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Increasing the Business Performance of Food Processing MSMEs in Cirebon by Creating Competitive Advantages through Entrepreneurship Orientation, Dynamic Capabilities, and Market Orientation

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ABSTRACT

MSMEs have contributed to accelerating economic growth and creating jobs. However, a number of problems still hinder the growth of their business performance. The improvement of business performance requires a competitive advantage that stems from a strong entrepreneurial and market orientation as well as the high dynamic capabilities of the actors in MSMEs. Therefore, this research aims to analyze the influence of these factors on competitive advantage and their impact on improving MSME business performance. A survey of 336 samples and a quantitative approach were conducted to prove the research hypothesis through structural equation modeling. The novelty of this research is the analysis of the determinants of competitive advantage, especially entrepreneurial orientation, dynamic capabilities, and market orientation, and their impact on business performance, as well as the mediating role of competitive advantage on the influences of entrepreneurial orientation, dynamic capabilities, and market orientation, respectively, on business performance. The study concluded that improving MSME business performance can be done by creating competitive advantage and dynamic capabilities in MSME actors. The creation of competitive advantage requires a strong entrepreneurial orientation and market orientation, as well as high dynamic capabilities by MSME actors. This study presents both theoretical and practical implications and research limitations.

Keywords: Business Performance, Dynamic Capabilities, Entrepreneurship Orientation, Market Orientation, MSMEs

INTRODUCTION

The MSME sector has been recognized as one of the strong economic pillars in the economic structure of developed and developing countries, such as Taiwan(Nabila, 2023). Furthermore, MSMEs are also considered one of the leading forces in the economy with innovative non-oil and gas export products. In addition, MSMEs generally constitute the largest layer of business enterprises, which are often referred to as agents of the local economy. The experiences of several countries and some studies conducted on MSMEs have proven that this business sector is an important part of a country's economy because it has contributed significantly in encouraging the economy, including its contribution in providing new jobs, as an economic growth driver, and as a source of innovation(I. Farida & Setiawan, 2022).

The great potential and contribution of MSMEs in the Indonesian economy in general do not necessarily indicate that the existence and development of MSMEs are unaffected by problems. The first major problem, as previously mentioned, is that the contribution to exports is still relatively low, at below 20%.This indicates that the market orientation of Indonesian MSME products is still dominated by domestic markets. Moreover, in general, domestic market orientation is limited to local, not regional nor national. This implies that the competitiveness of Indonesian MSMEs is still lower than that of neighboring countries in Southeast Asia. This lack of competitiveness is reflected in the low level of productivity and innovation of Indonesian MSMEs.

The MSME sector in Cirebon, both in the food processing sector and others, faces the problem of low business performance. This low business performance is an obstacle to the development of the MSME sector in Cirebon. There are several primary factors contributing to the low business performance of MSMEs in Cirebon: capital, quality and quantity of human resources, and access to marketing (Kurniawan, 2019). Capital is the first major obstacle to the achievement of MSME business performance, both in the food processing sector and other sectors in Cirebon. This is due to the fact that MSMEs generally have little or no access to the banking sector. Meanwhile, banks consider MSMEs to lack physical assets with a large value, making them a high risk when given loan funds for business development. In addition, the income of MSMEs is also unpredictable, which has an impact on their ability to borrow capital, which is also unpredictable.

One of the sub-districts serving as the center of food processing MSMEs in Cirebon Regency is Tengah Tani Sub-district. In this sub-district, various businesses in snack food processing, such as crackers, have developed. However, in 2016, the production rate of some of these MSMEs in the sub-district experienced a decline (Layaman & Nurlatifah, 2016). A number of MSMEs mentioned that capital was one of the factors causing the decline in production,

along with raw materials. Some of the raw materials required in the cracker production process are buffalo skin and flour, which are processed into skin crackers and mares crackers. The supply of the raw materials is uncertain compared to consumer demand, resulting in a low production rate.

