

Market Orientation and Marketing Capability of SMEs: A Conceptual Framework

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Abstract

Market orientation is a marketing concept aimed at continuously creating value for customers to achieve superior performance. In addition, exploring the role of specific marketing capabilities related to innovative and entrepreneurial company behavior is necessary alongside marketing capability. However, literature on the role of marketing capabilities in competitive strategy is still limited. Similarly, there is a lack of conceptualization and operationalization of innovation and the construction of sustainable competitive advantage. Researchers focus on how Market Orientation and Marketing Capability can impact organizational innovation and SME performance. The research objective is to design a model based on Market Orientation and Marketing Capability to enhance SME performance. This research contributes to the theory and practice of strategic marketing by exploring and developing Market Orientation, Marketing Capability, organizational innovation in SMEs, and sustainable SME performance.

Keywords: Market Orientation, Marketing Capability, Organizational Performance, SME Performance.

1. Introduction

Market orientation is a marketing concept aimed at continuously creating value for customers to achieve superior performance. (Ngo, 2023). This certainly poses a challenge in managing organizations, especially SMEs in developing countries, particularly in Indonesia. Intense competition and rapid changes in market structures, adapting to consumer demands and expectations, make the development of marketing capabilities crucial. This has a positive impact on company performance through adapting to market dynamics. The concept of market orientation provides an effective perspective for enhancing innovative marketing capabilities. (Zehir et al., 2015). It is clear that developing Innovation Capability in line with market expectations would be highly beneficial for companies in achieving competitive advantage. Based on literature review, it is evident that the required capabilities for companies can be realized through a market-oriented management approach.

Market orientation performance is mediated by innovation capability in an improved economic condition within dynamic market conditions (Huhtala et al., 2014). Market orientation is inseparable from marketing capability. In recent years, there has been significant debate about the role of marketing in competitive strategy. Marketing researchers argue that one way marketing can make a more significant contribution to the theory and practice of strategy is by

explicitly focusing on marketing capabilities. There is a need to explore the role of specific marketing capabilities related to innovative and entrepreneurial company behavior. However, literature on the role of marketing capabilities in competitive strategy is still limited. Similarly, there is a lack of conceptualization and operationalization of innovation and the construction of sustainable competitive advantage. The role of marketing capabilities in innovation-based competitive strategy indicates that marketing capabilities influence the intensity of innovation and the sustainable competitive advantage of the company (Weerawardena, 2003).

Based on this phenomenon, researchers focus on how Market Orientation and Marketing Capability can impact organizational innovation and SME performance. The research objective is to design a model based on Market Orientation and Marketing Capability to enhance SME performance.

2. Literature Review

2.1 Market Orientation

Adam Smith introduced the concept of marketing in the 18th century, emphasizing that customers are the primary partners in business. (Heiens et al., 2011). Over the past two decades, the concept of Market Orientation has been extensively studied, covering aspects of concept, performance, and the origins of marketing. Researchers define market orientation as the application of marketing concepts and consider it a business philosophy. (Kohli et al., 1993). In this context, the marketing concept becomes the foundation for market orientation. (Jaworski & Kohli, 1993).

The market-oriented perspective states that companies that continuously adapt by addressing market needs and predicting changing conditions can achieve above-average profits and long-term competitive advantage. (Day, 1994). The two most prominent market orientation concepts were proposed by Kohli and Jaworski (1990) and Narver and Slater, 1990. Kohli and Jaworski (1990) view market orientation as the application of marketing concepts, while Narver and Slater (1990) regard it as an organizational culture.

Kohli and Jaworski (1990) describe market orientation as the process of gathering market intelligence throughout the organization, disseminating this intelligence across all departments, and the organization's response to it. According to them, the marketing concept is a business philosophy, while market orientation is the practical application of this concept. They also state that market orientation can unify the efforts and projects of individuals and departments within the organization. Meanwhile, Narver and Slater (1990) interpret market orientation as the most effective and efficient organizational culture in creating the necessary behavior to generate superior value for buyers and, as a result, superior and sustainable business performance.

Both agree that market orientation not only offers significant competitive advantages but also integrates information about customers and competitors into the business process. Day (1994), in his literature analysis, identifies the characteristics of market-oriented companies as follows: a customer-focused mindset, organizational skills that focus on gathering, disseminating, and using information about customers and competitors, and coordination of resources across

functions to create superior customer value.

This study attempts to explore based on three sub-dimensions of market orientation: competitor orientation, customer orientation, and inter-functional coordination. (Sulistyo & Siyamtinah, 2016) as suggested by Narver dan Slater, (1990). Continuous and proactive customer orientation supports the need to communicate with customers (Han et al., 1998). Competitor orientation focuses on defeating the competition rather than maximizing profits, and although by definition it is less optimal for profit-maximizing firms, this orientation appears to develop in business situations (Bendle & Vandenbosch, 2014). Inter-functional coordination is defined as the integration and collaboration of various functional areas within an organization. (Narver dan Slater, 1990)

2.2 Marketing Capability

Product or service innovation will not have a significant impact if it does not achieve commercial success. (Byrd, 2002). Therefore, companies must develop the ability to market new products or services. (Baldwin et al., 1995) In their study in Canada, they concluded that small and medium-sized enterprises (SMEs) would become more innovative if they paid more attention to the development of marketing, financial, production, and human resource capabilities. Marketing capability in this study refers to the company's ability to develop various aspects related to product marketing, including distribution networks and promotion (Lee, 2010) Research on the relationship between marketing and innovation capabilities on competitive advantage indicates that entrepreneurship has a direct impact on marketing and innovation capabilities. However, indirectly, it affects the competitiveness of the company through marketing and innovation capabilities. Innovation capability directly influences the competitiveness of the company. Research by Weerawardena (2003) found a very strong influence of marketing capabilities on innovation. A study by Huhtala, Sihvonen, Frosén, Jaakkola, and Tikkanen (2014) shows that market orientation as part of marketing capability significantly influences innovation capability and company performance.

