



The Impact of Market Orientation and Dynamic Marketing Capability on the Marketing Performance of 'Make-To-Order' SMEs

Yosef Budi Susanto

Universitas Multimedia Nusantara, Jl. Boulevar Gading Serpong, Tangerang, Indonesia

ABSTRACT

Objective – Literature suggest that companies should focus their Market Orientation (MO) on good marketing and business performance. However, previous research in this area deals mostly with large companies. The objective of this research is to study the significance of MO for small and medium enterprises (SMEs) with the specific production strategy of Make-To-Order.

Methodology/Technique – The sample of this study is 111 Indonesia SMEs. The descriptive research design is supported by exploratory research. The structural model is analysed using the Structural Equation Modelling approach with LISREL 8.8 and SPSS 16.00.

Findings – The result shows that MO does not have a significant impact on Marketing Performance. In the context of MTO, SMEs do not need to have a high Market Orientation to have satisfactory performance. It is more important for them to take care of the relationship with their principal companies. Government regulations, such as raw material regulations, also have an impact on SMEs performance. It is recommended that future research explore the types of capabilities of SMEs relating with the era of Industry 4.0. Other strategic orientations, such as production orientation, could be considered as factors in future research.

Type of Paper: Empirical

Keywords: Strategic Leadership Competence; Entrepreneurial Orientation; Market Orientation; Dynamic Marketing Capability; Business Environment; Marketing Performance; Maklun (MTO Strategy).

Reference to this paper should be made as follows: Susanto, Y.B. (2019). The Impact of Market Orientation and Dynamic Marketing Capability on the Marketing Performance of 'Make-To-Order' SMEs, *J. Mgt. Mkt. Review*, 4(3) 157 – 170 [https://doi.org/10.35609/jmmr.2019.4.3\(1\)](https://doi.org/10.35609/jmmr.2019.4.3(1))

JEL Classification: M3, M30, M31.

1. Introduction

Market Orientation (MO) is a strategic orientation that is used to build company performance (Deshpande & Farley, 1998; Jaworski & Kohli, 1993; Narver & Slater, 1993). Strategic Orientation is a strategic direction that reflects the beliefs and mentality of a company's leaders or founders (Hitt et. al., 1997) and functions as a foundation for building policies and influencing behaviors, creating superior value advantages, and improving business performance (Gatignon & Xuereb, 1997; Narver & Slater, 1990).

* Paper Info: Revised: June 15, 2019

Accepted: September 20, 2019

* Corresponding author: Yosef Budi Susanto

E-mail: bsusanto@umn.ac.id

Affiliation: Universitas Multimedia Nusantara, Jl. Boulevar Gading Serpong, Tangerang, Indonesia

A significant amount of prior research shows that Market Orientation is an important factor (determinant) of business performance. In their meta-analytic review, Kirca et. al. (2005) consolidated all of the research on MO. In this model, the researchers consolidated 4 consequences of MO: organizational performance (51%), customer consequences, innovation consequences, and employee consequences. Another consequence of MO is marketing performance (Frösén, Luoma, Jaakkola, Tikkanen & Aspara, 2016). Meanwhile, other research shows that MO has an impact on export marketing performance (Cadogan, 2002; Julian, 2004; Morgan, 2004). Furthermore, much previous research shows that intellectual assets are the antecedents of marketing performance (Kohli & Jaworski, 1993; Narver & Slater, 1990; Ramaswami et. al., 2007; Song et. al., 2006). Other research has focused on small and medium enterprises (SMEs) (O’Cass, 2009).

Unfortunately, there is little research on the relationship between MO and Performance, focusing on manufacturing SMEs with the production strategy of ‘Make-To-Order’ (MTO). Due to resource limitations, mainly in intangible assets such as brand awareness and financial situations, many SMEs choose to operate with a MTO business model instead of Make-To-Stock (MTS). This is supported by Sanjaya, Hari Vasudevan and Ajai (2011) and Chen, Chao, and Spillan (2010), who conclude that there is no research concerning the relationship between MO and functional business performance, mainly in manufacturing performance and marketing performance.

The objective of this research is to propose a model for describing the impact of MO on Marketing Performance and the possible contingent factors of Dynamic Marketing Capabilities and Business Environment in the context of SMEs with business models based on a MTO production strategy. In this study, we propose two factors as the outcomes or the consequences of MO: Marketing Performance (MP) and Dynamic Marketing Capability (DMC). Marketing Performance describes the consequences achieved by marketing activities as part of business performance (Jaworsky & Kohli, 1993; Johanna et. al., 2016; Narver & Slater, 1994; O’Sullivan et. al., 2007). The research is expected to contribute to the development of the role of MO in the landscape of SMEs. The research will also provide recommendations concerning actions required to build good marketing and business performance, and good SME business ecosystems.

The paper is organized as follows: A theoretical framework and hypothesis development is provided in Section 2. Section 3 describes the research method covering the sample, research variables, measurement, and the structural analysis using SEM technique. The results are reported in Section 4, and a discussion and conclusion is provided in Section 5.

2. Literature Review

Due to an efficiency program, manufacturing companies will always face the choice of production strategy: ‘Make or Buy’ (Moschuris, 2014). The first alternative is manufacturing the products itself, which is known as the Make-to-Stock (MTS) strategy. The second choice is ordering products from another company, known as Non-MTS. The old taxonomy divided Non-MTS into three types of strategies: assemble-to-order, make-to-order, and engineer-to-order (see, for instance, Bertrand et. al., 1990; Cox et. al., 1992; Dilworth, 1989; Handfield, 1993; Hendry & Kingsman, 1989; Maruchek & McClelland, 1986; New & Szwajczewski, 1994; Schroeder, 1993; Vollmann et. al., 1988; Wortmann, 1992). Meanwhile, Hill (1993) divides production strategies into Make-to-Stock (MTS), Design-to-Order (DTO), Engineer-to-Order (ETO), Make-to-Order (MTO), and Assemble-to-Order (ATO). The MTO strategy is a strategy of producing goods with certain specifications and volume based on orders given by another company that owns a popular brand (Hendry, 1991).

