

# MARKET ORIENTATION TO IMPROVE MARKETING PERFORMANCE THROUGH THE COMPETITIVE ADVANTAGES OF BATIK SMEs

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**Abstract:** The purpose of this study was to investigate competitive advantage as a mediator of the effect of market orientation on the marketing performance of Batik UKM in Malang. The population of this research is 100 batik SME owners in Malang. Sampling in this study uses saturated / census sampling, meaning that all populations are used as samples so that the sample of this study amounted to 100 respondents. Data analysis uses Structural Equation Modeling (SEM). The results showed that there was a direct and positive influence of market orientation on the marketing performance of batik SMEs in Malang City and the competitive advantage was able to mediate the influence of market orientation on the marketing performance of batik SMEs in Malang City.

**Keywords:** marketing performance, competitive advantage, market orientation.

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Small and Medium Enterprise (SME) is an important part of a country's economy. One of the ideas in empowering SMEs in Indonesia is the batik business. In Indonesia, batik industry develops very rapidly. This can be seen from a large number of batik industry in Indonesia, including Malang City. Batik *Malangan* is still not as familiar to Indonesians as another Javanese batik because it is still relatively new. However, the patterns of *Malangan* Batik is still being explored by the govern-

ment of Malang City, other related organizations such as the Department of Cooperative and SMEs, the Department of Industry and Trade (*Disperindag*), Banking and educational institutions.

Currently, the batik industry in Malang City is still being developed to improve the batik quality and be able to compete with the batik industry both in East Java and even outside of East Java. The main problem in the batik industry in Malang City is that batik entrepreneurs are still classified as a home-based business with limited and simple capital management. With good management, the batik industry in Malang City can compete with batik industry in other cities, depending on the marketing performance that is applied.

Every company has a goal to grow and run sustainably. In the globalization era, which is indicated by a very tight competition, companies are

required to be able to develop strategies in marketing management so that they can adapt to a dynamic environment. By considering this situation, the market must be managed systematically to place profits from good market performance (Nerver and Slater, 1990). According to Ferdinand (2011), marketing performance is something that companies want to achieve. The company can make the company run effectively and increase market share and profitability.

Marketing performance is used as a tool to measure the overall success rate of performance, including the success of the strategy implemented, sales growth, and company profits. Performance is all systems related to the activities and results obtained. Almost all methods of measuring performance consider several aspects, namely the quantity of work, quality of work, timeliness, cooperation, and personal quality (Gable M, 2000). Miller (2003) stated that marketing performance indicators could be seen from market results, customer assessment results, customer behavior results, and financial results. Ferdinand (2011) used three marketing performance indicators, namely sales growth, customer growth, and product success.

The effectiveness of the marketing strategy in the batik industry depends on market orientation. In line with increasing global competition and changing customer needs, market orientation is very important for companies. The company that realizes they need to monitor the market trend. Uncles (2000) argued that market orientation is a process and activity to attract and satisfy new customers by observing customer needs and desires continuously. Market orientation will improve the performance of the company. Nerver and Slater (1990), Baker (1999), Sarjita (2017) and Guspul (2016) argued that market orientation influences marketing performance, while Greenley (1995) and Han et al. (1998) found that market orientation did not affect marketing performance.

Contradiction on the effect of market orientation on marketing performance creates a gap. It should be reviewed by adding mediating variables, that is a competitive advantage.

Every company that competes in an industrial environment wishes to excel its competitors.

Bharadwaj et al. (1993) explained that a competitive advantage is the result of strategies that utilize a variety of company resources. Porter (1990) explained that competitive advantage is the heart of marketing performance in facing competition. Kamy et al. (2010) stated that there is a positive interaction effect of market orientation in the relationship between knowledge management and competitive advantage. Meanwhile, Afsharhasemi et al. (2013) stated that there is a significant positive relationship between market orientation towards competitive advantage in SMEs in Malaysia.

Competitive advantage is expected to realize market performance and superior financial performance (Day and Wensley, 1988). Ferdinand (2011) stated that competitive advantage could be obtained if the company has succeeded in building, maintaining, and developing all unique advantages possessed by the company resulted from the operation of the company's strategic assets. Lakhal (2009) stated that there is a positive relationship between competitive advantage and company performance. Monsur and Yoshi (2012) stated that there is a significant positive relationship between company performance and competitive advantage.

