

# Increasing the MSMEs performance through cutting edge innovation capability

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## Abstract

**Purpose** – This paper analyzes how to increase micro, small and medium-sized enterprises (MSMEs) performance through Cutting Edge Innovation Capability.

**Design/methodology/approach** – This study's population consists of all 84,758 MSMEs in North Sumatera. A purposive sampling approach was used to select the respondents, with closed question for a sample of 218 leading MSME owner-managers in North Sumatera using the structural equation modelling technique (PLS-SEM). The main MSMEs in North Sumatera with the the following the categories of products: culinary, handicrafts, fashion, coffee shops, bakeries, garment, and services.

**Findings** – The findings of this study show that Cutting Edge Innovation Capability has positive and significant effect on performance of MSMEs from data processing and hypothesis testing results. Cutting Edge Innovation Capability is innovation capabilities that combine product innovation, process innovation, market innovation, and organization innovation as: Sensing Capability, Seizing Capability, Transforming Capability, Break-through Concept Capability, and Superior Marketing Capability.

**Research limitations/implications** – There needs to be a more balanced composition of leading MSMEs data, not too much many in food and beverage MEMEs. The research data for this category is 103 MSMEs (47%) while others MSME categories are also in need innovation capabilities such as souvenirs, agribusiness, and services.

**Practical implications** – Based on research results, as input for MSME manager, MSME business actors in efforts increasing the innovation capabilities of MSMEs in line with the Government's wishes the Republic of Indonesia through the Ministry of Cooperatives and SMEs, target MSMEs can move up a class (scaling up), MEMEs can go international.

**Originality/value** – Cutting Edge Innovation Capability is needed to improve the MSMEs performance. In line with previous research, Market Orientation and SME Performance needed to be mediated by marketing capabilities.

**Keywords:** Cutting edge innovation capability, MSMEs performance

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## Introduction

Micro, Small, and Medium Enterprises (MSMEs) have important and strategic role in the national economy. In 2021, MSMEs generated 60.51 percent of Indonesia's total GDP, or IDR 9,580 trillion. MSME's able to minimize unemployment in Indonesia due to MSMEs can absorb a large amount of labor. Seeing the important role of MSMEs are not surprising if the government wants to enhance performance of MSME's (Masduki, T & Rully, 2020).

Most of MSMEs in Indonesia have several problems such as: 1) shortage of creativity and innovativeness among MSMEs entrepreneurs and their employees; 2) a failure to exploit the digital marketing role 3) MSMEs in Indonesia face difficulties in distributing products; 4) lack of good business management among MSMEs entrepreneurs 5) MSMEs are still not care of the importance of branding (Masduki, T & Rully, 2020).

Research conducted (Kajalo, 2015) shows that the market orientation variable does not have a significant effect on business performance. Based on the results of this research, the relationship between MO and performance can be mediated by marketing capabilities. It could be argued that MO requires complementary marketing capabilities if improvements in business performance are to be realized (Douglas W. Vorhies, 2005; Kamboj et al., 2015).

While the research conducted by (Amin, 2016) is not in line with research conducted by (Kajalo, 2015). Amin's research state the market orientation variable has a significant impact on SMEs performance. Previous research has also identified the influence of MO on business performance (Friesen, 2013) explaining that companies with strong MO can generate higher profit margins than companies with weak MO.

Therefore, the aim of this study is to analysis how to enhance the positional advantage and performance of micro, small, and medium enterprises (MSMEs) in North Sumatera through Cutting Edge Innovation Capability. This is defined as most advanced Innovation capability that has been combine product innovation, process innovation, market innovation, and organizational innovation in the form of sensing capability, seizing capability, transforming capability, breakthrough concept capability, and superior marketing capability.

The uniqueness of novelty of this research is Cutting Edge Innovation Capability that has never been used before previous researchers and has never been published in international journals using this variable. This capability not only combine of sensing capability, seizing capability, and transforming capability but also combination of breakthrough innovation capability and superior marketing capability. Breakthrough innovation capability consists of three building blocks. These blocks are discovery, incubation, and acceleration or using the acronym DNA. This capability to make product diversity, product quality, and pioneer in newcomer product's. Whereas Superior Marketing Capability is the combination of superior branding capabilities, digital marketing capability, and comprehensive marketing strategy.