On the other hand, due to the resource limitations of SMEs in terms of financial cash flow, the marketing management of SMEs is characterized by a need for rapid and certain sales that quickly generate cash flow. They also have limited capabilities in implementing a marketing mix strategy, whether in the production process, pricing, placing (distribution), or promotional processes (Mendez, 2013). SMEs also face unpredictable market demand and uncertain situations. These situations force SMEs to run a marketing management that has secure performance. They do not want to run a production process with a design and

volume they are not certain they can sell. This results in a compromise between marketing management and production strategy, i.e., instead of a production process of Make-to-Stock (MTS), marketing management needs a production strategy of Make-to-Order (MTO). This strategy provides both production and marketing a common paradigm: to have the right product at the right place in the right quantity at the right time. To overcome uncertainty, SMEs tend to take advantage of the order opportunities arising from the Non-MTS strategies of other companies. We called this type of SME the MTO SME. In this research, we define an MTO SME as an SME whose major products are products with specifications and volumes ordered by other companies. The majority of Cibaduyut companies use this MTO strategy, which is known as 'maklun' in local terminology.

Previous research has developed 3 broad categories of Market Orientation antecedents: top management factors, interdepartmental factors, and organizational systems (Jaworski & Kohli, 1993; Kirca et. al., 2005). Due to the fact that in SMEs, individual factors have a bigger impact than interdepartmental mechanism and organizational systems on business operation, this research uses top management factors as the antecedents of MO.

2.1 Strategic Leadership Competence

Strategic Leadership Competence (SLC) is the ability of a leader to identify, process, and exploit corporate capabilities to create sustainable good business performance (Prahalad & Hamel, 1990). Meanwhile, according to Hitt and Ireland (2007) and Rowe (2001), strategic leadership is the ability to influence people and make decisions affecting long-term corporate performance while maintaining short-term financial health.

With limited resources, SMEs depend more on leaders than on organizational systems. Moreover, SMEs need leaders with strategic competence to lead the organizations to good performance, growth, and sustainability. A leader should have other competencies such as comprehensiveness (i.e., a comprehensive understanding of many aspects of the organization such as capital management, production process, product types, HRD, and promotions). Another important competency is deftness (i.e., the ability to develop and build solutions for any organizational problem effectively and efficiently, such as conflicts, motivation, and delegation (McGrath, MacMillan & Venkataraman 1995)).

As a developing organization, an SME also needs a leader within absorptive capacity (i.e., the ability to learn (Boal & Hooijberg, 2000) and absorb many new things such as technologies, processes, and materials, and implement them to gain performance (Cohen & Levinthal, 1990)). An SME leader should also have an adaptive capacity (i.e., the ability to change him/herself (Boal & Hooijberg, 2000) in response to any environmental change, such as technologies, consumer preferences, government regulations, and economic situations).

Deshpande et. al. (2013) states that the characteristic of motivation is to make achievements (achievement motivation) that have a positive impact on customer orientation, which is one of the dimensions of MO. Meanwhile, He, Xinming and Wei Yingqi (2010) report that absorptive capacity, a dimension of strategic leadership, has a positive impact on corporate strategy. SMEs with an MTO strategy often face a situation of specification change within the production process (Deep, 2007). This means that absorptive competence is a very important factor in building MO. Having regard to the above, the following hypothesis is proposed:

H1: Strategic Leadership Competence has a positive impact on Market Orientation.

2.2 Entrepreneurial Orientation (EO)

Entrepreneurial Orientation (EO) is defined as a style, method, and process of decision making representing entrepreneurship in building and managing an organization to have good performance (Lumpkin & Dess, 1996). Previously, entrepreneurial orientation was represented by the dimensions of innovativeness, risk taking, and proactiveness (Miller, 1983). Moreover, Lumpkin and Dess (1996) adopt other dimensions

such as an autonomous mindset and competitive aggressiveness. The higher the entrepreneurial orientation, the better the marketing strategy (Dess, Lumpkin & Covin 1997; Miller & Friesen, 1984; Porter 1980).

Furthermore, Dess and Lumpkin (1996) report that the relationship between Entrepreneurial Orientation and Business Performance is contingent. There is a strategy between these concepts. Based on the above, the following hypothesis is proposed:

H2: Entrepreneurial Orientation has a positive impact on Market Orientation.

2.3 Marketing Performance

Business performance can be measured with marketing performance. However, it is not easy to build a metric for marketing performance. The inability to build a marketing performance measurement could raise big questions regarding marketing activity effectiveness (Morgan et. al., 2002). According to Frösén, Luoma, Jaakkola, Tikkanen, and Aspara (2016), big companies tend to measure marketing performance using comprehensive metrics involving as many aspects as possible.

O'Sullivan and Abela (2007) define 3 streams of research on measuring marketing performance. The first is marketing productivity measurement (Morgan, Clark & Gooner, 2002; Rust, Lemon & Zeithaml, 2004); the second is metrics identification (Barwise & Farley, 2003; Vogel et. al., 2008; Winer, 2000); the third is market equity measurement (Aaker & Jacobson, 2001; Ailawadi, Lehmann & Neslin, 2002).

