovating, SMEs actors will be more successful in responding to the environment and develop their ability to improve the performance of SMEs, be it financial and operational performance. According Killa (2014) Enterprises in innovating against a product is believed to improve performance.

4.9.6. Competitive Advantage to SMEs Performance

Based on table 4:24, it can be seen that competitive advantage has a positive and significant impact on SMEs performance. This can be seen from the value of estimation test parameter of competitive advantage to SMEs performance has a positive correlation value of 0.47 and t-count value of 3.88, while the t-table value of 1.976. The value of t-count (3.88) > t-table (1.976). Thus it can be concluded that the competitive advantage positively and significantly influence on the performance of SMEs. The sixth hypothesis accepted.

Competitive advantage is a value to the company from the implementation of its strategy so that the company has greater cost savings and more value than its competitors. These

advantages are one of the more strengthening corporate bargaining powers to consumers (Irfanunnisa, 2013).

In this rapidly changing era, the emerging competition in home industry or SMEs players is in a dynamic and uncertain environment including products, prices, places, technology, raw materials, distribution, resource expertise, consumers and so on. In such conditions, of course, home industry actors or SMEs actors must create the right strategy for the company to compete maintain business life and develop it.

SMEs players who have competitive advantage will be able to survive and win the competition in running their business activities. Excellence in creating quality products, unique products and competitive prices will attract consumers to make purchases. If the competitive advantage is owned by the company, it will have a positive effect on the performance of SMEs in obtaining profit.

Competitive advantage can be the key to better organizational performance. This implies that if a business has a competitive advantage then its brand endurance and product quality will be strong and able to survive in the market.

4.9.7. Market Orientation, Product Innovation, and Excellence Competing Together to SMEs Performance

Based on the results obtained can be seen that the value of f-count is 460.118 with f-table value of 2.65. Thus the f-count (460.118) is greater than the f-table value (2.65). From the data, it can be concluded that market orientation, product innovation and competitive advantage together have a significant effect on SME performance. The effect of market orientation, product innovation, and competitive advantage over SMEs is 0.90, which means that market orientation, product innovation, and competitive advantage have a positive impact on SMEs performance. The higher the value of market orientation, product innovation, and competitive advantage will be the higher the value of SMEs performance. The seventh hypothesis is accepted.

Market orientation is a condition in which a company makes a decision based on real market conditions and approaches the market by researching and understanding the prevailing values (Pertiwi & Siswoyo, 2016). Market-oriented firms are well positioned to develop and improve the company's position to be more distinctive (relative to competition) in the long term (Kumar et al, 2011).

Companies in making product innovations should pay attention to market orientation because knowledge of market orientation is the key to successful innovation of products to be produced (Wiwoho, 2012). Competitive advantage owned by the company because the company is able to dominate the market. By conducting market orientation for the purpose of knowing information about competitors and information about consumer needs, and innovating on the products produced, the company will be able to seize market share and compete with other SMEs. Given the market orientation, innovating on the products produced and having competitive advantage will be able to improve the performance of SMEs themselves.

5. Conclusions, Limitations and Implications

5.1. Conclusion

1. Market orientation has a positive and significant impact on competitive advantage. This positive influence

indicates that with increasing market orientation, it will increase the competitive advantage of Small and Medium Enterprises. Small and Medium Enterprises that implement market orientation will potentially increase the competitive advantage of the business. The dimension that reflects the application of market orientation is customer orientation. With regard to customer satisfaction, SMEs will be able to seize market share. Consumers as parties who consume the products produced, certainly expect the satisfaction obtained when consuming these products, with attention and increase customer satisfaction, then SMEs will be able to increase competitive advantage.