## **Literature Review and Hypotheses**

### **MSMEs Performance**

MSMEs Performance can be defined in various ways. Is it profitability, market share, or customer satisfaction. Financial and non-financial parameters are used as metrics to measure company performance. Financial performance parameter are sales, profitability, return on investment (ROI), and return on asset (ROA). Non-financial performance are customer satisfaction, customer retention, and product/service quality (Hempenius, 2012). According to (Rapih, 2015) indicators of SME Performance as follows: 1) sales growth; 2) customer growth; and 3) profit growth.

### **Cutting Edge Innovation Capability**

Innovation capability most advanced that has been combines product innovation, process innovation, market innovation, and organizational innovation in the form of sensing capability, seizing capability, transforming capability, breakthrough concept capability, and superior marketing capability.

### **Resource Advantage Theory of Competition (R-A Theory)**

The R-A Theory was first published by (Hunt, S. & Morgan, 1996). This theory says companies have the main goal superior financial performance. Because using the term superior means the company is looking for a level performance exceeds its competitors or above the industry average, for example profits, return on assets, return on equity, etc.

R-A Theory is a general theory of competitions that explains goals the fundamental principle of resource-based strategy is to achieve excellence resource-based comparatives that can generate positional advantages in several market segments to obtain superior company performance.

R-A Theory is built on several the following thoughts: 1) heterogeneity of demand within industries between industry in dynamic characteristic; 2) the information received by customer is not complete and expensive; 3) human motivation is meeting their needs; 4) goals organization is to expect maximum profits; 5) information owned by the organization is incomplete and expensive; 6) resources owned by organization consists of financial, physical, legal, human, organizational, information, and relationships; 7) resources are heterogeneous and move unstable; 8) managerial role in recognizing, understanding, creating, selecting, implement, and restructure current strategies; 9) dynamic competition requires innovation in the organization (Hunt, S. & Morgan, 1996).

### **Market Orientation and Cutting Edge Innovation Capability**

Market Orientation (MO) has become one of the most important marketing literature concepts and can be defined as the culture or activities of an organization that creating the necessary behaviors for superior performance (Kohli & Jaworski, 1990); (Narver and Slater, 1990).

Narver and Slater, (1990) defines MO as organizational culture based on three components: customer orientation, competitor orientation, coordination inter functional. Customer orientation refers to the companies capabilities in create excellent value for customers and understand supply chain network (Desphande & Farley, 2004; Narver and Slater, 1990; Narver et al., 2004).

Orientation of competitor is defined as a company's capabilities in identify strengths, weaknesses, long-term capabilities, and strategies to gain market competitiveness, coordination between functions, refers to the company's ability to create greater value for targets customer (Jiménez-Zarco et al., (2011); (Narver et al., 2004). These three dimensions emphasize a proactive and responsive MO to customers (Gonzales-Benito, 2009; Narver et al., 2004).

This research has similarities with research conducted by (Distanont & Khongmalai, 2020) concluded that MO has an influence significant to innovation. Research conducted by (Milfelner et al., 2019) a little bit different. This researcher divides into two, namely Proactive Market Orientation and Reactive Market Orientation. From the research results are able to be concluded that Proactive Market Orientation has a significant impact on capacity to innovate, while Reactive Market Orientation has no significant effect on capacity to innovate. It could be said that companies must take the initiative to find out customer needs, for example through the company's marketing intelligence, no wait until the customer's need are known first competitor.

The relationship between Market Orientation and Cutting Edge Innovation Capability. If market orientation is higher, Cutting Edge Innovation Capability will also be higher. Based on supporting theories and previous research results Market Orientation has a positive and significant effect on Cutting Edge Innovation Capability. Hence, the initial hypothesis can be made as follows: H<sub>1</sub>: Market Orientation has a positive and significant effect on Cutting Edge Innovation Capability

### **Market Orientation and Positional Advantage**

Resource Advantage Theory has placed resources and marketing capabilities on the basis of increasing positional advantages and marketing performance (Morgan, 2012). Other marketing skills required for gaining positional advantage and superior marketing performance is adaptive capability, ability to respond to customers and competitors (Wang & Ahmed, 2007). This capability will allow companies to create and exploit external opportunities and develop sustainability of excellence (Murwatiningsih & Oktarina, 2020). For example good ability to interacting with customers is one of the most important marketing skills which allow companies to build customer relationships getting closer and acting better is a means of building sustainable competitive advantage (Day, 1994).

Mastering customer information will make it possible company to adapt to customer needs and requirement to respond to changing customer needs and desires as well as the same time to positioning the values of the product or company to their mind, and will enable the company

increase positional advantage in the target market segment (Narver and Slater, 1990; Hunt, S. & Morgan, 1996).