Much research has shown the impact of Market Orientation on Marketing Performance (Gonzalez et. al., 2009; Green et. al., 2015; Kircha et. al., 2010; Kohli & Jaworski, 1993; Narver & Slater, 1994). According to Kohli and Jaworski (1993), the consequences of MO can be categorized into employee consequences, environment consequences, and business consequences. Meanwhile, Kirca et. al. (2005) reports that the impact of MO can be categorized into 4 types of performances: organizational performances, customer performances, innovation performances, and employee performances. Similar results have been obtained in research by Ngo and O'Cass (2011), who show that MO affects the creation of new customers and the loyalty of existing customers. In term of SMEs, Gonzalez et. al. (2009) and Hernandez and Elena (2009) report that MO has a positive and significant impact on company performance. From the above, the following hypothesis is developed:

H3: Market Orientation has a positive impact on Marketing Performance.

2.4 Dynamic Marketing Capability (DMC)

From a Resource-Based view, to have good business performance, a company should have a competitive advantage, which can be achieved only by having good market-based capabilities. Market-based capabilities are the capabilities of new product development (NPD), customer relationship management (CRM), and supply chain management (SCM). This research aims to confirm that, for companies to have market-based capabilities, they need to develop predictors for it. Meanwhile, Ramaswami, Srivastava, and Bhargava (2009) report their research on RBV of the relationship between market-based capabilities and business performance, moderated by business process performance. There is much similar research.

The advancement of technology in manufacturing and the introduction of the internet has created turbulence in all business environments. According to Foley and Fahy (2009), a sustainable competitive advantage will be created when a company can build capabilities with dynamic characteristics to respond the unpredictable fast changes of this turbulent business environment (Collis, 1994; Helfat et. al., 2007; Teece et. al., 1997). That research attempted to answer the former claim of Teece, Pisano, and Shuen (1997) that the old concepts of capabilities in the RBV context cannot answer why a company might win or lose competition in an environment where the market and business environment changes rapidly and unpredictably. Moreover, dynamic marketing capabilities can be built from the concept of marketing capabilities as developed by

Vorhies and Morgan (2005), with the dimensions of Pricing, New Product Development (NPD), Distribution or Channel Management, Marketing Communication, and Selling.

2.5 Antecedents and Outcomes of Dynamic Marketing Capability (DMC)

Hernandez et. al. (2009) and Jimenez et. al. (2008) state that MO has a positive impact on SME innovation. Meanwhile, in the context of MTO SMEs, a company has to face the situation where the specifications of the product ordered could be changed at any time during the production process (Deep et. al., 2007). This makes an orientation on consumers very important in creating product development skills to overcome this problem. From the above, the following hypothesis is developed:

H4: Market Orientation has a positive impact on Dynamic Marketing Capability.

Moreover, research on capabilities shows that capabilities have a significant effect on business performance in the form of brand performance, new customer acquisition, customer loyalty, and financial performance (Ngo & O'Cass, 2011; Song et. al., 2007). Meanwhile, Vorhies et. al. (2005) and Ramaswami et. al. (2008) report the effect of marketing capability on company performance in the form of financial performance and Firm Value. From the above, the following hypothesis is developed:

H5: Dynamic Marketing Capability has a positive impact on Marketing Performance.

2.56 The Contingent Factor: Business Environment

Kim and Srivastava (1998) conclude that the relationship between MO and Marketing Performance is moderated by the Business Environment in terms of market and technology, which are both quite turbulent. From the observations, SMs in Cibaduyut are affected by the business environment. Based on the above, the following hypothesis is developed:

H6: Business Environment has a moderating effect on the relationship between Market Orientation and Marketing Performance.

3. Research Methodology

3.1 The Respondent

The data was collected in this study using surveys. The respondents of the survey were the leaders of companies, being either the founders or the owners who run the operations as the top managers. The top managers are the only people who have information about the measurement of the concepts or variables in this research. Representing SMEs with an MTO strategy, the population studied comprised of SME shoe companies in Cibaduyut, Bandung, West Java, Indonesia. The data was collected in 2016 with 111 respondents using a convenient sampling technique (non-probability sampling). 84.7% of the respondent SMEs rely on the revenue of the 'maklun' business model, with most of their revenue coming from products ordered by other companies with more established brands, such as Yongky Komaladi, Garsel, JK Collection, Gareu, Brodo, and Catenzo.

3.2 Measurement

The concept or variable of Strategic Leadership Competence (SLC) was measured using the 4 dimensions of Comprehension, Deftness (McGrath, McMillan & Venkataraman, 1995), Absorptive Capacity, and Adaptive Capacity (Boal & Hooijberg, 2000). The Entrepreneurial Orientation (EO) variable was measured

using the 4 dimensions (each with 5 items) of Innovativeness, Risk Taking, Proactiveness, and Competitive Aggressiveness (Lumpkin & Dess, 1996). MO was measured using 3 dimensions (each with 5 items) of Customer Orientation, Product Orientation, and Competitor Orientation (Modification of Narver & Slater, 1990). The Business Environment (BE) was measured using the 3 dimensions (each with 5 items) of General Environment, Specific Environment, and Social Politic Environment (Hitt & Ireland, 2010; modification of Robins et. al., 2007).

The Dynamic Marketing Capabilities (DMC) were measured using the 5 dimensions (each with 5 items) of Pricing, Product Development, Distribution, Marketing Communication, and Sales Generation (modification of Day, 1994; Dutta, Narasimhan, & Rajiv, 1999; Teece, 1997; Vorhies & Morgan, 2005). Marketing Performance (MP) was measured using the 4 dimensions (each with 5 items) of Organizational Consequences (Jaworsky & Kohli, 1993, Narver & Slater, 1994), Customer Consequences (Brady & Cronin, 2001, Narver & Slater, 1994), Innovativeness Consequences (Hult & Ketchen, 2001), and Employee Consequences (Jaworsky & Kohli, 1993, Siguaw, Brown & Widing, 1994).