Based on the phenomena and results of previous studies that still cause gaps, it is interesting to do a study about competitive advantage mediating the effect of market orientation on the marketing performance of Batik SMEs in Malang.

## Hypothesis Testing

The effectiveness of marketing performance depends on the market orientation of the batik industry. According to Kohli (1990), market orientation is a corporate culture that can lead to improved marketing performance. Meanwhile, Slater et al. (1990) defines that market orientation as the most efficient and effective organizational culture for creating the behavior needed to build superior value for buyers and superior performance shown for companies. Companies that have a market orientation as their organizational culture will be based on market tastes, basic external needs, and demands to develop strategies for each business unit in the organization and determine the success of the com-

pany. Uncles (2000) stated that market orientation is a process and activity to attract and satisfy the customer by assessing customer needs and desires continuously. Market orientation will show improved performance to the company. Nerver and Slater (1990), Baker (1999), Sarjita (2017), Guspul (2016) argued that market orientation influences marketing performance.

H<sub>1</sub>: Market orientation influences marketing performance significantly

Every company that competes in an industrial environment wishes to excel its competitors. Porter (1990) explained that to face competition requires competitive advantage as the heart of marketing performance. Kamy et al. (2010) states that there is a positive effect of market orientation in the relationship between competitive advantage and knowledge management. Meanwhile, Afsharhasemi et al. (2013) states that there is a significant positive relationship between market orientations towards a competitive edge to SMEs in Malaysia. Competitive advantage is expected to realize excellent market performance and financial performance (Day and Wensley, 1988). Monsur and Yoshi (2012) stated that there is a significant positive relationship between competitive advantage and company performance. Lakhal (2009) argued that there is a positive relationship between competitive advantage and company performance. Based on the review above, the hypothesis that can be formulated is:

H<sub>2</sub>: Competitive Advantage mediates the influence of market orientation on market performance

## METHOD

This research is explanatory research, which intends to investigate the effect of market orientation on the marketing performance of Batik SMEs through competitive advantage. The subjects or respondents in this study were the owners of 100 batik SMEs in Malang. The sampling technique used in this study was saturation sampling/census. It means that all populations were taken as research samples spread in 5 districts, namely *Blimbing Sub-*

*district, Sukun Sub-district, Klojen Sub-district, Kedungkandang Sub-district, and Lowokwaru Sub-district.*

In this research, the data was collected using questionnaires that contain several questions based on the indicators of market orientation, referring to Narver et al. (1990). It consists of customer orientation, competitor orientation, and inter-functional coordination. Competitive advantage refers to Bharadwaj (1993), which consists of indicators of valuable products, unique products, and irreplaceable products. Marketing performance refers to Ferdinand (2011) consists of sales growth, customer growth, and product success. The answers to each variable in this study were collected using a *Likert* scale ranging from 1-5 (starting from strongly disagreeing; disagree; neutral; agree and strongly agree). The data obtained from the questionnaire was tested and then analyzed by using Structural Equation Modeling (SEM) with the help of AMOS 6.0 software. At the analysis process, the suitability of the model is tested and evaluated by reviewing various goodness of fit, some suitability indexes, and cut-off values to test whether a model can be accepted or rejected. The criteria of goodness of fit testing are as follows: Significant Probability <sup>3</sup> 0.05, GFI <sup>3</sup> 0.90, CMIN / DF d" 2.00, RMSEA d" 0.08, AGFI <sup>3</sup> 0.90, CFI <sup>3</sup> 0.95, and TLI value <sup>3</sup> 0.95.