Respond capabilities to competitors allows companies to reconfiguring processes to meet new market needs, utilize information system processing and adopt new products and processes to develop competition (Dong et al., 2016). Possession of superior resources represents potential to produce competitive advantage and superior company performance (Hunt, S. & Morgan, 1996). Competitor-oriented companies have an opportunity greater to gain competitive advantage through differentiation, cost leadership, and product excellence (Langerak, 2004).

Research conducted by (Hendar et al., 2017) conclude that customer orientation and competitor orientation have a significant effect on Positional Advantage. (Sok et al., 2013); (Morgan, 2012) said that the view of the business ability to grow and deploy some internal capabilities (especially innovation capabilities and market response capabilities) are significant for its sustainable growth. Based on supporting theories and previous research results Market Orientation has a positive and significant effect on Positional Advantage. Hence, the initial hypothesis can be made as follows:

H<sub>2</sub>: Market Orientation has a positive and significant effect on Positional Advantage.

### **Market Orientation and MSMEs Performance**

Market Orientation concept is considered the basis of marketing theory (Narver and Slater, 1990; Friesen, 2013). Following the marketing concept, the company aims to provide services or products that can meet customer requirements and needs to ensure that these services are offered more effectively and efficient than competitors (Narver and Slater, 1990).

Market-oriented organization aims to understand customer needs by coordinating organize, and share customer-related information throughout organizations to create superior value for customers (Jogaratnam, 2017; Huhtala et al., 2014). Narver et al., (2004) said Market Orientation as the most effective and efficient organizational culture create behavior that necessary for the creation of superior value for buyers and thus sustainable superior performance.

In marketing literature, market-oriented culture is considered as key to improve business performance due to it prioritizes needs and focus on customer satisfaction (Kumar et al., 2011). Superior value creation customers are directly related to improve performance (Becherer et al., 2012) and is the key for competitive advantage and performance (Gruber-Mueke, T and Hofer, 2015). Thus SMEs Managers have been encouraged to get involved in market orientation to respond customer requests and realize business performance objective (Buli, 2017; Amin, 2016; Boso et al., 2013).

In general Market Orientation is positively related to SME Performance (Lekmat et al., 2018; Narver and Slater, 1990; Kohli & Jaworski, 1990). Research by (Shaher & Ali, 2020) also concluded Market Orientation significant effect on SME Performance. Research by (Ali, 2020); (Yoganathan et al., 2015) also conclude Market Orientation have significant effect on SME Performance. The reason behind this, in conclusion are market-oriented SMEs than can be better meet customer needs and customer expectations through the creation of innovative products and services. Based on supporting theories and previous research results Market Orientation has a positive and significant influence on MSMEs Performance. Hence, the initial hypothesis can be made as follows:

H<sub>3</sub>: Market Orientation has a positive and significant influence on MSMEs Performance.

### **Cutting Edge Innovation Capability and Positional Advantage**

One of the important determinants of resource capability for success companies in a dynamic market environment is innovation capability (Wang & Ahmed, 2007). Innovativeness relates to the entrepreneur's willingness to support creativity and experimentation in introducing new products or new services, novelty, technology leadership and R & D develop new processes (Lumpkin & Dess, 1996).

In a marketing context, marketing innovation emerges when entrepreneurs make changes in strategic market planning and its implementation, managing brand, CRM, and implementing typical strategies in the marketing mix. These changes will be further increase positional advantage

(Morgan, 2012). So marketing innovation is like which is shown in improving marketing strategies and their implementation has a big role in determining positional superiority. New findings show that marketing innovation in the form of product innovation is the dominant driver of competitive advantage (Naidoo, 2010); or product positional advantage (Wong & Tong, 2012).

Innovation as a process is a common way to conceptualized innovation capability is how think of it as the potential to create innovative output (Dadfar, Dahlgaard, Brege, 2013; Halit Keskin, 2006). In this study innovation capability is considered a dimensional phenomenon including actions that can be implemented to improve the performance of SMEs (Castela et al., 2018; Saunila, 2020). In small business there is also a single study that divides innovation capabilities as sensing capabilities, seizing capabilities, and transformation capabilities, or assimilation, acquisition, and deployment (Fitz-koch & Nordqvist, 2019).

