
The Influence of Market Orientation and Innovation on Business Performance Mediated by Competitive Advantage (Survey of SMEs Registered with the Mukti Manunggal Batik Association)

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Abstract

The purpose of this research is to test the influence of market orientation and innovation on SME's performance and market orientation and innovation on SME's performance mediated by competitive advantage in the batik SME's of Mukti Manunggal Batik Association. The phenomenon in this research the inability of the batik SME's of Mukti Manunggal Batik Association to understand market orientation, innovate, and competitive advantage. The methods in this study use descriptive and quantitative analysis. The population in this research amounted to 35 batik SME's. Sampling technique use census techniques that make all SME's as sample. The analytical techniques uses Partial Least Square with loading factor and AVE > 0.5, composite reliability and cronbach's alpha > 0.7, compares cross loading value with the cross loading value on the affected variable, and original sample in determining relationships direction as well as p values < 0.5 in determining significance. Data collection using observations, questionnaires, and interviews. The results of the analysis showed that: 1). Market orientation and innovation has positive and significant effect on SME's performance, 2). Market orientation and innovation influence positive and significant SME's performance mediated by competitive advantage.

Key words: *SME's performance, Market Orientation, Innovation, Competitive Advantage*

1. Introduction

Indonesian Batik as a whole of techniques, technology, as well as the development of motifs and related cultures in it has been designated by UNESCO as a human heritage for oral and non-material culture (Masterpiece of the Oral and Intangible Heritage of Humanity).

According to the Center for Handicraft and Batik of the Republic of Indonesia (2013), there are 277 batik SMEs in Yogyakarta whose locations are spread across various regions. One of them is in Sleman Regency. Sleman Regency has batik SMEs, whose product quality is no less competitive with batik products from

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other regions in Yogyakarta. The most proud batik motif from Sleman Regency is the *sinom parihotho salak* batik motif. This motif illustrates one of the advantages of agricultural products produced by Sleman Regency, namely *salak*. Batik SMEs in Sleman Regency have a batik community called the Mukti Manunggal Batik Association consisting of 35 batik SMEs who are directly mentored by the Industry and Trade Office of Sleman Regency.

The phenomenon in this study is that the lack of understanding of market orientation, innovation, and competitive advantage in 35 batik SMEs registered with the Mukti Manunggal Batik Association is an important issue to analyze which aims to formulate appropriate strategies to improve the performance of 35 SMEs. In this study, there are factors that affect the performance of 35 SMEs registered in the Mukti Manunggal Batik Association, which include: market orientation, innovation, and competitive advantage. So it can be concluded that the formulation of the problem in this study is: Does market orientation affect the performance of SMEs? Does innovation affect the performance of SMEs?, Does market orientation affect the performance of SMEs mediated by competitive advantage?, and Does innovation affect the performance of SMEs mediated by competitive advantage?.

Based on the formulation of the problem, it can be concluded that the purpose of this study is to determine and analyze the effect of market orientation on the performance of SMEs, the effect of innovation on the performance of SMEs, the effect of market orientation on the performance of SMEs mediated by competitive advantage, and the influence of innovation on the performance of SMEs mediated by excellence competence.

2. Methodology

The minimal methodology contains the development of concepts or the development of research models or designs; data collection, methods of analysis. The writing does not have to use sub-chapters but it can also be with sub-chapters as in the following example:

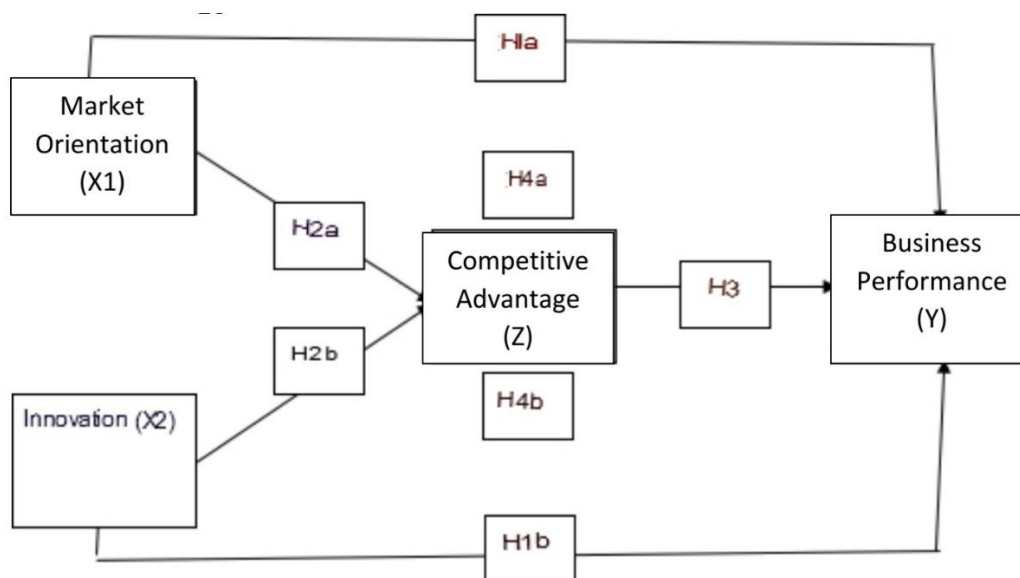
2.1. Model Development

2.1.1. Subject Matter

In this study, the population used were all batik SMEs registered with the Mukti Manunggal Batik Association. Based on the total population in this study, researchers took 100% of the population of batik SMEs registered with the Mukti Manunggal Batik Association, which amounted to 35 SMEs. Thus, the use of the total population without having to draw a research sample as a unit of observation is referred to as a census technique or saturated sampling.

2.1.2. Variable 1, variable 2, variable 3, and variable 4

In this study, 4 (four) variables are used, which include: market orientation and innovation as a variable (X) or independent variable, competitive advantage as a variable (Z) or mediating variable, and business performance as a variable (Y) or the dependent variable.



Sources: Prifti and Alimehmeti (2017), Udriyah et al. (2019)

Figure 1. Research Model

Market Orientation (X1)

Narver and Slater (1995), stated that market orientation as the most effective organizational culture in creating important behaviors for the creation of superior value for buyers and performance in business. Market orientation consists of three behavioral components, namely: customer orientation, competitor orientation, and interfunctional coordination. The dimensions of market orientation according to Narver and Slater (1995) include: customer orientation (X1.1), competitor orientation (X1.2), and market information (X1.3).

Innovation (X2)

Innovation is the process of creating new ideas and putting those ideas into practice. Innovation is new ideas in products, so the results are better. In corporate organizations, innovation takes two forms, namely: product innovation that produces new goods or services or improvements to existing ones and innovation process that produces a new way of doing a process. Innovation as a company mechanism to adapt in a dynamic environment (Hurley and Hult (1998) in Wahyono (2002)). Anderson et al. (1989) in Zahra and Das (1993) show that there are four dimensions of innovation which include: product innovation (X2.1),

process innovation (X2.2), internal innovation sources (X2.3), and sources of innovation external (X2.4).

Competitive Advantage (Z)

According to Kotler (2005), competitive advantage is an advantage over competitors that is obtained by offering more value to consumers, either through lower prices or by providing more benefits that support higher prices. Maximize value capabilities that set it apart from competitors. The dimension of competitive advantage refers to the opinion of Clark et al. (1988) in Moghli (2012) which include: order completion time (Z1.1), product uniqueness (Z1.2), product quality (Z1.3), and competitive prices (Z1.4).

Business Performance (Y)

Comprehensively, Mwita (2000), explains that performance is a link between behavioral variables (processes), outputs, and outcomes (value added or impact). The dimensions of business performance refer to previous research in which the theory put forward by Wiklund and Shephend (2005) combined with the opinions of Zainol and Ayaduray (2011) include: sales growth (Y1.1), asset growth (Y1.2), profit growth (Y1.3), and customer growth (Y1.4).

3. Result

Descriptive analysis in this study serves for research that is intended to determine whether or not there is a relationship between two or several variables. In this study, researchers examine the effect of market orientation and innovation as variables (X) which functions as a variable that affects or is called the independent variable, competitive advantage as a variable (Z) which functions as a mediating variable or is called an intervening variable, and business performance as a variable (Y) which functions as an affected variable or is called the dependent variable.