To test the validity of the measurements, we ran a content validity test and confirmatory factor analysis using LISREL 8.8. To test the reliability, we used the parameter of construct reliability (CR) with the cut-off CR >0.7 and variance extracted (VE) using the cut-off VE >0.5.

3.3 Analysis Method

Due to the existence of simultaneous structural relationships within the model, the data was processed using Structural Equation Modelling (SEM) with LISREL 8.8 to test and analyze the measurements (using the method of first and second order Confirmatory Factor Analysis, CFA) and to test and analyze the hypothesis using the structural model parameters from the output of this software.

4. Results

Data collection began in June 2015 and ended in March 2016. 200 questionnaires were distributed, and 111 (56%) questionnaires were considered valid. The descriptive analysis (Table 1) shows that the mean of the constructs for the overall sample is as follows: MO (3.9351), DMC (3.6783), MP (3.6870), and BE (3.5711). The demographic data of the respondents also shows that 105 (96.40%) were men and 6 (5.40%) were women. Of the 111 respondents, 60 (54.1%) respondents were aged above 60 years old, 42 (37.89%) were aged between 41-50 years old, and 9 (8.10%) were aged 31-40 years old.

The other demographic data of the respondents shows that the majority (94= 84.70%) have only secondary schooling and 17 (15.30%) have higher education (undergraduate and post graduate). Regarding business ownership, a majority of the respondents, 73 (65.80), have total ownership, 37 (33.30%) have majority ownership, and only 1 (0.90%) has minority ownership. Regarding the duration of business experience, the data show they have operated businesses for less than 10 years (17.10%), between 10 and 20 years (55.90%), and more than 20 years (27%). In the case of the MTO ('maklun') business model, the demographic data shows that a majority of the respondents, 94 (84.7%), have a business model where the main revenue comes from the production of another brand and the rest, 17 (15.3%), have a business model where the main revenue comes from the products of their own brands.

4.1 The Validity and Reliability Test (Measurement Model)

To test the validity and reliability of the dimension indicators and evaluate the measurement model, a First Order Measurement Analysis was done. The results show that some indicators must be removed due to irrelevance within the context of the samples and with loading factors below 0.5. Table 1 below summarizes the results of the second order measurement analysis.

Table 1. Result of Second Oder Validity and Reliability Test

Construct	Dimension	Loading Factor	Validity	CR	VE	Reliability
SLC	Compre	0,89	VALID	0.94	0.80	Reliable
	Deft	1.00	VALID			
	Absorb	0,87	VALID			
	Adapt	0,81	VALID			
EO	Innov	0,89	VALID	0.78	0.65	Reliable
	Agress	0,66	VALID			
BE	Genenv	0,93	VALID	0.97	0.95	Reliable
	Socpol	1.00	VALID			
MO	Custor	0,99	VALID	0.81	0.60	Reliable
	Compor	0,56	VALID			
	Prodor	0,71	VALID			
DMC	Pricing	0,94	VALID	0.86	0.69	Reliable
	Prodev	0.98	VALID			
	Marcom	0.77	VALID			
MP	Organ	0.55	VALID	0.73	0.42	Reliable
	Loyal	0,51	VALID			
	Newent	0,61	VALID			
	Employ	0,84	VALID			

4.2 The Hypothesis Test (Structural Model)

Based on the path diagram, t value and estimates values resulting from data processing using LISREL 8.8, the hypothesis testing results are summarized in the table below:

Table 2. The Results of the Hypothesis Test

Hypothesis	t-Value	Coefficient	Supported/Not
H1: Strategic Leadership Competence → Market Orientation	2.66	0,33	Supported
H2: Entrepreneurial orientation → Market Orientation	1.34	0,16	Not Supported
H3: Market Orientation → Marketing Performance	1.53	0,12	Not Supported
H4: Market Orientation → Dynamic Marketing Capability	-4.38	-0,35	Not Supported
H5: Dynamic Marketing Capability → Marketing Performance	4.41	0,42	Supported
H6: Business Environment → Relationship of Market Orientation and Marketing Performance	5.09	0,91	Supported

After putting the result of the hypothesis test into the research model, the research model is as follows:

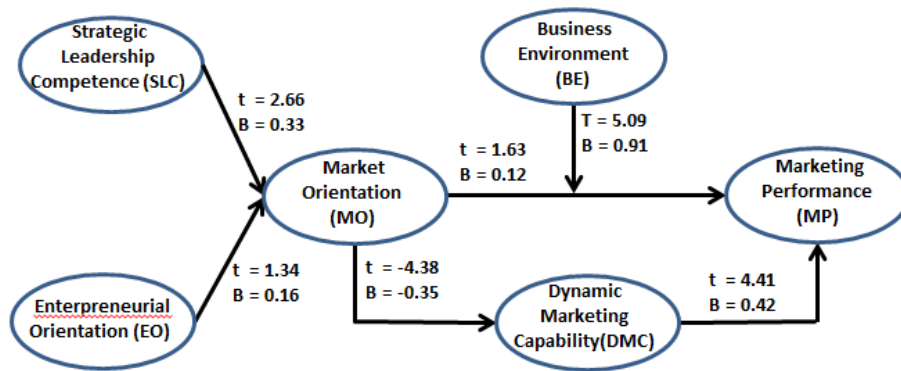


Figure 1. The Research Model with the Hypothesis Test Results

5. Discussion

5.1 The Antecedents of Market Orientation in MTO SMEs

Table 2 shows that Strategic Leadership Competence has a significant and positive effect on MO ($t=2.66$). This finding is similar to the findings of previous research by Kircha et. al. (2005). From the descriptive analysis of Strategic Leadership Competence, it is shown that the strongest dimension of Strategic Leadership Competence is Comprehensiveness ($LF=0.89$), with the strongest indicator X3 ($LF=0.69$) showing the understanding of the production process. Meanwhile, the descriptive analysis of market orientation shows that the strongest dimension of Market Orientation is Customer Orientation ($LF=0.99$), with the strongest indicator Y4 ($LF=0.83$), i.e., ‘Always try to find the customer’s needs.’ This situation implies that, in the context of small and medium enterprises with a MTO strategy (MTO-SME), the more the leader has competence in understanding the production process, the more the SME can understand the customer’s needs.

Meanwhile, Entrepreneurial Orientation does not have significant or positive effect on MO ($t=1.34$). The descriptive analysis of Entrepreneurial Orientation shows that the strongest dimension of Entrepreneurial Orientation is Innovativeness ($LF=0.89$), with the strongest indicator X25 ($LF=0.79$), i.e., ‘There is research and development activity.’ Knowing the strongest indicator of MO reveals that, in the context of SMEs with a MTO strategy (MTO-SME), the stronger the SME’s research and development activity, the more the SME understands the customer’s needs.

5.2 The Impact of Market Orientation in MTO SMEs

Table 2 shows that Market Orientation has no significant or positive impact on Marketing Performance ($t=1.53$). This result is contrasted to the findings of Pitta and Smith (2015) and Gaur et. al. (2009) who state that MO has a positive impact on marketing performance. This result could be due to the fact that the previous results were obtained in the context of medium to big companies, while the Cibaduyut shoe industry consists of SMEs only. This result is also inconsistent with the findings of Hernandez et. al. (2009), who conclude that MO has a positive impact on the innovation capability of SMEs.

The description analysis on Marketing Performance shows that the strongest dimension is Employee Performance ($LF=0.84$), with the strongest indicator Y60 ($LF=0.76$), i.e., ‘The SME employees feel happy to work with their job in the company.’ Taken together with the descriptive analysis of MO, we can conclude that, in the context of SMEs with a MTO strategy (MTO-SME), the more the SME has a customer orientation for understanding the customer’s needs, the more satisfied their employees are working in the company.

This may be due to the fact that, in a business with a majority of revenue coming from ‘maklun’ or ordered by another brand, the SMEs are driven by the companies that give the orders. They are not affected by customer (end user) demand, the actions of competitors, or the latest products offered in the market because all they need to do is fulfil the qualifications and specifications ordered by the companies giving the orders. If

they do care about the other issues, and they develop dynamic marketing capabilities, they can risk wasting resources or even opposing the companies giving the orders.

Meanwhile, MO has a negative significant impact on DMC ($t = -4.38$). This finding is in line with Kircha meta-analysis that there is no consequence on capabilities reported. The descriptive analysis of Dynamic Marketing Capability shows that the strongest dimension in the ability to set prices (Pricing, $LF = 0.94$), and the strongest indicator is Y18 ($LF = 0.92$), i.e., the ability to set prices in any occasion. Considering the descriptive analysis of MO and DMC, it can be concluded that the SMEs' with an MO focused on understanding customers' needs does not improve the ability of SMEs' to set a profitable price for products on a specific occasion.

Based on the above, this study concludes that DMC is not built or developed by MO. The question then is: What factors affect the DMC of SMEs with a 'maklun' business model? This may be the focus of future research using strategic leadership competence and entrepreneurial orientation. This finding is inconsistent with the findings of Jimenez et. al. (2008) who conclude that MO has a positive impact on innovation capability.

5.3 The Impact of Dynamic Marketing Capability on Marketing Performance in MTO SMEs

Table 2 shows that DMC has a significant and positive impact on MP ($t = 4.41$). The descriptive analysis of Business Environment shows that the strongest dimension of marketing Performance is Employee Performance ($LF = 0.84$), and the strongest indicator is Y60 ($LF = 0.76$), i.e., 'The SME employees feel happy to work with their job in the company.' Considering the descriptive analyses of DMC and MO and MP lead us to conclude that, in the context of MTO-SMEs, the more the SME is able to set the price on any occasion, the better their marketing performance will be, primarily in the form of employee happiness.

5.4 The Moderating Role of the Business Environment

Table 2 shows that BE has a positive and significant moderating effect on the relationship between MO and MP ($t = 5.09$). The descriptive analysis of BE shows that the strongest dimension of BE is General Environment ($LF = 0.93$), and the strongest indicator is X52 ($LF = 0.80$), i.e., 'The government infrastructure is very conducive for the shoe industry.' The structural analysis shows that, in MTO-SMEs. the stronger their customer orientation in understanding customers' needs is, the happier the employees working in the company are. Hence, the better the government infrastructure is, the stronger the positive impact on SME customer orientation in understanding customers' needs and on MP will be, primarily in the form of the employee happiness.

6. Conclusion

The results show that MO does not have a significant effect on MP, and has a negative effect on DMC. Hence, MO has limited impact on other concepts, i.e., capability and performance, in the context of MTO-SMEs.