Research conducted by (Shaher & Ali, 2020) also concluded Innovation Capability has a significant influence on Positional Advantage. (Morgan, 2012) has said the business's ability to grow and deploy internal capabilities (especially innovation capabilities and the ability to respond significant markets for sustainable growth. Based on supporting theories and previous research results Cutting Edge Innovation Capability has a significant and positive influence on Positional Advantage. Hence, the initial hypothesis can be made:

H<sub>4</sub>: Cutting Edge Innovation Capability has a significant and positive influence on Positional Advantage.

### **Positional Advantage and MSMEs Performance**

Positional Advantage generated by intangible resources must be unique and more difficult for competitors to imitate or duplicate it. The point is each ability may not be unique autonomously but it combination can create unique resources which results positional advantage and a pathway to higher performance.

In practical terms, Positional Advantage is said to represent unique skills and abilities used by organizations to increase barriers to entry and avoidance competitor's attempts to imitate (Lonial and Carter, 2015). Positional Advantage must produce superior performance.

Research conducted by (Jogarathnam, 2017). Positional Advantage significant effect on business performance. These results are suggestive that the combination of resources produces to the creation of internal positional advantage, and Positional Advantage has a positive impact on company performance. Based on supporting theories and previous research results Positional Advantage has a positive and significant effect on MSMEs Performance. Hence, the initial hypothesis can be made as follows:

H<sub>5</sub>: Positional Advantage has a positive and significant effect on MSMEs Performance.

### **Cutting Edge Innovation Capability and MSMEs Performance**

Innovation is an important organizational capability due to successful of new products are growth engines that impact sales, profits, and competitive strength for many organization (Battor & Battor, 2010). Several studies result agree that there is a direct and positive correlation between innovation and superior performance (Calantone et al., 2002; Hult, 2004; Halit Keskin, 2006; Panayides, 2006; Thornhill, 2006). Most studies find a positive relationship between abilities innovation and firm performance in the context of small business (O'Cass & Sok, 2014; Oura et al., 2016; Zhang & Hartley, 2018).

Based on a review of innovation capabilities related to new product performance (Zhang & Hartley, 2018), brand performance (Odoom & Mensah, 2019), and overall performance (Dadfar, Dahlgaard, Brege, 2013).

Furthermore, several types of innovation capabilities: product innovation, process innovation, organizational innovation, and marketing contribute to operational performance and business returns (Saunila, 2020).

Research conducted by (Sulistyo & Siyamtinah, 2016) state that the innovation capability has a significant effect on SMEs Performance. The results show the importance of innovation capabilities in improving performance and competitive advantage. Good innovation capabilities in the

organization will encourage innovation and sustainable product development. Based on supporting theories and previous research results Cutting Edge Innovation Capability has a positive and significant effect on MSMEs Performance. Hence, the initial hypothesis can be made as follows:

H<sub>6</sub>: Cutting Edge Innovation Capability has a positive and significant effect on MSMEs Performance.

### **The influence of Market Orientation on Positional Advantage through Cutting Edge Innovation Capability**

Research conducted by (Pratono et al., 2019) generate market orientation has a significant effect on sustainable competitiveness advantage. This study broadly supports the view that inter-organizational learning strengthen the impact of market orientation on competitive advantage expected company.

Research by (Distanont, 2020) also generates that the innovation has a significant effect on sustainable competitive advantage. The role of innovation is an important key that leads to creation competitive advantage for business, thus SME should pay attention creation of innovation, especially external skill, knowledge, and experience which can foster innovation and lead to the creation of excellence competitive. Based on supporting theories and previous research results Market Orientation has a significant and positive influence on Positional Advantage through Cutting Edge Innovation Capability. Hence, the initial hypothesis can be made:

H<sub>7</sub>: Market Orientation has a positive and significant effect on Positional Advantage through Cutting Edge Innovation Capability.

### **The influence of Market Orientation on MSMEs Performance through Positional Advantage**

Research conducted by (Hendar et al., 2017) said religio-centric positional advantage (RPA) had a very important role as a mediator in the correlation Customer Responsiveness (CuR) with Marketing Performance (MP) and became an important alternative in improving marketing performance. (Sok et al., 2013; Hunt & Madhavaram, 2012; Hunt, 2013). This research is in accordance with my research, positional advantage mediates the relationship between market orientation (MO) and SMEs Performance due to customer orientation is a market orientation variable indicator. MO is the same as customer responsiveness, while MP is part of SMEs Performance.