Based on Table 1, the characteristics of 35 Batik SMEs Registered with the Mukti Manunggal Batik Association, it shows that the owners or managers of Batik SMEs registered with the Yogyakarta Mukti Manunggal Batik Association between the ages of 31 to 40 years are 1 person (2.9%), the next one who aged 41-50 years as many as 14 people (40.0%), while those aged over 50 years as many as 20 people (57.1%). This shows that the majority of the respondents who were sampled in this study were > 50 years old. Then, it is known that the owners or managers of Batik SMEs registered with the Yogyakarta Mukti Manunggal Batik Association are male as many as 17 people (48.6%), and women as many as 18 people (51.4%). There are 25 Batik SMEs registered with the Mukti Manunggal Batik Association in Yogyakarta with a high school education/equivalent, as many as 25 people (71.4%), Diploma as many as 7 people (20.0%) and S1 as many as 3 people (8.6%). Based on the length of their business, Batik SMEs registered with the Yogyakarta

Mukti Manunggal Batik Association are less than 10 years old in running their business.

Quantitative Analysis

In this study using Partial Least Square (PLS) in which there are 2 (two) analyzes carried out by researchers, which include: the outer model or measurement model and the inner model or structural model. The outer model is a test of validity and reliability. The validity test is viewed from the convergent validity (loading factor) > 0.5 and the AVE value > 0.5 (Chin, 1998 in Ghozali and Latan, 2015). Then,

Table 1. Characteristics of Owners of Batik SMEs Registered at the Mukti Manunggal Batik Association

Owner Identity	Category	Frekuensi (Jumlah)	Persentase
Age	31-40 Years	1	2,9%
	41-50 Years	14	40%
	>50 Years	20	57,1%
	Total	35	100%
Gender	Man	17	48,6%
	Woman	18	51,4%
	Total	35	100%
Education	High School	25	71,4%
	Diploma	7	20,0%
	Bachelor degree	3	8,6%
	Total	35	100%
Business Length	1,5 Years	1	2,9%
	2 Years	6	17,1%
	2,5 Years	1	2,9%
	3 Years	5	14,3%
	3,5 Years	1	2,9%
	4 Years	8	22,9%
	5 Years	7	20%
	6 Years	6	17,1%
Total	35	100%	

Source: Primary Data Processed, 2021

compare the cross loading value on the indicator with the cross loading value on the affected indicator (Ghozali and Latan, 2015). The reliability test is viewed from the value of composite reliability and Cronbach's alpha > 0.7 (Fornell and Lacker, 1981 in Ghozal and Latan, 2015). Inner model or commonly known as hypothesis testing which aims to predict the relationship between latent variables. The inner model is evaluated with the value of R square for each dependent latent variable as the predictive power of the structural model, Q square as predictive relevance (the principle is the same as R square as goodness of fit), parameter coefficients,

and p values as the estimated value for path relationships in the model. Structural structure must be significant as indicated by p values < 0.05 (significance 5%) (Ghozali and Latan, 2015).

Outer Model or Measurement Validity and Reliability Test Model

In this analysis, it shows that the data is valid where the loading factor value is > 0.5 and the AVE is > 0.5 (Chin, 1998 in Ghozali and Latan, 2015). Then, the cross loading value of each indicator is greater when compared to the cross loading value of the affected variable indicator (Ghozali and Latan, 2015). This shows that all statement items related to market

Table 2. Convergent Validity (Loading Factor)

Variable	Indicator	Loading Factor	Criteria	Result
Market Orientation	X1.1	0.924		Valid
	X1.2	0.832	> 0,5	Valid
	X1.3	0.891		Valid
Innovation	X2.1	0.860		Valid
	X2.2	0.854	> 0,5	Valid
	X2.3	0.858		Valid
Business Performance	Y1.1	0.868		Valid
	Y1.2	0.869	> 0,5	Valid
	Y1.3	0.886		Valid
Competitive Advantage	Z1.1	0.841		Valid
	Z1.2	0.893		Valid
	Z1.3	0.830	> 0,5	Valid
	Z1.4	0.836		Valid
	Z1.5	0.868		Valid
	Z1.6	0.896		Valid

