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Market Orientation and Dynamic Capability as A Basis Competitive Advantage Achievement of MSMEs

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Abstract –

The MSME sector is a vital part of the country's economy due to its significant role in driving the economy, including its contribution to creating new job opportunities, driving economic growth, and serving as a source of innovation. However, the contribution of MSMEs to exports was still relatively low. The competitive ability or competitive advantage of Indonesian MSMEs is still lower compared to similar business sectors in neighbor countries in Southeast Asia. Therefore, this study aims to conduct a literature review on the main determining factors, particularly market orientation and dynamic capabilities, which can be used as a basis for empowering MSMEs to achieve and maintain competitive advantage. The results of the study reveal that through customer orientation, competitor orientation, and inter-functional coordination as dimensions of market orientation, MSMEs can create superior value, increase customer satisfaction and loyalty, and strengthen their competitive position in a sustainable manner. Meanwhile, through dynamic capabilities, MSMEs are able to overcome internal limitations, improve efficiency, and create competitive advantages that are difficult for competitors to replicate. Through strengthening both of these aspects, MSMEs are not only able to survive, but also grow, expand their markets, increase profitability, and achieve sustainable competitive advantage in an increasingly complex global competition. The analysis in this study is still based on literature reviews and previous research results. Empirical research needs to be conducted to ensure that market orientation and dynamic capabilities can be used as a basis for empowering MSMEs in achieving competitive advantage in the market.

Keywords – *market orientation; dynamic capability; competitive advantage*

I. INTRODUCTION

The MSME sector is a vital part of the country's economy due to its significant role in driving the economy, including its contribution to creating new job opportunities, driving economic growth, and serving as a source of

innovation (Azis & Rusland, 2009). In the era of the global economy and free trade, accompanied by advances in information and communication technology, MSMEs have become a key driver of non-oil and gas export growth and support business units for large businesses by providing materials such as components and spare parts through interconnected production processes. This sector also plays a significant role in providing employment opportunities in Indonesia. Between 2010 and 2019, MSMEs in Indonesia employed an average of 110,698,728.1 people per year, or 97.04% of the total workforce employed by MSMEs and large businesses (Agus, 2024). Meanwhile, the contribution of MSMEs in Indonesia to the formation of Gross Domestic Product (GDP) is significant. In the period 2010 – 2019, MSMEs contributed an average of IDR 6,071,352.1 trillion or 59.36% of total GDP.

However, the contribution of MSMEs to exports from 2010 to 2019 was still relatively low (Agus, 2024). The average value of MSME exports was IDR 225.01 trillion per year, or 15.37% of total non-oil and gas exports. In addition to their relatively low contribution to national exports, the variety of export products produced by small and medium enterprises is still largely included in the category of simple consumer goods, such as ready-made clothing, socks, and goods made from wood, rattan, and bamboo (Azis & Rusland, 2009). Furthermore, it can be stated that the market orientation of Indonesian MSME products is largely domestic. In fact, in general, even that domestic market orientation is only local market. The competitive ability or competitive advantage of Indonesian MSMEs is still lower compared to similar business sectors in neighbor countries in Southeast Asia (Bank Indonesia, 2016).

The causes of low competitive advantage among MSMEs stem from two sources, namely external and internal (LPPI & Bank Indonesia, 2015). In addition to a business climate that is still not fully supportive, external issues that are still hindering the development of MSME businesses include stakeholders involved in or responsible for empowering and supporting MSME development, who are still not well coordinated. Government ministries or agencies, educational institutions, financial institutions, and business associations often work separately in implementing MSME empowerment programs. Often, MSME empowerment also does not address the main problems faced in MSME business operations.

In addition to capital and business management aspects, internal problems in MSMEs relate to the quality of human resources who own or manage the business. MSME owners or managers generally lack knowledge about the latest production technologies and how to implement quality control for products. The market orientation of MSME owners or managers is generally still weak (Agus & Muharam, 2025). Word-of-mouth marketing is still generally relied upon to market MSME products. Even though we have entered the digital age, social media and the internet are generally not yet used as media for marketing products by MSMEs in Indonesia. MSME businesses are generally run based on tradition, and they rarely dare to take risks to innovate in their business operations, which shows that their dynamic capabilities in business operations are still low.