Indirect effect of competitor responsiveness (CoR) on marketing performance (MP) through RPA was significant by Hendar et al., (2017). This research was showing that RPA had a very important role as a mediator in the correlation of CoR with MP and became an important alternative in improving marketing performance. Recent studies on the role of complementing abilities in increasing positional superiority and business performance is (Langerak, 2004) about market orientation, (Nakata & Zhu, 2006) about customer orientation, cross-functional integration, new product team proficiency, (Naidoo, 2010) about marketing orientation, marketing innovation.

Based on supporting theories and previous research results Market Orientation has a positive and significant effect on MSMEs Performance through Positional Advantage. Hence, the initial hypothesis can be made as follows:

H<sub>8</sub>: Market Orientation has a positive and significant effect on MSMEs Performance through Positional Advantage.

## **Research Methods**

### **Research Design and Data Collection Methods**

This study applied quantitative method to collect descriptive, comparative, and associative data (Creswell, 2014). This study was carried out in two parts in North Sumatera: the first stage covered Medan city, while the second stage comprised 16 regencies in North Sumatera. The leading MSMEs in North Sumatera with the following product categories: culinary, handy crafts, coffee shop, bakery, fashion, garment, and services. This study's population consists of all 2,570,239 MSMEs in North Sumatera. The sample was determined using purposive sampling: a sampling strategy of data sources with deliberate consideration (Sugiyono, 2010; Hair et al., 2014; Harahap, 2018). The sample selection criteria are as follows: 1) Leading MSMEs in North Sumatera; 2) MSMEs that

have the potential to digitalization and scale up; 3) MSMEs that have the potential to develop domestic and global markets; 4) MSMEs that can be directed to provide excellent service to customers. Total sample sizes are 218 MSMEs. Data collection was carried out by distributing questionnaires with a Likert scale made by researchers. Respondents were owner-managers of MSMEs. Data analysis using Partial Least Square-Structural Equation Model (PLS-SEM) with Smart PLS application (Abdillah & Hartono, 2015).

## Measurement and Analysis

### Operational variables definition

This research consists of four constructs: Market Orientation, Cutting Edge Innovation Capability, Positional Advantage and MSMEs Performance. Based on research variables is grouped into two, namely independent variables consist of Market Orientation where is dependent variables consist of Cutting Edge Innovation Capability, Positional Advantage and MSME Performance. Two of these variables are intervening variables, namely Cutting Edge Innovation Capability, and Positional Advantage.

**Tabel 1.** The operational definition of each variable

No	Variable	Dimensions	Indicators
1	Market Orientation	Customer Orientation	1. Competitive activity driven by creation of customer satisfaction
		Competitor Orientation	2. Frequently assess customer satisfaction 1. Respond quickly to competitor actions 2. Actively assess to competitor behavior
		Inter-functional Coordination	1. Coordinate all functions to maximize customer satisfaction
2	Cutting Edge Innovation Capability	Sensing Capability	1. Identify opportunities for product innovation 2. Recognize change dynamic environment
		Seizing Capability	1. Ability to capture opportunities, choose a business model 2. Market-oriented product development
		Transforming Capability	1. Ability to change, integrate, reconstruct, for product innovation 2. Transformation of resources into sources of competitiveness
		Breakthrough Concep Capability	1. Product diversity 2. Product quality 3. Pioneer of newcomer
		Superior Marketing Capability	1. Superior branding capabilities 2. Special marketing digital capabilities 3. Comprehensive marketing strategy
3	Positional Advantage	Cost Advantage	1. Raw material cost 2. Product/service selling price
		Promotional Advantage	1. Business image 2. Concern for brands, share experiences about brands
		Sales Advantage	1. After sales service 2. Product/service selling price 3. Sales promotion
		Differentiation Advantage	1. Product differentiation advantage
4	MSMEs Performance	Financial Performance	1. Sales 2. Sales growth 3. Profitability growth 4. Payback period
		Non-Financial Performance	1. Customer satisfaction 2. Customer retention 3. Product/Service quality 4. Employee Satisfaction