To prove whether there is direct influence or not, the researcher conducted t-test, with the following criterion: if probability  $t < \text{significance of } 5\%$ , then market orientation has a significant effect on marketing performance. Meanwhile, to investigate the indirect effect, the researcher compared the total effect with the direct effect. If the total effect is greater than the direct effect, the competitive advantage is a variable mediating the effect of market orientation on marketing performance (Ferdinand, 2006)

## RESULTS

### Validity and Reliability Test

The results of the instruments' validity and reliability are presented in Table 1 below:

Table 1 The Results of Instrument Test

Variable	Item	Correlation		Coefficient	
		R <sub>count</sub>	Status	alpha	status
Market Orientation	X1.1	0.841	Valid	0.780	Reliable
	X1.2	0.849	Valid		
	X1.3	0.813	Valid		
Competitive Advantage	X2.1	0.871	Valid	0.760	Reliable
	X2.2	0.827	Valid		
	X2.3	0.774	Valid		
Marketing Performance	Y1.1	0.876	Valid	0.832	Reliable
	Y1.2	0.885	Valid		
	Y1.3	0.849	Valid		

Table 1 shows that all variables used in this study are reliable because the reliability values are more than 0.6. This means that the data contained in the questionnaire can be used in this research. The results of the validity test (Corrected item-total Correlation) also show that the validity value of each indicator is more than 0.4, indicating that the respondents understood all answer options used in the questionnaire.

### Analysis Results of Goodness of Fit SEM

The theoretical model fits within the conceptual framework of research if it is supported by empirical data. The good results of the overall fit model follow the results of the SEM analysis. Following is Figure 1 which shows a hypothetical model supported by empirical data.

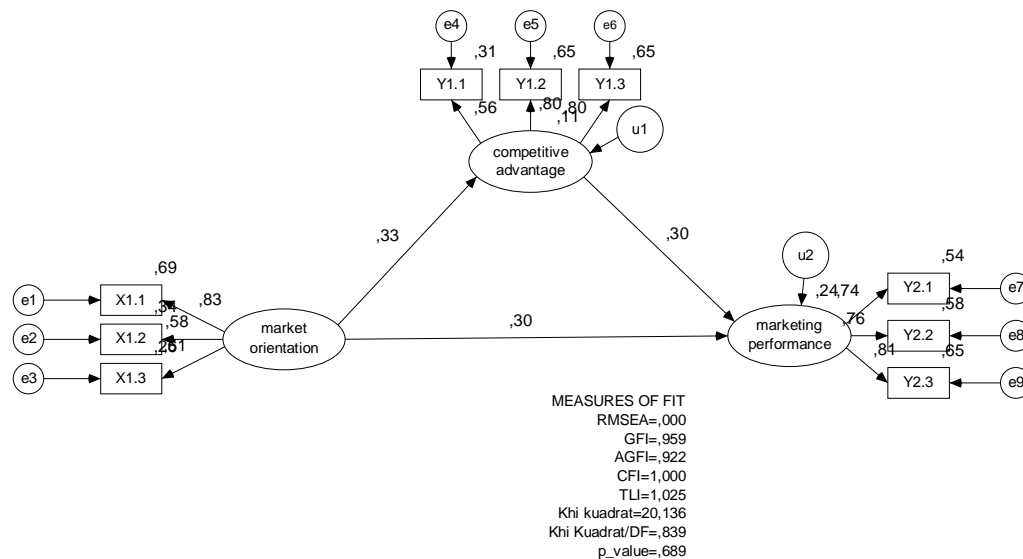


Figure 1 Path Diagram of SEM Analysis Results

The results of Goodness of Fit Overall test presented in Figure 1 show that  $p\text{-value} = 0.689 \geq 0.05$ ,  $\text{CMIN/DF} = 0.839 \leq 2.00$ ,  $\text{GFI} = 0.959 \geq 0.90$ ,  $\text{AGFI} = 0.959 \geq 0.90$ ,  $\text{TLI} = 1.025 \geq 0.95$ ,  $\text{CFI} = 0.997 \geq 0.95$  and  $\text{RMSEA} = 0.000 \leq 0.08$ . These results indicate that the research model used is good and meets the cut-off value so that the model can be used in this research. Therefore, interpretation should be made for further discussion.