DMC has a significant positive effect on MP, however MO does not have a positive effect on DMC, and MO does not build DMC. These results underscore the importance of knowing the antecedents of MO and DMC for future research. We propose two factors as the antecedents of MO and DMC: first, Strategic Leadership Competence (SLC), and second, Entrepreneurial Orientation (EO). SLC is the ability to understand the business environment, formulate strategies, and implement them to reach organizational goals (Boal & Hooijberg, 2000; Hitt & Ireland, 2010; McGrath, McMillan & Venkataraman, 1995). Entrepreneurial Orientation refers to the methods, processes, and decision making styles, indicating the existence of entrepreneurship in the leaders and the organization as a whole (Baird & Thomas, 1985; Dess & Lumpkin, 1996).

Strategic Leadership Competence (SLC) is the ability of a leader to identify, process, and exploit corporate capabilities to create sustainable business performance (Prahalad & Hamel, 1990). Meanwhile, according to Hitt and Ireland (2007) and Rowe (2001), strategic leadership is the ability to influence people and make decisions affecting long-term corporate performance whilst maintaining short-term financial health.

Based on the analysis of the relationship between market orientation, dynamic marketing capability, and marketing performance, a curve can be created showing the many possibilities of marketing performance value, based on MO and DMC values. This curve is a contribution of this research.

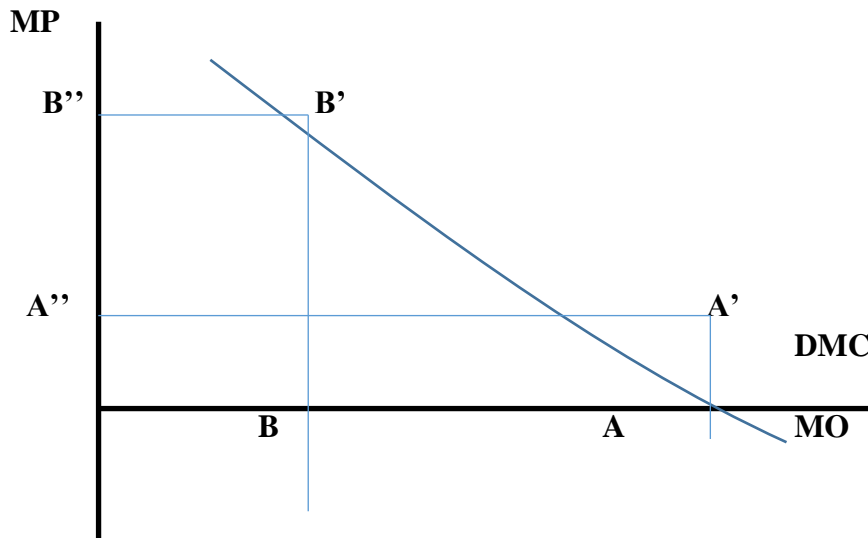


Figure 4. The curve of the relationship between MO, DMC, and MP

The curve shows the following:

When a MTO-SME has a high degree of MO (point A), due to its negative relationship, the SME will have a lower level of capability DMC (point A'), and consequently, the SME will have a lower level of performance MP (point A'').

In contrast, when a MTO-SME has a low degree of MO (point B), due to its negative relationship, the SME will have a higher level of capability DMC (point B'), and consequently, the SME will have a higher level of performance MP (point B'').

Another contribution of the research is the classification of SMEs into 4 types in relation to the relationship and level of MO and DMC. This classification was not formed through a statistical difference test based on an experiment design. These 4 types of SME are generated in 4 quadrants as follows:

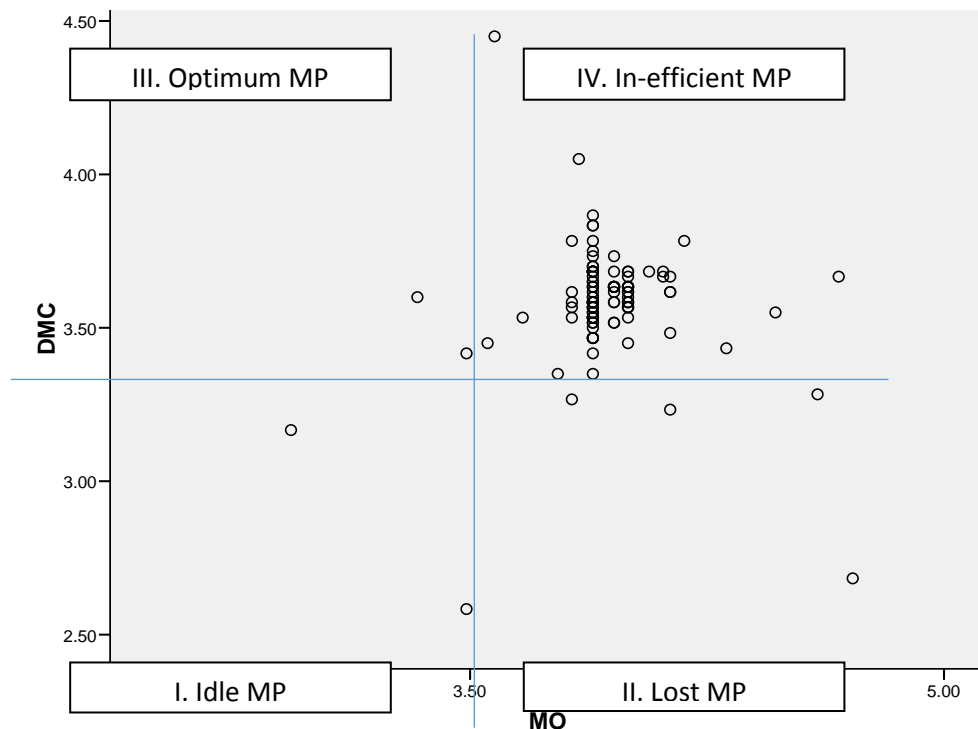


Figure 5. Performance categorization of SMEs in Cibaduyut based on MO and DMC

Figure 5 above shows the performance categorization of SMEs in Cibaduyut based on MO and DMC, as follows:

Type I: Idle Marketing Performer

The first type of MTO-SMEs are SMEs with lower levels of MO and lower levels of DMC (Quadrant I). These are SMEs with lower levels of performance, due to their low level of effort and created value (idle).