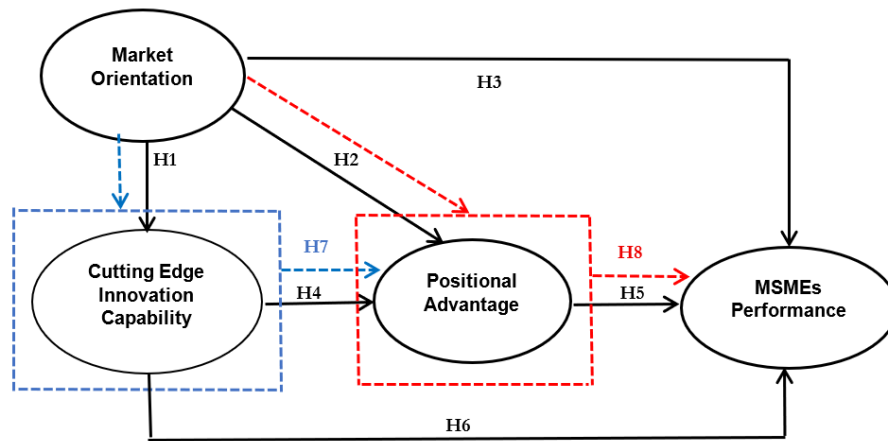


Figure 1. Research Framework

## Results and Discussion

### Convergent Validity Test Results

The convergent validity test is carried out by looking at the loading factor value of each construct. The loading factor value is expected to reach more than 0.7. However in exploratory research, a value of more than 0.5 is considered adequate (Ghozali et al, 2014). Based on the test carried out, it shows that all indicators stated to be able to represent variables, the conclusion is that all indicators have fulfil the indicator reliability criteria for each construct. Based on this, the outer model analysis continuous by looking internal consistency reliability assessment is carried out on each construct. Smart PLS algorithm results on composite of each construct is on the composite reliability in table 2.

Table 2. AVE Value, Cronbach's-Alpha and Composite Reliability

Variables	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Market Orientation	0.976	0.978	0.979	0.796
Cutting Edge Innovation Capability	0.978	0.980	0.980	0.754
Positional Advantage	0.972	0.976	0.975	0.753
MSMEs Performance	0.979	0.981	0.981	0,789

### Direct Effect

The result of Smart PLS algorithm in assessing the path coefficient directly are given in Table 3.

Table 3. Direct Effect between Variables

Direct effect between variables	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
Market Orientation → Cutting Edge Innovation Capability	0.615	0.614	0.049	12.467	0.000
Market Orientation → Positional Advantage	0.368	0.370	0.047	7.763	0.000
Market Orientation → MSMEs Performance	-0.077	-0.071	0.072	1.062	0.288
Cutting Edge Innovation Capability → Positional Advantage	0.571	0.569	0.055	10.379	0.000
Positional Advantage → MSMEs Performance	0.538	0.536	0.079	6.767	0.000
Cutting Edge Innovation Capability → MSMEs Performance	0.297	0.293	0.085	3.482	0.001



The following is a discussion of each hypothesis test based on the results of the test carried out:

- The influence of Market Orientation on Cutting Edge Innovation Capability is 0.615 with p-value =  $0,000 < 0,05$  so  $H_0$  is rejected  $H_1$  is received, meaning that there is a positive and significant influence between Market Orientation and Cutting Edge Innovation Capability.

Market Orientation has a directional relationship with Cutting Edge Innovation Capability. If Market Orientation high then Cutting Edge Innovation Capability will also be high.

The research results are in line with research conducted by (Mahmoud et al., 2016) stated that market orientation has a significant effect on innovation. The research results also in line with research conducted by (Huhtala et al., 2014) state that market orientation has a significant effect on innovation capability.

Competitive activity of MSMEs are driven to meet customer needs and prioritize creating customer satisfaction. If customer feels satisfied with the products or the performance provided by the company exceed customer expectations, the customers will be loyal users (Aaker, 2014). If the customer are loyal, they will recommend the products/services to others. On the other hand if the customer is disappointed, they will tell their disappointment to others people (Kotler, Philip, 1994; Kotler, 2015; Pandiangan et al., 2021). Organization's marketing capabilities is better, it will encourage innovation and business performance (Battor & Battor, 2010).

- The influence of Market Orientation on Positional Advantage is 0.368 with p-value =  $0,000 < 0,05$  so  $H_0$  is rejected  $H_1$  is received, meaning that there is a positive and significant influence between Market Orientation and Positional Advantage.

The results of this research are in line with previous research conducted by (Hendar et al., 2017) declare Customer Responsiveness positive and significant effect on Religio-centric Positional Advantage. Other marketing capabilities are needed to gain superior marketing position

and adaptive capability: ability to respond customers and competitors (Wang & Ahmed, 2007). (Hendar et al., 2017) stated that competitors responsiveness has a positive effect and significant to Religio-centric Positional Advantage. Response ability to competitors allows the company to reconfigure processes to meet new market needs, using information processing system, and adopting new products and processes to win competition (Dong et al., 2016).

The results of this research are in line with research conducted by (Pratono et al., 2019) states that market orientation has a positive effect and significant on Sustainable Competitive Advantage.