2. Product innovation has a positive and significant impact on competitive advantage. This positive influence shows that with increasing product innovation, it will increase competitive advantage for Small and Medium Enterprises. Small and Medium Enterprises that continuously innovate the resulting product will have competitive advantage. The dimension that reflects the application of product innovation is to develop good product quality. To produce an innovative product, of course, must use quality materials. These quality materials will support the performance of the product itself. Consumers as users of the resulting product would want the product purchased is a quality product, therefore SMEs players need to produce innovative products from quality materials to enhance competitive advantage.
3. Market orientation and product innovation together have a positive and significant impact on competitive advantage. Given this positive influence, any increase in market orientation and product innovation will increase the competitive advantage of Small and Medium Enterprises. Good customer orientation and product quality development are dimensions that reflect market orientation and product innovation. The competitive advantage of SMEs will increase if the actors pay attention to customer satisfaction and use quality materials to produce innovative products. Because, with attention to customer satisfaction will be able to seize the market and increase competitive advantage. Products produced using quality materials will certainly support the performance of the product itself, and consumers would expect a good quality of products purchased.
4. Market orientation has a positive and significant impact on the performance of small and medium enterprises. This positive influence shows that market orientation will improve the performance of small and medium enterprises. The perpetrators of SMEs who apply market orientation in their business can potentially improve business performance. The reflective dimension in market orientation is customer orientation. SMEs actors are required to pay attention to customer satisfaction. As a consumer, it certainly wants satisfaction on products that have been purchased. With the satisfaction received by consumers over the use of the product, there will be subsequent purchasing activities undertaken by consumers and there is likely to be promotion of word of mouth made by consumers so that will increase the company's sales and will increase profits.
5. Product innovation has a positive and significant impact on the performance of small and medium enterprises. This positive influence shows that with

product innovation will improve the performance of small and medium enterprises. Small and Medium Enterprises that continuously innovate the product, will attract consumers to buy the product, this will improve the performance of SMEs themselves. The reflective dimension in product innovation is to develop good product quality. To produce innovative products must have to use quality materials, so in addition to having innovation, the product also has a good quality. As a consumer, would want the product purchased is a quality product and in accordance with consumer expectations. By using quality materials as raw materials to produce the product, the quality of the product itself can be guaranteed. The better the quality of the product will increase the product performance.

6. Competitive advantages have a positive and significant impact on the performance of small and medium enterprises. This positive influence shows that with the existence of competitive advantage, it will improve the performance of small and medium enterprises. Small and medium enterprises that have competitive advantage will certainly control the market share. In this way, the performance of the SMEs will increase. The reflective dimension in competitive advantage is product quality and competitive price. Competitive advantage can be realized by producing products that have good quality and set a cheaper price in order to compete in the market. Products that have good quality would be a hope and desire for consumers. Consumers do not want to be disappointed after consuming the product. Therefore, SMEs are expected to pay attention and improve product quality. SMEs are also expected to set a low price to attract buyers. After all, many consumers want products that have good quality with a cheap price. If the resulting product is of high quality at an affordable price, it will increase the sales volume and profit of SMEs.
7. Market orientation, product innovation and competitive advantage together have a positive and significant impact on the performance of small and medium enterprises. This positive influence indicates, with the existence of market orientation, product innovation and competitive advantage, it will improve the performance of small and medium enterprises. Customer orientation, development of good product quality, product quality, and competitive prices are dimensions that reflect market orientation, product innovation, and competitive advantage variables. SMEs actors are required to pay attention to customer satisfaction. As a consumer, it certainly wants satisfaction on products that have been purchased. With the satisfaction received by consumers over the use of the product, there will be subsequent purchasing activities undertaken by consumers and there is likely to be promotion of word of mouth made by consumers so that will increase the company's sales and will increase profits. This will certainly improve the performance of SMEs themselves. So also with the innovations made by SMEs on the products produced. SMEs players should use quality materials to maintain the quality of the product itself. Innovative products with quality materials will raise consumer interest to own the product, thereby improving the performance of SMEs. Increased performance of SMEs is also inseparable from the competitive advantages possessed by SMEs. Competitive advantage that can be realized by the

quality of good products and low prices that can be reached by the community.

5.2. Limitations

1. The sample used in this study is limited in the context of Small and Medium Business actors. Therefore results may not be generalizable to other unlike industries. Thus, further research can develop this research by taking samples outside of Small and Medium Business actors.
2. The process of data retrieval in this study was conducted by distributing questionnaires to the perpetrators of Small and Medium Enterprises as possible respondents in filling the questionnaire not in accordance with the actual situation. The conclusions of this study depend only on statistical results based on the nature of quantitative research. Perhaps, with more in-depth interviews with qualitative research methods useful to explain the findings further.
3. This research uses only Market Orientation Variables, product innovation, competitive advantage in assessing the performance of Small and Medium Enterprises. Suggestions for further research by adding another variable that was not previously studied.

5.3. Implications

5.3.1. Theoretical Implications

This research is expected to add knowledge and insight about the effect of market orientation and product innovation on competitive advantage and its implication to SMEs performance. In this study, all the variables studied have an influence on competitive advantage and performance of SMEs.