Source: Primary Data Processed, 2021

Tabel 3. AVE

Variable	AVE	Criteria	Result
Market Orientation	0,735	> 0,5	Valid
Innovation	0,741	> 0,5	Valid
Business Performance	0,764	> 0,5	Valid
Competitive Advantage	0,780	> 0,5	Valid

Source: Primary Data Processed, 2021

Tabel 4. Discriminant Validity (Cross Loading)

Indicator	Innovation	Competitive Advantage	Business Performance	Market Orientation
Innovation	0,857			
Competitive Advantage	0,881	0,861		
Business Performance	0,831	0,924	0,874	
Market Orientation	0,893	0,881	0,819	0,883

Source: Primary Data Processed, 2021

Tabel 5. Composite Reliability

Composite Reliability				Criteria	Status
Market Orientation	Innovation	Competitive Advantage	Business Performance		
0,914	0,893	0,945	0,907	> 0,7	Reliable

Source: Primary Data Processed, 2021

Tabel 6. Cronbach's Alpha

Cronbach's Alpha				Criteria	Status
Market Orientation	Innovation	Competitive Advantage	Business Performance		
0,886	0,858	0,930	0,846	> 0,7	Reliable

Source: Primary Data Processed, 2021

orientation, innovation, competitive advantage, and business performance are valid and can be used for this research.

In this study, the reliability test used composite reliability and Cronbach's alpha values. The variables of market orientation, innovation, competitive advantage, and business performance are declared reliable which have a composite reliability value > 0.7 and Cronbach's alpha > 0.7 (Fornell and Lacker, 1981 in Ghazali and Latan, 2015).

Inner Model or Structural Model

In this study, the inner model is evaluated with the value of R square for each dependent latent variable. Then, Q square as predictive relevance (the principle is the same as R square as goodness of fit), parameter coefficient, and P values. Based on the results of these calculations, it is proven that the effect of market orientation on business performance is 50.8%, the influence of innovation on business performance is 45.2%, the effect of market orientation on competitive advantage is 46.3%, the influence of innovation is 46.8%, competitive advantage on business performance is 86.8%, the effect of market orientation on business performance mediated by competitive advantage is 40.6%, and innovation on business performance mediated by competitive advantage is 40.2%.

Then, it is proved that the R square of the business performance variable is 85.5% and the R square of the competitive advantage variable is 82%. This shows that market orientation, innovation, and competitive advantage variables can explain business performance variables by 85.5% and the remaining 14.5% is explained by other factors outside of this study. Furthermore, market orientation and innovation variables can explain the competitive advantage variable by 82% and the remaining 18% is explained by other factors outside this research.

In this study, Q squared coefficients can be calculated by the formula: Q squared coefficients = 1 - (1 - R Square of competitive advantage) x (1 - R Square of business performance). Q squared coefficients = 1 - (1 - 0.820) x (1 - 0.855) = 0.973 or 97.3%.

The value of 97.3% means that the model has a good predictive relevance or goodness fit, the remaining 2.7% cannot be detected by the model in this study. Then the significance is proven by the p value of 0.001 on the influence of market orientation on business performance, the p value of 0.001 on the influence of

Table 7. Hypothesis Testing

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics	P Values
Market Orientation Towards Performance Business (H1a)	0,508	0,516	0,157	3,231	0,001
Innovation Towards Business Performance (H1b)	0,452	0,436	0,137	3,294	0,001
Market Orientation Towards Excellence Compete (H2a)	0,463	0,470	0,157	2,938	0,003
Innovation Against Competitive Advantage (H2b)	0,468	0,460	0,159	2,941	0,003
Competitive Advantage Over Performance Business (H3)	0,868	0,880	0,151	5,768	0,000
Market Orientation Towards Competitive Advantage Mediated Business Performance (H4a)	0,406	0,400	0,145	2,794	0,005
Innovation Towards Business Performance Mediated Excellence Compete (H4b)	0,402	0,418	0,170	2,367	0,018

Source: Primary Data Processed, 2021.