Numerous studies have been conducted, and it has been discovered that there are various factors that influence the business performance of MSMEs. First, MSME business performance is influenced by internal and external environments (Abdissa & Fitwi, 2016; Eltahir, 2018; Hati & Irawati, 2017; Indris & Primania, 2015; Purwidiyanti & Rahayu, 2017; Riyanto, 2018). The internal environment that influences the business performance of MSMEs includes marketing, finance, operations, human resources, and information systems. While the external environment includes government policies, socio-cultural and economic aspects, universities, the private sector, and non-governmental organizations.

Previous studies on MSME business performance were more focused on analyzing one of the variables or its determinants. The results of these studies are varied, yet there are similarities in their objectives to explore, either directly or through mediation, the variables that must be considered in improving MSME business performance. Other studies focus on increasing the competitive advantage of MSMEs by analyzing the variables that determine it. There are several studies that emphasize the importance of competitive advantage in improving MSME business performance. However, these studies have yet to analyze the determinants of MSME competitive advantage, specifically entrepreneurial orientation, dynamic capabilities, and market orientation, and their impact on MSME business performance. Thus, it is going to be the research gap on improving business performance through improving the competitive advantage of MSMEs that will be analyzed in this research.

Based on the previously mentioned background, in general, this research aims to verify the factors that influence the realization of competitive advantage and the impact on improving the business performance of MSMEs. In particular, this research intends to analyze and empirically prove the effect of entrepreneurial orientation, market orientation, and dynamic capabilities on the competitive advantage of food processing MSMEs in Cirebon Regency; analyze and empirically prove the effect of entrepreneurial orientation, the effect of market orientation, product dynamic capabilities, the effect of competitive advantage, mediation of competitive advantage on the effect of entrepreneurial orientation, mediation of competitive advantage on the effect of dynamic capabilities, and mediation of competitive advantage on the effect of market orientation on the business performance of food processing MSMEs in Cirebon.

RESEARCH METHODOLOGY

This research is causal because it aims to test the effect of one variable on another (Sekaran & Bougie, 2016). The variables examined in this research are variables that influence the realization of competitive advantage, including entrepreneurial orientation, dynamic capabilities, and market orientation, and their impact on improving MSME business performance. Based on its use, this research is considered pure research. This is because this research aims to increase scholarly knowledge or discover new areas of research, meaning that the usefulness of the research results is not immediately used but will be used in the long term. Based on the research field, this research is included in the field of economics, which is management science, especially marketing management (Sekaran & Bougie, 2016).

This research is non-experimental, survey research. The objects of this research are entrepreneurial orientation, dynamic capabilities, market orientation, competitive advantage, and business performance. The unit of analysis in this study is MSMEs in food processing in Cirebon, West Java. This research utilizes a time horizon in a cross-sectional analysis, where information from respondents is obtained directly at the scene empirically with the purpose of identifying the opinions of a part of the population towards the object under study (Enggar et al., 2022).

This research variable consists of exogenous and endogenous variables. Exogenous variables are variables whose values are determined outside the analyzed system, including: Entrepreneurial Orientation (X_1), Dynamic Capability (X_2), and Market Orientation (X_3). Meanwhile, endogenous variables are variables whose values are determined within the analyzed system. The endogenous variables include: Competitive Advantage (Y_1) and Business Performance (Y_2). Variable operationalization is intended as determining constructs to become variables that can be measured. The variables in this research were measured using a questionnaire instrument on a Likert scale. The Likert scale is a scale used to measure the attitudes, opinions, or perceptions of a person or group of people on social phenomena (Irawan et al., 2023). In the measurement, each respondent's answer choice is given a score to describe, support, or not support the statement in the questionnaire.