### Results of Hypothesis Test

The results of the hypothesis test about the influence of market orientation on marketing performance and market orientation on marketing performance through competitive advantage are presented in Table 2 below:

The hypothesis test about the influence of market orientation on marketing performance produces an estimated value of 0.301 with a  $p\text{-value}$

**Table 2 Results of Hypothesis Test**

Influence Between Variables	Estimation	p-value	Through Competitive Advantage	Total Influence
Market orientation → Competitive Advantage	0.326*	0.030	-	0.326
Market orientation → Marketing Performance	0.301*	0.045	$0.326 \times 0.297 = 0.097$	0.398
Competitive Advantage → Marketing Performance	0.297*	0.031	-	0.297

Note: \*  $p < 5\%$

of 0.045, smaller than 5% significance level, so the hypothesis stating that market orientation influences marketing performance is acceptable.

The hypothesis test about the indirect effect of market orientation on marketing performance through competitive advantage generated a total coefficient of 0.398. It is greater than the direct effect of market orientation on the marketing performance of 0.301. Therefore, the hypothesis stating that competitive advantage can mediate the effect of market orientation on marketing performance is acceptable.

## DISCUSSION

### Influence of market orientation on marketing performance

The analysis results show that the marketing performance of batik SMEs in Malang is influenced by market orientation. It means that the marketing performance of batik SMEs in Malang is improved because batik SMEs have market orientation, such as customer orientation, which is implemented by considering customer needs and knowledge so that

all organizational functions meet all of the customer's needs. Also, the owners of batik SMEs need to have competitor orientation. They should observe their competitors' activities and respond to them immediately, disseminate competitor information to all elements of their SMEs, and provide information about the strength and strategies of competitors. The owners of batik SMEs also need to carry out inter-functional coordination that focuses on disseminating and using market information through coordinated efforts and emphasizing the collective use of organizational resources to deliver excellent customer value.

This result is in line with the opinion of Never and Settler (1990) that market orientation as the most efficient and effective organizational culture for creating the behavior needed to build superior value for buyers and superior performance shown for companies. Companies that have a market orientation as their organizational culture will be based on market tastes, basic external needs, and demands to develop strategies for each business unit in the organization and determine the success of the company.

Uncles (2000) stated that market orientation is a process and activity to attract and satisfy the customer by assessing customer needs and desires continuously. Market orientation will improve company performance. These results reinforce the studies which were conducted by Nerver and Slater (1990), Baker (1999), Sarjita (2017), Guspul (2016), suggesting that market orientation influences marketing performance.

### Competitive advantage mediates the influence of market orientation on marketing performance

Based on the analysis results, it was found that competitive advantage can mediate the influence of market orientation on the marketing performance of batik SMEs in Malang. The results show that market orientation is very effective in obtaining and maintaining competitive advantage, starting with customer orientation by identifying customer needs; therefore, all batik SMEs should meet all consumer needs, whether by creating new products or developing old products. If they have competitor orientation, they will be able to observe competitors' activities and respond to them immediately, disseminate competitor information to all elements of their SMEs, provide information about the strength and strategies of competitors, and carry out inter-functional coordination that focuses on disseminating and using market information through coordinated efforts and emphasizing the collective use of organizational resources to deliver excellent customer value. If market orientation builds competitive advantage, the marketing performance will be improved.

The results of this study are in line with Kamya et al. (2010), stated that there is a positive effect of market orientation between knowledge management and competitive advantage. Meanwhile, Afsharghasemi et al. (2013) stated that there is a significant positive relationship between market orientations towards competitive advantage in SMEs in Malaysia. Competitive advantage is expected to realize excellent market performance and financial performance (Day and Wensley, 1988). Monsur and

Yoshi (2012) stated that there is a significant positive relationship between company performance and competitive advantage. Lakhal (2009) argued that there is a positive relationship between company performance and competitive advantage.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

Based on the findings obtained in this study, there is a direct and positive influence of market orientation on the marketing performance of batik SMEs in Malang. Competitive advantage can mediate the effect of market orientation on the marketing performance of batik SMEs in Malang.

### Recommendations

Based on these conclusions, batik SMEs in Malang City should be more sensitive to market developments occurring within and outside Malang City. Batik SME in Malang should be able to respond to the development of the market so that the business will be stable. Regional Work Units of Malang related to the growth and development of batik SMEs should provide opportunities and marketing facilities to batik SMEs; therefore, SMEs can produce superior products based on local potentials, which will be the typical batik of Malang City. The next researcher should study of entrepreneurial orientation.

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