- The influence of Market Orientation on MSMEs Performance is -0,077 with p-value =  $0,288 > 0,05$  then  $H_0$  is received  $H_1$  is rejected, meaning that no significant effect between Market Orientation and MSMEs Performance. This is due to the three dimensions of market orientation not being optimally implemented 1) customer orientation: MSMEs competitive activities should be driven by creation of customer satisfaction; 2) competitor orientation: should be MSMEs observing and reporting competitor activity; 3) inter-functional coordination: All functions should provide the best service. Of these three problems MSMEs in North Sumatera have not optimally carried out competitive activities so does not have a positive impact on MSMEs performance.

The results of this research are in line with research conducted by (Kajalo, 2015) that market orientation does not have a significant effect on performance. According to Kajalo's research, MO requires accompanying capabilities that can mediate the relationship between MO dan MSMEs Performance such as marketing capability, innovation capability This findings is in contrast to previous researchers has been proven to improve business performance (Baker & Sinkula, 2009); (Boso et al., 2013; Wang et al., 2014; Gonzales-Benito, 2009; Kohli & Jaworski, 1990; Narver and Slater, 1990; Morgan, N., Slotegraaf, R., Vorhies, 2009).

- The influence of Cutting Edge Innovation Capability on Positional Advantage is 0.571 with p-value =  $0,000 < 0,05$ , so  $H_0$  is rejected  $H_1$  is received, meaning that there is a positive and

significant influence between Cutting Edge Innovation Capability and Positional Advantage. Cutting Edge Innovation Capability is closely related with positional advantage, meaning there is a unidirectional relationship between and positional advantage. If Cutting Edge Innovation Capability goes up then positional advantage also increase and the effect is significant.

From the results of the researcher interviews Resty Sipirok Weaving business actor, his creativity in using various types of woven threads cotton, silk thread, and plistar thread as well as the intelligence of business actor to maintain it local wisdom the characteristic color pattern and woven motifs makes customers and potential customers are interested, so there are many variant models could be selected. This innovation capability makes Resty Sipirok Weaving Business has positional advantage especially differentiation advantage, the product produced is unique compared to other similar products even though the price is relatively expensive.

The results of this research in line with research conducted by (Distanont, 2020) frozen food SMEs in Thailand express innovation has a significant effect on competitive advantage. Also in line with research conducted by (Hendar et al., 2017) stated that the Religio-centric Positional Advantage has a positive and significant impact on Marketing Performance.

- The influence of Positional Advantage on MSMEs Performance is 0.538 with p-value = 0,000 < 0,05, so H0 is rejected H1 is received, meaning that there is a positive and significant influence between Positional Advantage and MSMEs Performance.

The results of this research are in line with research conducted by (Jogarathnam, 2017) stated that Positional Advantage had a positive and significant effect on MSMEs performance. Positional Advantage generated by these intangible resources must be unique and therefore more difficult for competitors to imitate or duplicate it.

- The influence of Cutting Edge Innovation Capability on MSMEs Performance is 0.297 with p-value = 0,001 < 0,05, so H0 is rejected H1 is received, meaning that there is a positive and significant influence between Cutting Edge Innovation Capability and MSMEs Performance.

The results of this research are in line with research conducted by (Siahaan & Tan, 2020) stated that innovation capability has a positive and significant effect on the performance of MSMEs in Indonesian's information and communication technology sector. Also in line with research conducted by (Sulistyo & Siyamtinah, 2016) declare innovation capability has a positive and significant effect on company performance. Cutting Edge Innovation Capability starts from to recognize change dynamic environment, identify opportunity for product innovation. After that choose the business model, to make product's based on customer needs. Also required ability to change, integrate reconstruct for product innovation. Then to make diversity products so that consumers can choose products according to their purchasing power. The next step is how to market the product through strong branding capabilities, digitalization of MSME's to reach a wider market and simplify the buying and selling process for both producers and consumers. With this steps it is hoped that the performance of MSMEs.

### Indirect Effect

Indirect influence is the magnitude of influence through mediating variables. The magnitude of indirect influence of the independent variables on the dependent variables can be summarized in Table 4.

**Table 4.** Indirect Effect between Variables

Indirect effect between variables	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
Market Orientation → Cutting Edge Innovation Capability → Positional Advantage	0.351	0.350	0.045	7.837	0.000
Market Orientation → Positional Advantage → MSMEs Performance	0.198	0.198	0.039	5.081	0.000

Based on Table 3, the research results to answer the research hypothesis are as follows:

H<sub>7</sub>: Market Orientation has a positive and significant effect on Positional Advantage through Cutting Edge Innovation Capability.