RESULT AND DISCUSSION

The Effect of Entrepreneurial Orientation on Competitive Advantage

Entrepreneurial orientation refers to the process, practices, and decision-making style of owners, managers, or enterprises in business activities (Diabate et al., 2019). Entrepreneurial orientation can be considered a particular way in which companies connect opportunities with business activities that lead to new business opportunities. Thus, entrepreneurial orientation is one of the important resources that can affect business performance (Aminu & Shariff, 2015). The ability of companies to be proactive and courageous to take risks gives them the ability to create innovative products ahead of their competitors and thus have a competitive

advantage because they will be able to satisfy customers and identify factors that influence customers (Witjaksono, 2014).

This research has proven that entrepreneurial orientation has a positive and significant effect on the competitive advantage of food processing MSMEs in Cirebon. This research reveals that the effect of entrepreneurial orientation on competitive advantage is 0.50. This implies that the variation in competitive advantage of 0.50 or 50% can be explained by variations in entrepreneurial orientation. The findings of this research are in line with previous studies that also revealed that entrepreneurial orientation has a positive and significant effect on competitive advantage (Lee & Chu, 2011; Sadalia et al., 2020; Witjaksono, 2014; Yohanes & Hidayati, 2019; Zeebaree & Siron, 2017).

The Effect of Dynamic Capabilities on Competitive Advantage

The achievement and sustainability of a business's competitive advantage is a crucial issue in the implementation of strategic management. There is no guarantee for a business, even if it has been able to surpass global competition, possesses technological assets, and implements resource-based strategies, to achieve sustainable competitive advantage (Fonger, 2016). In fact, companies that possess valuable technological assets sometimes experience a lack of useful capabilities to achieve sustainable competitive advantage. Winners in global competition are businesses that demonstrate responsiveness, speed, and flexibility in product innovation based on the capability to effectively coordinate and reuse internal and external competencies (Fonger, 2016).

A dynamic capability of a business is characterized by superior performance due to the possession of unique capabilities that are difficult to build, acquire, or imitate (Kihara, 2018). Enterprises with dynamic capabilities utilize unique capabilities as resources to achieve strong business performance and competitive advantage (Kihara, 2018). Compared to other operational and ordinary capabilities that are essential for current corporate activities, dynamic capabilities enable the changing of ordinary resources and capabilities. Therefore, through dynamic capabilities, enterprises can use existing resources and create new resources and capabilities, aligning the organization with changes in the environment. This research has proven that dynamic capabilities have a positive and significant effect on the competitive advantage of food processing MSMEs in Cirebon Regency. This research reveals that the effect of dynamic capabilities on competitive advantage is 0.23. This implies that variations in competitive advantage of 0.23 or 23% can be explained by variations in dynamic capabilities.

The findings of this research strengthen the findings of previous studies which also found that dynamic capabilities have a positive and significant effect on competitive advantage (L. Farida et al., 2022; Ferreira & Coelho, 2020; Khourouh et al., 2020; Kuo et al., 2017; Violinda & Jian, 2016).

The Effect of Market Orientation on Competitive Advantage

Market orientation can be interpreted as collecting information related to customers and competition, then disseminating it to all parts of the organization

and utilizing it to meet market needs (Fernandes et al., 2020). Market-oriented companies proactively and systematically obtain and evaluate market intelligence regarding customers, competitors, governments, technology, and other environmental forces. The concept of market orientation has been perceived as a culture that effectively and efficiently creates superior value for customers through customer orientation, competitor orientation, and inter-functional coordination (Bamfo & Kraa, 2019). Customer orientation puts the customer's interests first and requires a thorough understanding of the client's needs; hence, the product or service is of higher value. Competitor orientation gathers information about competitors, thus helping the business reposition its offerings to prepare for the future viability of the entity and inter-functionally. This implies that all departments in the business must coordinate well with each other in all aspects of business operations (Bamfo & Kraa, 2019).

This research found that market orientation has a positive and significant effect on the competitive advantage of food processing MSMEs in Cirebon Regency. This research reveals that the effect of market orientation on competitive advantage is 0.24. This indicates that variations in competitive advantage of 0.24, or 24%, can be explained by variations in market orientation. The results of this research confirm the findings of previous research, which also found that market orientation has a positive and significant effect on competitive advantage (Maruta et al., 2017; Musigire, 2016; Rahmadi & Dewandaru, 2021; Satwika & Dewi, 2018; Stocker & Várkonyi, 2022).