Type II: Lost Marketing Performer

The second type of MTO-SMEs are those with high levels of MO and lower levels of DMC (Quadrant II). These are SMEs with lower levels of performance, due to their inability to do MTO operational processes and confusion from the information generated by MO activities, making them 'lost.'

Type III: Optimum Marketing Performer

The third type of MTO-SMEs are those with low levels of MO and high levels of DMC (Quadrant III). These are SMEs with high levels of performance, due to their ability to do MTO operational processes efficiently and not be confused by the information generated by MO activities.

Type IV: Inefficient Marketing Performer

The fourth type of MTO-SMEs are those with high levels of MO and low levels of DMC (Quadrant IV). These are SMEs with high levels of performance, due to their ability to do MTO operational processes, but they do not do them efficiently because of the cost generated by MO activities.

Looking at the scatter plot above, it can be seen that the majority of Cibaduyut Shoemaker SMEs are the type In-efficient MTO-SMEs (Quadrant IV). They can make good revenue, but due to inefficient operations management, they cannot have good profitability.

7. Research Limitations and Future Research

This research has limitations and suggestions for future research. First, there is no analysis on the factors affecting DMC. The finding shows that DMC has a positive effect on performance. However, MO has a negative impact on DMC, so there is no information about the factors building DMC. It is therefore important to elaborate and examine the factors affecting DMC. Strategic leadership competence and entrepreneurial orientation may also be considered and tested in future research.

Second, there is no measurement of competing concepts of MO, such as interaction orientation with the 4E concepts: engagement, experience, exclusivity, and emotions. Future research can utilise better factors affecting the MP of MTO-SMEs in the context of the digital marketing era. The third limitation is that the study only focuses on the population of the shoe home industry at Cibaduyut. Future representative results.

References

- Grinstein, A. (2008). The relationships between market orientation and alternative strategic orientations: A meta-analysis. *European journal of marketing*, 42(1/2), 115-134. <https://doi.org/10.1108/03090560810840934>
- Appiah-Adu, K. (1998). Market orientation and performance: do the findings established in large firms hold in the small business sector?, *Journal of Euromarketing*, 6(3), 1-26. https://www.tandfonline.com/doi/abs/10.1300/J037v06n03_01
- Cano, C. R., Carrillat, F. A., & Jaramillo, F. (2004). A meta-analysis of the relationship between market orientation and business performance: evidence from five continents. *International Journal of research in Marketing*, 21(2), 179-200. <https://doi.org/10.1016/j.ijresmar.2003.07.001>
- Cohen, W. M., & Levinthal, D. A. (1990). Absorptive capacity: A new perspective on learning and innovation. *Administrative science quarterly*, 35(1), 128-152. https://www.researchgate.net/profile/Daniel_Levinthal/publication/220019726_Absorptive_Capacity_A_New_Perspective_on_Learning_and_Innovation/links/0fcfd5142b6a98e555000000.pdf
- Covin, J. G., & Wales, W. J. (2012). The measurement of entrepreneurial orientation. *Entrepreneurship theory and practice*, 36(4), 677-702.
- Jimenez-Jimenez, D., Sanz Valle, R., & Hernandez-Espallardo, M. (2008). Fostering innovation: the role of market orientation and organizational learning. *European Journal of innovation management*, 11(3), 389-412. <https://doi.org/10.1108/14601060810889026>
- Day, G. S. (1994). The capabilities of market-driven organizations. *Journal of marketing*, 58(4), 37-52. <https://doi.org/10.1177/002224299405800404>
- Ellis, P. D. (2006). Market orientation and performance: A meta-analysis and cross-national comparisons. *Journal of Management Studies*, 43(5), 1089-1107. <https://doi.org/10.1111/j.1467-6486.2006.00630.x>
- Sepulveda, F. L. (2010). The Entrepreneurial Orientation of Rapidly Internationalizing Service: Firms and its Link to International Operations.
- Foley, A., & Fahy, J. (2009). Seeing market orientation through a capability's lens. *European Journal of Marketing*, 43(1/2), 13-20. <https://doi.org/10.1108/03090560910923201>
- Gebhardt, G. F., Carpenter, G. S., & Sherry Jr, J. F. (2006). Creating a market orientation: A longitudinal, multifirm, grounded analysis of cultural transformation. *Journal of marketing*, 70(4), 37-55. <https://doi.org/10.1509/jmkg.70.4.037>
- Greenley, G. E. (1995). Market orientation and company performance: empirical evidence from UK companies. *British journal of management*, 6(1), 1-13. <https://doi.org/10.1111/j.1467-8551.1995.tb00082.x>