The influence of Market Orientation on Positional Advantage through Cutting Edge Innovation Capability is 0.351 with  $p\text{-value} = 0.000 < 0.05$  so Market Orientation indirectly has a significant effect on Positional Advantage through Cutting Edge Innovation Capability

H<sub>8</sub>: Market Orientation has a positive and significant effect on MSMEs Performance through Positional Advantage. The influence of Market Orientation on MSMEs Performance through Positional Advantage is 0.198 with  $p\text{-value} = 0.000 < 0.05$  so Market Orientation indirectly has a significant effect on MSMEs Performance through Positional Advantage.

### Analysis of the Coefficient of Determination ( $R^2$ )

$R^2$  value is used to measure level of variation independent variable change on dependent variable. The  $R^2$  value of this research can be seen in Table 5.

**Table 5.** R Square

Variable	R-square	R-square adjusted
Cutting Edge Innovation Capability (CEIC)	0.939	0.939
Positional Advantage (PA)	0.967	0.967
MSMEs Performance	0.961	0.961

Based on table 5 it is known that:

The R-square value for CEIC variable is 0.939, this means the large percentage of influence market orientation towards CEIC is equal to 93.9% while the remaining 6.1% is explained by other variables not studied in this research.

### Theory Implication and Managerial Implication

From the research results, it is empirically proven that Cutting Edge Innovation Capability has a significant and positive influence on Positional Advantage as well as Cutting Edge Innovation Capability has a positive and significant effect on MSMEs Performance. Cutting Edge Innovation Capability as a novelty variable can strengthen the Resource Advantage Theory of Competition (R-A Theory) from Hunt, S. & Morgan, (1996) which is Grand Theory of this research is general theory of competition that explains that fundamental goals of strategy based on resources is to achieve comparative advantage based on resources that can generate positional advantages in some market segments to obtain superior company performance.

Cutting Edge Innovation Capability as a mediating variables too adds the repertoire of discussions regarding the concept of innovation capability and adding new literature regarding existing innovation capabilities, it is also empirically proven that Market Orientation has a significant and positive effect on Positional Advantage through Cutting Edge Innovation Capability. This finding certainly adds to the existing literature because in previous research (Kajalo, 2015) said Market Orientation not directly affects performance but requires innovation capabilities and other marketing capabilities that links Market Orientation and performance of SMEs. Besides that (Murray-Gao-Kotabe, 2011) stating that is not Market Orientation it self which directly affects performance. But this result however defies much previous research. For example. The result contrarily with (Odoom & Mensah, 2019) found that MO had a strong direct effect on profitability in the context of small business.

### Conclusion and Future Direction

According to the findings hypotheses one, two, four, five, and six prove convincing. With high customer orientation, business actors should understand new business opportunities and

encourage them adjust their business to suit the tastes and customers expectation, and competitive activity is driven by creating customer satisfaction. MSMEs will strives to provide the performance of its products or services to meet even exceed customer expectations. Cutting Edge Innovation Capability shows the owners-managers to create business product and customer satisfaction in building business and to obtain MSMEs business performance both financial performance and non-financial performance. Sensing Capability needs by the company to identify opportunities for product innovation. If an organization does not have a mechanism to recognize changes in a dynamic environment, survival of organization may be unsustainable. Seizing Capability shows the ability to seize perceived opportunities, choosing a business model to develop a new product, develop/allocate necessary resources, and commercialize the products. Important elements for seizing abilities include market-oriented product development strategy. Through transforming capability shows ability to integrate, reconstruct, renovate, create in some cases, the in ability of resources for product innovation (Lee & Yoo, 2019); (Becker, 2004). Superior marketing capability certainly require digital marketing is a promotional activity for both products or services using digital media (Rohimah, 2019).

The urgency resulting from this research is as an input for MSME business actors, MSME managers, MSME employees and management practises is an effort to increase the innovation capabilities of MSMEs, in line with the wishes of the Government of the Republic of Indonesia through the Ministry of Cooperatives and SMEs, targeting MSMEs to be able to upgrade (scaling up), MSMEs can go international. MSMEs must increase creativity and innovation so that MSME products and services can penetrate international markets. This practical implication based on the novelty variable Cutting Edge Innovation Capability which has been empirically proven to have a positive and significant effect on SMEs performance

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