The Effect of Entrepreneurial Orientation on Business Performance

Entrepreneurial orientation is believed to be important for enterprise growth, profitability, and overall performance and has a positive influence on the growth of small and medium enterprises (Nwugballa et al., 2016). This is because entrepreneurial orientation is regarded as decision-making relating to enterprise strategies for initiating innovation, proactivity, and risk-taking, as well as trends, processes, and behaviors adopted by enterprises to access either established or emerging markets. In small businesses, entrepreneurial behavior manifests itself in two ways: (1) regarding the effectiveness of entrepreneurs in managing their businesses, and (2) regarding business planning, attitudes, or responses to markets.

This research found that entrepreneurial orientation has a positive yet insignificant direct effect on the business performance of food processing MSMEs in Cirebon Regency. The findings of this research are not in accordance with previous studies, which found that entrepreneurial orientation has a direct positive and significant effect on business performance (Khan et al., 2021; Nurlina & Darsono, 2017; Uchenna et al., 2019; Witjaksono, 2014). It can be interpreted that, indeed, in the early stages, business practitioners with a strong entrepreneurial orientation prioritize their resources for business development and expansion through innovation, willingness to take risks, and aggressiveness in competition. All these efforts are conducted to win market competition through the achievement of competitive advantage. Once the competitive advantage is

owned and maintained, the enterprise can realize high business performance. This is also evident from the results of research, which reveal that entrepreneurial orientation has a significant indirect effect on business performance through competitive advantage. This research found that the indirect effect of entrepreneurial orientation on business performance through competitive advantage is 0.34. This suggests that variation in business performance of 0.34 or 34% can be explained by variation in entrepreneurial orientation indirectly through competitive advantage.

The Effect of Dynamic Capabilities on Business Performance

A business's dynamic capabilities are characterized by superior performance due to unique capabilities that are difficult to build, acquire, or replicate (Kihara, 2018). Enterprise dynamic capabilities systematically generate and modify routine operations to improve their effectiveness. This capability is the enforcer of the creation, evolution, and reconfiguration of existing resources to provide a new source of competitive advantage for the enterprise to achieve higher business performance (Aminu & Shariff, 2015).

The success of an enterprise as an organization depends on how quickly it brings innovation to its practices (Harleen & Abrol, 2017). The sustainability of a business's operations requires changing the traditional way of doing business to a new pattern and adopting new phenomenal practices. Dynamic capabilities maximize the efficiency of the enterprise to produce new ones, enable maximum utilization of resources, and most importantly, motivate and utilize the resources (human, financial, technical, and physical) of the enterprise. Dynamic capability is an important factor for the performance of an enterprise (Tempelmayr et al., 2019).

This research has proven that dynamic capabilities have a direct positive and significant effect on the business performance of food processing MSMEs in Cirebon Regency. This research reveals that the effect of dynamic capabilities on business performance is 0.15. This indicates that variations in business performance of 0.15 or 15% can be explained by variations in dynamic capabilities. The results of this research reinforce the findings of previous studies, which also found that dynamic capabilities have a positive and significant effect on business performance (Mongkol, 2022; Nyachanchu et al., 2017; Omah, 2020; Pervan et al., 2017; Soeparto, 2021; Zhou et al., 2019).

Besides the direct effect, dynamic capability was also found to have a significant indirect effect on business performance through competitive advantage. This research found that the indirect effect of dynamic capability on business performance through competitive advantage is 0.16. This signifies that variation in business performance of 0.16 or 16% can be explained by variation in dynamic capability indirectly through competitive advantage. Thus, the total effect of dynamic capabilities on business performance, both direct and indirect, is 0.31, or 31%.