2.3 Organizational Innovation and SME Performance

Innovation is a critically important capability for an organization, as the success of new products is a primary driver of growth that impacts increased sales, profits, and organizational competitiveness (Battor & Battor, 2010); (Sivadas & Dwyer, 2000). Several studies have found that there is a direct and positive relationship between innovation and superior performance (Calantone et al., 2002); (Keskin, 2006); (Panayides, 2006); (Thornhill, 2006). However, the failure of new products to reach a significant level is common, with failure rates ranging between 40% and 75% every year (Hurley et al., 2005) Describing innovation as new processes, products, and ideas within an organization. Innovation is defined as a process that begins with an idea, involving the development and introduction of new products, processes, and services in the market (Thornhill, 2006).

The influence of innovation on performance has been the focus of intensive research, and the findings indicate a significant impact (Albaladejo, 2000). In their empirical study on 50 small

and medium-sized enterprises in the UK, they explain that internal factors, such as the level of education and experience of company owners, educational and development institutions, technical skills of the workforce, as well as investment in training and human resource development, are determining factors of organizational innovation. On the other hand, external factors such as financial support from the government for research and development, communication or interaction with external parties (customers, suppliers, competitors, financial institutions, research and development institutions, industry associations) also play a significant role in the innovation capability of the organization.

3. Methods

In this study, the researchers chose the literature review method by gathering references from various scientific journals. Literature review is a theoretical analysis as well as other related references to the values, culture, and norms that emerge in the investigated social context (Sugiyono, 2019).

The stages of a literature review are a systematic and structured process to identify, evaluate, and analyze relevant literature on the research topic. The following are the steps involved in a literature review: Research Problem Identification, Literature Search, Literature Selection, Reading and Note-Taking, Analysis and Synthesis, Critical Evaluation, Writing the Review, Revision and Improvement, and References and Citations. These stages are expected to provide a strong theoretical foundation for the research, identify research gaps, and demonstrate the research's contribution to the study's focus.

4. Finding and Discussion

Based on the literature review conducted by the researchers, a conceptual framework linking Market Orientation, Marketing Capability, Organizational Innovation of SMEs, and SME Performance has been formed. The conceptual framework generated is depicted below:

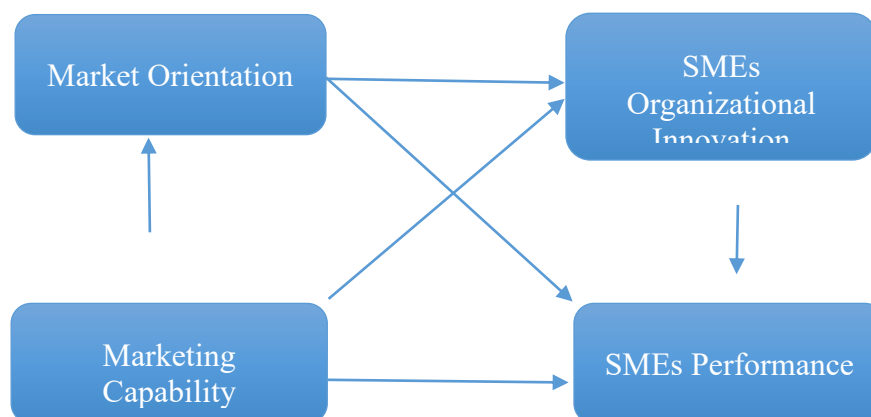


Figure 1. Conceptual Framework

The implementation of Market Orientation should be grounded in marketing capability and

shape the organizational innovation of SMEs, thereby influencing SME performance. Good SME performance will help SMEs to develop sustainably. The research will continue by conducting surveys on SMEs existing in various sectors in Indonesia. SME sectors based on BPS census results are shown in the table below:

Table 1. Number of SMEs by Sector in 2022

No	Sector	Number of Units	No	Sector	Number of Units
1	Food	1.592.318	13	Non-Metallic Mineral Products	218.095
2	Beverages	102.535	14	Basic Metals	7.857
3	Tobacco Processing	196.621	15	Metal Goods excluding Machinery and Equipment	129.856
4	Textiles	303.485	16	Computers, Electronic Goods, and Optics	639
5	Finished Garments	594.912	17	Electrical Equipment	1.949
6	Leather, Leather Goods, and Footwear	60.760	18	Machinery and Equipment	3.092
7	Wood, Wood Products, Cork Products, Woven Goods from Rattan, Bamboo, and Similar Materials	608.531	19	Motor Vehicles, Trailers, and Semi-Trailers	3.439
8	Paper and Paper Products	5.207	20	Other Transport Equipment	6.376
9	Printing and Reproduction of Recorded Media	31.272	21	Furniture	148.627
10	Bahan Kimia dan Barang dari Bahan Kimia	31.767	22	Other Manufacturing	261.636
11	Farmasi, Produk Obat Kimia dan Obat Tradisional	18.336	23	Repair and Installation of Machinery and Equipment Services	5.705
12	Karet, Barang dari Karet dan Plastik	6.213			

5. Conclusion

The implementation of Market Orientation should be supported by marketing capability and lead to the innovation of SME organizations, thus influencing SME performance. Good SME performance will help SMEs to develop sustainably.

Acknowledgement

Thank you to all the research team, FMI, and the International Conference of Organizational Innovation (ICOI) Committee.

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International Conference of Organizational Innovation 2024 Proceedings

ICOI

2024

e-ISSN: 3064-6030
FMI, Vol 1
23-25 July 2024

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