- Grewal, R., & Tansuhaj, P. (2001). Building organizational capabilities for managing economic crisis: The role of market orientation and strategic flexibility. *Journal of marketing*, 65(2), 67-80. <https://doi.org/10.1509/jmkg.65.2.67.18259>
- Hult, G. T. M., & Ketchen Jr, D. J. (2001). Does market orientation matter?: A test of the relationship between positional advantage and performance. *Strategic management journal*, 22(9), 899-906. <https://doi.org/10.1002/smj.197>
- Jaworski, B. J., & Kohli, A. K. (1993). Market orientation: antecedents and consequences. *Journal of marketing*, 57(3), 53-70. <https://doi.org/10.1177/002224299305700304>
- Rojas-Mendez, J. I., & Rod, M. (2013). Chilean wine producer market orientation: comparing MKTOR versus MARKOR. *International Journal of Wine Business Research*, 25(1), 27-49. <https://doi.org/10.1108/17511061311317291>
- Tajeddini, K., Elg, U., & Ghauri, P. N. (2015). Enhancing organizational performance of international SMEs through inter-firm marketing collaborations. In *International Marketing in the Fast-Changing World* (pp. 109-133). Emerald Group Publishing Limited. <https://doi.org/10.1108/S1474-797920150000026006>
- Wilburn Green, K., Toms, L. C., & Clark, J. (2015). Impact of market orientation on environmental sustainability strategy. *Management Research Review*, 38(2), 217-238. <https://www.emerald.com/insight/content/doi/10.1108/MRR-10-2013-0240/full/html>
- Kirca, A. H., Jayachandran, S., & Bearden, W. O. (2005). Market orientation: A meta-analytic review and assessment of its antecedents and impact on performance. *Journal of marketing*, 69(2), 24-41.
- Lam, S. K., Kraus, F., & Ahearne, M. (2010). The diffusion of market orientation throughout the organization: A social learning theory perspective. *Journal of Marketing*, 74(5), 61-79. <https://journals.sagepub.com/doi/abs/10.1509/jmkg.74.5.061>
- Chao, M. C. H., & Spillan, J. E. (2010). The journey from market orientation to firm performance: A comparative study of US and Taiwanese SMEs. *Management Research Review*, 33(5), 472-483. <https://doi.org/10.1108/01409171011041901>
- Lumpkin, G. T., & Dess, G. G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *Academy of management Review*, 21(1), 135-172.
- Narver, J. C., & Slater, S. F. (1990). The effect of a market orientation on business profitability. *Journal of marketing*, 54(4), 20-35.
- Noble, C. H., Sinha, R. K., & Kumar, A. (2002). Market orientation and alternative strategic orientations: a longitudinal assessment of performance implications. *Journal of marketing*, 66(4), 25-39.
- O'sullivan, D., & Abela, A. V. (2007). Marketing performance measurement ability and firm performance. *Journal of marketing*, 71(2), 79-93.
- Narver, J. C., Slater, S. F., & MacLachlan, D. L. (2004). Responsive and proactive market orientation and new-product success. *Journal of product innovation management*, 21(5), 334-347. <https://doi.org/10.1111/j.0737-6782.2004.00086.x>
- González-Benito, Ó., González-Benito, J., & Munoz-Gallego, P. A. (2009). Role of entrepreneurship and market orientation in firms' success. *European Journal of Marketing*, 43(3/4), 500-522. <https://doi.org/10.1108/03090560910935550>
- Pelham, A. M. (2009). An exploratory study of the influence of firm market orientation on salesperson adaptive selling, customer orientation, interpersonal listening in personal selling and salesperson consulting behaviors. *Journal of Strategic Marketing*, 17(1), 21-39. <https://doi.org/10.1080/09652540802619202>
- Ramani, G., & Kumar, V. (2008). Interaction orientation and firm performance. *Journal of marketing*, 72(1), 27-45. <https://doi.org/10.1509/jmkg.72.1.027>
- Ramayah, T., Samat, N., & Lo, M. C. (2011). Market orientation, service quality and organizational performance in service organizations in Malaysia. *Asia-Pacific Journal of Business Administration*, 3(1), 8-27. <https://doi.org/10.1108/17574321111116379>
- Ladyshevsky, R. K. (2007). A strategic approach for integrating theory to practice in leadership development. *Leadership & Organization Development Journal*, 28(5), 426-443. <https://doi.org/10.1108/01437730710761733>
- Song, M., Di Benedetto, C. A., & Nason, R. W. (2007). Capabilities and financial performance: the moderating effect of strategic type. *Journal of the Academy of Marketing Science*, 35(1), 18-34. <https://doi.org/10.1007/s11747-006-0005-1>
- Subramanian, R., & Gopalakrishna, P. (2001). The market orientation-performance relationship in the context of a developing economy: An empirical analysis. *Journal of Business Research*, 53(1), 1-13. [https://doi.org/10.1016/S0148-2963\(99\)00109-5](https://doi.org/10.1016/S0148-2963(99)00109-5)

- Thomas, R. W., Soutar, G. N., & Ryan, M. M. (2001). The selling orientation-customer orientation (SOCO) scale: A proposed short form. *Journal of Personal Selling & Sales Management*, 21(1), 63-69. <https://www.tandfonline.com/doi/abs/10.1080/08853134.2001.10754257>
- Vorhies, D. W., & Morgan, N. A. (2005). Benchmarking marketing capabilities for sustainable competitive advantage. *Journal of marketing*, 69(1), 80-94.
- Voss, G. B., & Voss, Z. G. (2000). Strategic orientation and firm performance in an artistic environment. *Journal of marketing*, 64(1), 67-83. <https://doi.org/10.1509/jmkg.64.1.67.17993>
- Wang, C. L., Hult, G. T. M., Ketchen Jr, D. J., & Ahmed, P. K. (2009). Knowledge management orientation, market orientation, and firm performance: an integration and empirical examination. *Journal of Strategic Marketing*, 17(2), 99-122. <https://doi.org/10.1080/09652540902879326>
- Wieseke, J., Ahearne, M., Lam, S. K., & Van Dick, R. (2009). The role of leaders in internal marketing. *Journal of Marketing*, 73(2), 123-145. <https://doi.org/10.1509/jmkg.73.2.123>