Table 8. *R Square* and *Adjusted R Square*

Variable	<i>R Square</i>
Competitive Advantage	0,820
Business Performance	0,855

Source: Primary Data Processed, 2021

innovation on business performance, the p value of 0.003 on the influence of market orientation on competitive advantage, the p value of 0.003 on the influence of innovation on competitive advantage, p-values of 0.000 on the effect of competitive advantage on business performance, p-values of 0.005 on the effect of market orientation on business performance mediated by competitive advantage, and p-values of 0.018 on innovation on business performance mediated by excellence compete.

Hypothesis 1a (H1a) states that market orientation has a positive and significant effect on business performance in Batik SMEs registered with the Mukti Manunggal Batik Association. The higher the market orientation which is indicated by the high commitment to serve customers, respond quickly to competitors, and all business functions are integrated in serving the needs of the target market and are more responsive to market needs and demands, the business performance will also be higher. Then hypothesis 1a (H1a) is supported or accepted.

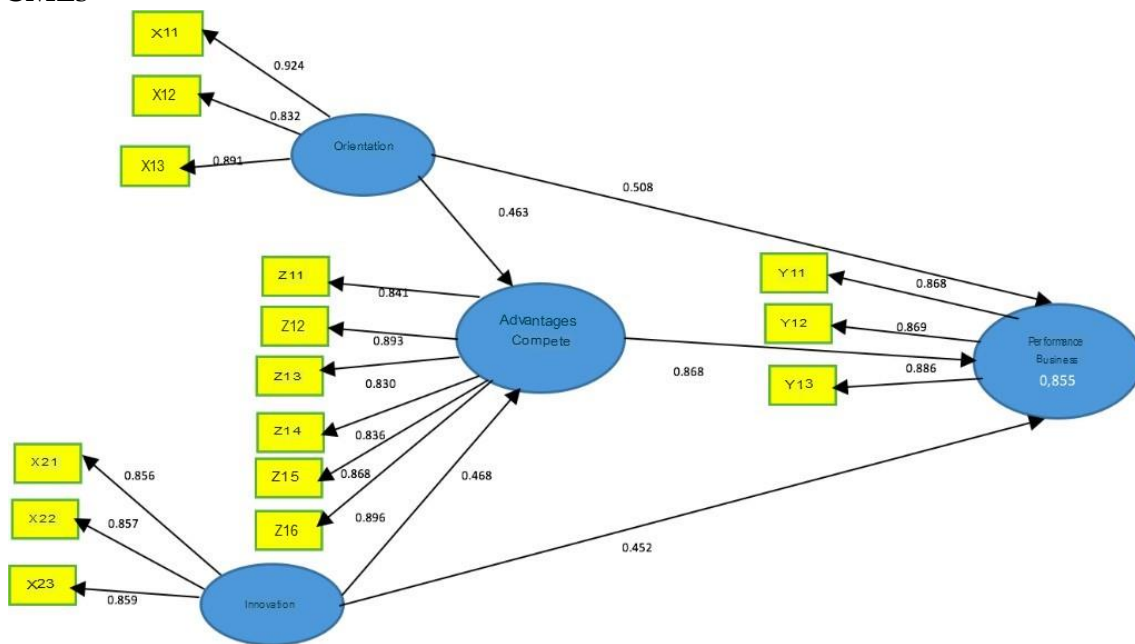
Hypothesis 1b (H1b) states that innovation has a positive and significant effect on business performance in Batik SMEs registered with the Mukti Manunggal Batik Association. The higher the innovation, which is indicated by the high production of new products, new methods that are not yet in the market, and trying to enter various markets in various ways, the business performance will also be higher. Then hypothesis 1b (H1b) is supported or accepted.

Hypothesis 2a (H2a) states that market orientation has a positive and significant impact on competitive advantage in Batik SMEs registered with the Mukti Manunggal Batik Association. The higher the market orientation, which is indicated by the high commitment to serve customers, respond quickly to competitors, and all business functions are integrated in serving the needs of the target market and are more responsive to market needs and demands, the higher the business performance, the higher the competitive advantage. Then hypothesis 2a (H2a) is supported or accepted.

Hypothesis 2b (H2b) states that innovation has a positive and significant impact on competitive advantage in Batik SMEs registered with the Mukti Manunggal Batik Association. The higher the innovation, which is indicated by the high production of new products, new methods that are not yet in the market, and trying to enter various markets in various ways, the higher the competitive advantage will be. Then hypothesis 2b (H2b) is supported or accepted.