1. Market orientation has a positive and significant impact on competitive advantage. The theoretical implications of market orientation to competitive advantage can be explained that SMEs who apply market orientation in their business activities will be able to increase competitive advantage.
2. Product innovation has a positive and significant impact on competitive advantage. The theoretical implications of product innovation on competitive advantage can be explained that the SMEs actors who innovate the product on the product will increase the competitiveness of the business itself so that it will increase the competitive advantage.
3. Market orientation and product innovation together have a positive and significant impact on competitive advantage. The theoretical implications together with market orientation and product innovation on competitive advantage can be explained that the ability of small and medium business actors in applying market orientation in running their business and producing innovative products will affect the competitive advantage.
4. Market orientation has a positive and significant impact on the performance of small and medium enterprises. The theoretical implications of market orientation on the performance of small and medium enterprises can be explained that the actors of SMEs who apply market orientation in running their business activities will be able to improve the performance of small and medium enterprises.

5. Product innovation has a positive and significant impact on the performance of small and medium enterprises. The theoretical implications of product innovation on the performance of small and medium enterprises can be explained that the SMEs actors who innovates the products will improve the performance of SMEs. Given the unlimited desire of consumers, then SMEs are expected to be able to continue to innovate in producing products.
6. Competitive advantages have a positive and significant impact on the performance of small and medium enterprises. The theoretical implications of competitive advantage over the performance of small and medium enterprises can be explained that competitive advantage possessed by SMEs will be able to improve the performance of SMEs. SMEs that have competitive advantage will win the competition. To be able to have competitive advantage, then SMEs are expected to apply market orientation and innovate the resulting product.
7. Market orientation, product innovation and competitive advantage jointly have a positive and significant impact on SME performance. The theoretical implications of jointly market orientation, product innovation, and competitive advantage over SMEs' performance are the SMEs implementing market orientation in conducting business activities, innovating the products produced, and having competitive advantage will be able to improve the performance of SMEs.

5.3.2. Managerial Implications

1. Based on the results of structural model analysis through hypothesis testing research has proven that market orientation will affect the competitive advantage. Therefore, the thing that needs to be done to increase competitive advantage is by applying market orientation.
2. Based on the results of structural model analysis through hypothesis testing research has proven that product innovation affect the competitive advantage. Therefore, SMEs players need to innovate the resulting product in order to have competitive advantage. And it is expected that this product innovation is done continuously.
3. Based on the results of structural model analysis through hypothesis testing has been proven that market orientation and product innovation together affect the competitive advantage. Therefore, SMEs are expected to apply market orientation in running their business activities through orientation to customers, competitive advantage will increase if the SMEs actors pay attention to customer satisfaction. And also expected SMEs players to innovate the products produced in order to have competitive advantage. Product innovation can be done with the development of good product quality.
4. Based on the results of the analysis, structural model through hypothesis testing has been proven that the market orientation affect the performance of SMEs. Therefore, it is expected for SMEs to apply market orientation in their business activities in order to improve business performance.
5. Based on the results of structural model analysis through hypothesis testing has been proven that product innovation effect on the performance of SMEs.

Therefore, SME players need to innovate on the products produced and this innovation should be sustainable in order to improve the performance of SMEs.

6. Based on the results of structural model analysis through hypothesis testing has been proven that competitive advantage affect the performance of SMEs. Therefore, SMEs should try to make their business have competitive advantage. Because of this competitive advantage can improve the performance of SMEs.
7. Based on the results of the structural model analysis through hypothesis testing has been proven that market orientation, product innovation, and competitive advantage together affect the performance of SMEs. Therefore, it is expected that SMEs in running their business always apply market orientation, make product innovation continuously and have competitive advantage which will improve the performance of SME itself. Implementation of market orientation can be done with orientation to the customer, this is because the success or failure of the business due to support from customers who become the source of income for SMEs. If customers get satisfaction over the product consumed or used, then the customer will have a high loyalty to the products produced by SMEs and this will affect the performance of SMEs. Application of product innovation can be done with the development of quality products. As a consumer, want the product purchased has a good quality. If SMEs have good quality products, then consumers will be loyal to the products produced by SMEs themselves and this will improve the performance of SMEs. Implementation of competitive advantage can be done by producing quality products and competitive prices so that can be reached by consumers. Most consumers want a quality product but at an affordable price. Therefore, SMEs are required to produce good products and set an affordable price in order to compete with other SMEs.

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