There are many studies on the empowerment of MSMEs in order to achieve competitive advantage. However, in general, these studies focus on verifying the determining factors of competitive advantage through empirical research. There are few studies that conduct a comprehensive review of the main determining factors that can be used as a basis for empowering MSMEs in achieving and maintaining their competitive advantage. This is the research gap in studies on the competitive advantage of MSMEs. Therefore, the novelty of this research is that it conducts a literature review of the main determining factors, particularly market orientation and dynamic capabilities, which can be used as a basis for empowering MSMEs to achieve and maintain competitive advantage. This study aims to analyze market orientation and dynamic capabilities as a basis for achieving competitive advantage for MSMEs.

II. METHOD

This study uses a qualitative descriptive approach using literature study. The stages in literature study include: searching, collecting, selecting, and critically analyzing various literature sources relevant to the research topic (Rahmani et al., 2023). In the search stage, researchers systematically explored scientific journals, books, research reports, and documents on market orientation, dynamic capabilities, and the competitive advantages of MSMEs. Next, the most relevant and high-quality literature sources were collected and selected for inclusion in the study. This selection was based on certain criteria, such as relevance to the research topic, accuracy of information, recency, and credibility of the source (Shakeel et al., 2022). The selected journal articles were those published no earlier than 2015 and journals that had published at least one e-ISSN. Analysis of the selected literature using a critical and reflective approach was the final stage in the literature study. This analysis includes: (1) dimensions and indicators for measuring competitive advantage, market orientation, and dynamic capabilities, (2) the role of market orientation in

achieving competitive advantage, (3) the role of dynamic capabilities in achieving competitive advantage, and (4) strengthening market orientation and dynamic capabilities in empowering MSMEs to achieve competitive advantage.

III. RESULTS AND DISCUSSION

The Dimensions of Competitive Advantage, Market Orientation, and Dynamic Capabilities

Competitive advantage is the superiority that a company has in facing competitors in the market (Agus et al., 2023). Competitive advantage is superiority over competitors by offering products to customers with higher value at lower prices or providing additional benefits and services at the same price (Suprapti & Suparmi, 2022). Therefore, competitive advantage can be defined as a company's ability to create a position that allows it to maintain its market share as long as competitors exist (Fadilasari & Ferdinand, 2023). This competitive advantage is manifested in a set of characteristics that distinguish an MSME from its competitors and give it a unique and superior position in the market. A company achieves competitive advantage in competition through lower prices or higher benefits compared to its competitors (Kotler et al., 2018). Competitive advantage is the result of implementing strategies that utilize various resources, particularly unique expertise (Suliah et al., 2022). Unique expertise is the ability to make a business an important part of achieving competitive advantage. A company is said to have a competitive advantage if its resources can produce superior value at a lower cost. The competitive advantage of MSMEs can be seen from the uniqueness and quality of their products as well as their competitive prices (Puspaningrum, 2020). This competitive advantage is necessary for companies, including MSMEs, to be able to generate profits, increase market share, increase customer loyalty, and continue company operations. There are different dimensions in measuring competitive advantage, including innovation, differentiation, and low-cost leadership (Udriyah et al., 2019).

Market orientation is a business philosophy that prioritizes identifying consumer needs and desires and fulfilling them through products and services (Saleh et al., 2021). Market orientation is one of the keys in creating competitive advantage because it emphasizes understanding customers, competitors, and the dynamics of the external environment. Market orientation is seen as an organizational capability, a unique and valuable resource that cannot be easily imitated, which emphasizes the importance of placing customer needs as a top priority in operations and strategy. Kohli & Jaworski and Narver and Slater in 1990 stated that at the most basic level, market orientation refers to a company's ability to investigate and identify existing and potential consumer needs, and then strive to meet those needs more effectively (Saleh et al., 2021). In this framework, market orientation refers to an organization's ability to act quickly by introducing new products and services in response to changes in market demand. All of this represents the behavioral perspective of market orientation. Meanwhile, from a cultural perspective, market orientation is related to organizational norms and values that create a unifying mindset for employee and departmental behavior within the organization (Schulze et al., 2022). These norms and values are related to the main objectives of the organization, which serve as guidelines for interacting with the market in order to create excellent value for buyers and, at the same time, excellent company performance. Market orientation is also understood as a culture that shapes employee behavior and at the same time a method of improving performance (Udriyah et al., 2019). Thus, market orientation can be understood as a culture and organizational behavior that focuses on creating customer value, increasing competitiveness, and sustaining business performance through three main dimensions: customer orientation, competitor orientation, and inter-functional coordination (Fernandes et al., 2020; Puspaningrum, 2020). Customer orientation, which is the effort to understand and exceed consumer expectations, resulting in product or service differentiation that is difficult for competitors to imitate (Udriyah et al., 2019). Competitor orientation, which is the ability to understand competitors' strengths and weaknesses in order to anticipate market strategies and design more valuable product or service offerings (Fernandes et al., 2020). Inter-functional coordination, which is cross-divisional collaboration within the company that ensures synergy to provide superior service and rapid response to market changes (Bamfo & Kraa, 2019).