Hypothesis 3 (H3) states that competitive advantage has a positive and significant effect on business performance in Batik SMEs registered with the Mukti Manunggal Batik Association. The higher the competitive advantage indicated by the high product that has a selling value and is different from the others, the more it can reduce production costs and the price is more affordable, the market is wider, the income is increasing, the profit is increasing and the more cash comes in than cash out, the business performance also getting higher. Then hypothesis 3 (H3) is supported or accepted.

Hypothesis 4a (H4a) states that market orientation has a positive and significant effect on business performance mediated by competitive advantage in Batik SMEs



Sources: Prifti and Alimehmeti (2017), Udriyah et al. (2019)

Figure 2. Path Analysis

registered with the Mukti Manunggal Batik Association. Competitive advantage which refers to the resulting product differentiation, low cost leadership, wider market, increasing revenue and profit as well as greater cash inflows than cash outflows are able to support the influence of market orientation on business performance. Then hypothesis 4a (H4a) is supported or accepted.

Hypothesis 4b (H4b) states that innovation has a positive and significant effect on business performance mediated by competitive advantage in Batik SMEs registered with the Mukti Manunggal Batik Association. Competitive advantage which refers to the resulting product differentiation, low cost leadership, wider market, increasing revenue and profit and greater cash inflows than cash outflows

are able to support the influence of innovation on business performance. Then hypothesis 4b (H4b) is supported or accepted.

4. Discussion

The Effect of Market Orientation on Business Performance

The results of this study indicate that market orientation has a positive and significant effect on business performance in Batik SMEs registered with the Mukti Manunggal Batik Association. Market orientation has been shown to have a positive relationship to business performance. Haris and Piercy (1997) state that for business to be done by developing an organizational culture that is focused on market orientation which understands the needs, wants, and demands of the market.

Murray et al. (2011) also strengthens the relationship between market orientation and business performance by stating that market orientation has an influence on three indicators on performance, namely: financial performance, strategic performance, and product performance. The results of this study support previous research from Prifti and Alimehmeti (2017) which found that market orientation has a positive and significant effect on company performance in 99 companies operating in Albania and strengthens research from: Udriyah et al. (2019) which found that market orientation had a positive and significant effect on business performance of 150 textile SMEs in Selangor, Malaysia.

The Effect of Innovation on Business Performance

The results of this study indicate that innovation has a positive and significant effect on business performance in Batik SMEs registered with the Mukti Manunggal Batik Association. According to Dougerty (1996), innovation is an important way for companies to remain able to adapt to markets, technology, and competition. This can then encourage SME business performance so that it can be more optimal. Lin (2008) argues that innovation can affect business performance.

Likewise, the opinion of Saunila (2014) which states that organizational performance can be influenced by aspects of innovation ability, the higher the innovation capability of the organization, the greater the financial performance and operational performance of the company. This shows that innovation has an effect on business performance, and supports previous research from Udriyah et al. (2019) which found that innovation had a positive and significant effect on business performance in 150 textile SMEs in Selangor, Malaysia.

The Effect of Market Orientation on Competitive Advantage

The results of this study indicate that market orientation has a positive and significant effect on competitive advantage in Batik SMEs registered with the Mukti Manunggal Batik Association.

With a competitor orientation, the company will understand the capabilities, strengths, weaknesses and strategies of its potential competitors both in the short and long term, including the new technology used to retain its customers (Narver and Slater, 1990). It can be concluded that market orientation can affect companies in realizing competitive advantage strategies.

The results of this study support previous research from Udriyah et al. (2019) which found that market orientation had a positive and significant impact on competitive advantage in 150 textile SMEs in Selangor, Malaysia.

The Effect of Innovation on Competitive Advantage

The results of this study indicate that innovation has a positive and significant effect on competitive advantage in Batik SMEs registered with the Mukti Manunggal Batik Association.

Zahra and Das (1993) suggest that innovation can help companies clarify their competitive advantage through unique products and create value for customers. If the new product or process is different from other existing products so that it makes the product unique, it will be difficult for competitors to imitate. The company can use the product to protect an existing market. Innovation will affect competitive advantage (Chen et al., 2009).