The Effect of Market Orientation on Business Performance

Market-oriented organizations are those that are committed to understanding customer needs, sharing customer-related information throughout the organization, and building coordination among all functional areas to create superior value for customers. Market orientation is one of the factors that determines good business performance (Suprapti & Suparmi, 2022). High-performing companies are typically capable of identifying and focusing on the market (market-oriented); have a vision, a leadership spirit, and good relationships with customers or clients (market-oriented). This enterprise makes customers a reference in running its business (customer orientation) in order for the enterprise to be continuously customer-oriented, and at the same time, the enterprise is also oriented towards competitors (competitor orientation) (Suprapti & Suparmi, 2022).

Along with increasing global competition and changing customer needs, market orientation is becoming increasingly important in running a business; companies need to realize that they must always approach the market to keep leading to high business performance (Suprapti & Suparmi, 2022). Market orientation must be viewed as a business culture in which companies are committed to remaining creative in creating superior value for customers so that they continue to prefer to use the products of the enterprise over competitors' (Suprapti & Suparmi, 2022).

There are several research that reveal that market orientation has a direct positive and significant effect on business performance (Adam & Syahputra, 2016; Ali et al., 2019; Asim et al., 2018; Bamfo & Kraa, 2019; Sefnedi, 2017). This research obtains different results from these studies, where market orientation is proven to have a direct positive yet insignificant effect on business performance.

The Effect of Competitive Advantage on Business Performance

Competitive advantage is utilized to describe a business's relative performance compared to competitors in a certain market environment (Navarro-García et al., 2018). This advantage originates from the absence of certain resources and characteristics by competing businesses in a similar sector that allow some of them to be more competitive than competitors. This situation may occur if the enterprise is able to produce more value to the customer than that provided by competitors (Navarro-García et al., 2018). Competitive advantage is a consequence of business strategy and the fruit of the use of organizational resources and capabilities. It enables cost reduction, the exploitation of market opportunities, and the neutralization of competitive threats. This distinct position provides the enterprise with a greater opportunity to obtain good economic and non-economic results compared to competitors, and this becomes the main goal of the organization.

Competitive advantage is closely related to value creation. This is due to the fact that competitive advantage reflects the ability of an enterprise to make business decisions to establish a secure position above its competitors (Sari et al., 2020). Outperforming competitors, in this case, is not merely in terms of

providing products or services but also in terms of providing more competitive prices and greater benefits, even though the products offered are the same. Competitive advantage is experienced by a business when its operations in an industry or market create economic value and provide customers with higher value, either by selling at lower prices or by offering unique benefits that compensate for higher prices than competitors for the same benefits (Xuhua et al., 2019).

This research proves that competitive advantage has a positive and significant effect on the business performance of food processing MSMEs in Cirebon Regency. This research reveals that the effect of competitive advantage on business performance is 0.15. This indicates that variations in business performance of 0.68, or 68%, can be explained by variations in competitive advantage. The results of this research strengthen previous studies, which also found that competitive advantage has a positive and significant effect on business performance (Asyhari et al., 2018; Merakati et al., 2017; Potjanajaruwit, 2018; Susana et al., 2019; Valeria, 2017; Wijayanto et al., 2019).

The Mediating Role of Competitive Advantage on the Effect of Entrepreneurial Orientation on Business Performance

The results of hypothesis testing found that competitive advantage significantly mediates the effect of entrepreneurial orientation on business performance. Therefore, although entrepreneurial orientation directly has no significant effect on business performance, the mediating role of competitive advantage makes entrepreneurial orientation indirectly affect the business performance of food processing MSMEs in Cirebon. This indicates that the dimensions of cost advantage, flexibility, delivery, and quality contribute to the mediating role of competitive advantage on the effect of entrepreneurial orientation on business performance.

Entrepreneurial orientation is one of the driving forces for business practitioners to continue increasing business competitive advantage, which can further trigger an increase in business performance that greatly affects the achievement of business goals (Putra & Suparna, 2020). The results of this research strengthen previous studies revealing that competitive advantage significantly mediates the effect of entrepreneurial orientation on business performance (Ahmatang & Sari, 2022; Medhika et al., 2018; Nurlina & Darsono, 2017; Putra & Suparna, 2020).