The results of this study support previous research from Udriyah et al. (2019) which found that innovation had a positive and significant impact on competitive advantage in 150 textile SMEs in Selangor, Malaysia.

The Effect of Competitive Advantage on Business Performance

The results of this study indicate that competitive advantage has a positive and significant effect on business performance in Batik SMEs registered with the Mukti Manunggal Batik Association.

Diosdad (2003) states that competitive advantage can be seen from the company's position in competition, namely by looking at the company's strengths and weaknesses when compared to its competitors. Competitive advantage comes from the company's ability to maintain superiority of skills and resources based on customer perception, achieving lower costs, market share and profitability performance.

The results of this study support previous research from Udriyah et al. (2019) which found that competitive advantage had a positive and significant effect on the performance of SMEs in 150 textile SMEs in Selangor, Malaysia.

The Effect of Market Orientation on Business Performance Mediated by Competitive Advantage

The results of this study indicate that market orientation has a positive and significant effect on business performance mediated by competitive advantage in Batik SMEs registered with the Mukti Manunggal Batik Association.

Market orientation is the most effective organizational culture to create more value for customers and can improve business performance. Matsuno (2002) defines market orientation as a process or activity related to the fulfillment of customer satisfaction continuously by assessing customer needs and desires. Companies or organizations that apply market orientation can improve their performance. This will affect the creation of a competitive advantage strategy.

Competitive advantage embodies superior market performance and financial performance (Day and Wensley, 1988). Ferdinand (2000) states that competitive advantage is obtained if the company succeeds in building, maintaining, and developing all the distinctive advantages of the company as a result of operating the company's strategic assets.

The results of this study support previous research from Udriyah et al. (2019) which found that market orientation had a positive and significant effect on competitive advantage in 150 textile SMEs in Selangor, Malaysia which furthermore the research also found that competitive advantage had a positive and significant effect on business performance of 150 textile SMEs in Selangor, Malaysia.

The Effect of Innovation on Business Performance Mediated by Competitive Advantage

The results of this study indicate that innovation has a positive and significant effect on business performance mediated by competitive advantage in Batik SMEs registered with the Mukti Manunggal Batik Association.

Zahra and Das (1993) suggest that innovation can help companies clarify their competitive advantage through unique products and create more value for customers. In the era of knowledge development, innovation is the main source of competitive advantage (Daghfous, 2004). Innovation can support long-term business performance (Teece, 2007).

A successful innovation can be used to maintain an advantage, because it can make the external environment of the company more difficult to imitate the strategy used (Morales et al., 2007).

Lakhal (2009) states that competitive advantage affects business performance. The results of this study support previous research from Udriyah et al. (2019) which found that competitive advantage had a positive and significant effect on the effect of innovation on business performance in 150 textile SMEs in Selangor, Malaysia.

Conclusion

Based on the results of the analysis of the study, it can be concluded as follows: 1). Market orientation has a positive and significant direct effect on business performance, 2). Innovation has a positive and significant direct effect on business performance, 3). Market orientation has a positive and significant

direct effect on competitive advantage, 4). Innovation has a positive and significant direct effect on competitive advantage, 5). Competitive advantage has a direct and positive effect on business performance, 6). Competitive advantage mediates the effect of market orientation on business performance, and 7). Competitive advantage mediates the effect of innovation on business performance in batik SMEs registered with the Mukti Manunggal Batik Association.

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Based on these conclusions, several suggestions can be given which include: 1). Referring to the research results, batik SMEs registered with the Yogyakarta Mukti Manunggal Batik Association, SME managers or owners should be more committed to serving customers, be able to respond more quickly to competitors, and pay more attention to and integrate all business functions in serving the needs of the target market and increasingly responsive to market needs and demands, 2). The more often innovate which is indicated by the high production of new products that different from those already in the market, they are increasingly looking for or experimenting to find new methods that are not yet on the market, and trying to enter various markets in various ways, and 3). To realize competitive advantage, strive to produce products that have selling value and are different from others, are increasingly able to reduce production costs and make prices more affordable, expand markets, increase income and profits in various ways, and pay more attention to and take into account cash flows so that cash comes in. greater than the cash out.

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