The Mediating Role of Competitive Advantage on the Effect of Dynamic Capabilities on Business Performance

The intensified and fierce market competition today requires companies, including MSMEs, to respond promptly to rapid and flexible product innovations, and the management's capability to effectively coordinate and leverage internal and external competence resources. A company capable of winning the competition is a company that has a competitive advantage. It can only be achieved by companies that have high dynamic capabilities. Companies with

dynamic capabilities use unique capabilities as resources to achieve strong business performance and competitive advantage (Kihara, 2018).

Dynamic capabilities relate to enterprise capabilities that support the enterprise's competitive advantage and respond to internal and external changes (Inan & Bititci, 2015). Dynamic capabilities can directly affect business performance, but when enterprises compete in dynamic markets and in complex and changing environments, performance as a business outcome is not the sole objective (Navarro-García et al., 2018). The business objective is rather the determination of the enterprise's desired position in the industry it competes in, such that dynamic capability orientation leads to the achievement of competitive advantage. The results of this research validate previous studies that found competitive advantage mediates the effect of dynamic capabilities on business performance (Beigi et al., 2023; Gintings et al., 2021; Norouzi et al., 2022).

The Mediating Role of Competitive Advantage on the Effect of Market Orientation on Business Performance

The results of hypothesis testing found that competitive advantage significantly mediates the effect of market orientation on business performance. Therefore, although market orientation directly has no significant effect on business performance, the mediating role of competitive advantage makes market orientation indirectly affect the business performance of food processing MSMEs in Cirebon. This indicates that the dimensions of cost advantage, flexibility, delivery, and quality contribute to the mediating role of competitive advantage on the effect of market orientation on business performance.

Market orientation is a major factor in achieving a business's competitive advantage through understanding consumer needs, competitive structures, and the business environment in general (Talaja et al., 2017). In this context, market orientation is a crucial asset in achieving a business's competitive advantage (Talaja et al., 2017). Achieving competitive advantage through market orientation further impacts improving business performance. This is due to the fact that sustainable competitive advantage is an essential antecedent of business performance, as it highlights the fundamental attributes for organizations to achieve positive economic consequences. The findings of this research confirm previous studies that competitive advantage significantly mediates the effect of market orientation on business performance (Correia et al., 2021; Hidayat, 2022; Medhika et al., 2018; Palwaguna & Yasa, 2021; Taufik, 2020).

CONCLUSION AND SUGGESTION

Conclusion

Improving the business performance of MSMEs can be achieved by creating competitive advantages and increasing the dynamic capabilities of MSME practitioners. The realization of competitive advantage requires strong entrepreneurial orientation and market orientation as well as high dynamic capabilities by the practitioners of MSMEs. Dynamic capabilities have a

competitive advantage if MSMEs are able to combine, develop and rearrange internal and external capabilities to overcome environmental changes using existing resources. Performance measures are very important in assessing business performance, therefore due to the increasing competition, MSME actors must have a competitive strategy in order to maintain their competitive advantage over similar competitors. Competitive advantage allows the company or organization to survive in the market, be able to overcome competition, achieve the main objectives and enable the company to survive.

Suggestion

Improving business performance requires achieving the business's competitive advantage and having high dynamic capabilities by MSME practitioners. Therefore, the first effort that must be taken to improve MSME business performance is to realize and maintain a competitive advantage. This can be accomplished by guiding and mentoring MSME practitioners on an ongoing basis in order to realize cost advantages, flexibility, delivery accuracy, and quality improvement of both products and services in business operations. The second effort to improve business performance is to develop the dynamic capabilities of MSME practitioners. This effort is also conducted through the continuous guidance and facilitation of MSME practitioners to improve their ability to sense, seize, leverage, transform, and reconfigure business operations.

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