Dynamic capabilities are understood as an organization's ability to integrate, build, and reorganize internal and external competencies to keep pace with changes in the dynamic business environment. This concept was first introduced by Teece et al in 1997, emphasizing the importance of companies having the ability to adapt to changes in technology and the market (Agus, 2024). Dynamic capabilities are characterized by unique abilities that are difficult to imitate and contribute to competitive advantage and superior performance (Kihara, 2018). Dynamic capabilities support companies in responding effectively to internal and external changes (Indriastuti & Kartika, 2022); (Inan & Bititci, 2015). It serves to reshape the configuration of corporate assets to remain competitive amid technological changes and market conditions (Indriastuti & Kartika, 2022). Strategically, dynamic capabilities serve as a means to leverage valuable, scarce, difficult-to-imitate, and irreplaceable resources, thereby creating sustainable competitive advantage as emphasized in the Resource Based View framework (Dejardin et al., 2023; Khouroh et al., 2021). In the context of intense market competition, companies with dynamic capabilities can innovate more quickly, coordinate resources, and build a stronger strategic position than their competitors (Navarro-García et al., 2018). Sensing, seizing, leveraging, transformation, and reconfiguration are routine activities that constitute the dimensions of dynamic capabilities (Inan & Bititci, 2015). Sensing refers to the ability to detect new opportunities through market scanning, customer needs identification, and technology observation. Seizing refers to the ability to capitalize on opportunities through the development of new products,

services, processes, and strategic investment decisions (Inan & Bititci, 2015). Leveraging is the ability to utilize existing knowledge and experience to create new value, for example by replicating successful practices in other business units. Transformation is the ability to update business models, strategies, and operations to remain relevant. Reconfiguration is the ability to reorganize assets, structures, and processes to maintain flexibility and effectiveness in the face of competition (Zhou et al., 2019). These dimensions make companies more resilient in turning threats into opportunities and maintaining a sustainable competitive advantage (Pervan et al., 2018); (Kihara, 2018).

The Role of Market Orientation in Achieving Competitive Advantage

Market orientation plays a very important role in helping MSMEs achieve competitive advantage because it directs companies to understand customer needs, adapt to changes in the external environment, and face increasingly complex competition. A dynamic and uncertain business environment requires companies to have adaptive strategies in order to survive and grow (Olanipekun et al., 2015). Within the framework of strategic management, market orientation helps companies anticipate environmental changes while responding optimally to competition. Market orientation as a market-based view encourages the creation of superior value for customers, thereby accelerating the achievement of competitive advantage compared to relying solely on internal resources. This view is in line with Porter (1980), who emphasizes that company performance is influenced by industry attractiveness and competition intensity. Customer needs and competitor behavior are important sources of competitive advantage. In this case, market orientation serves as the foundation for external strategy, a driver of value creation, and an instrument for mapping industry competition (Olanipekun et al., 2015). Market-oriented companies are able to adapt to external dynamics, innovate according to consumer needs, and respond strategically to competitors, thereby achieving sustainable competitive advantage. Although some literature emphasizes entrepreneurial orientation and dynamic capabilities, both are closely related to market orientation as the basis for achieving competitive advantage. Market orientation guides companies to understand consumer needs, map competitor strategies, and adjust business steps to changes in the environment. In this context, entrepreneurial orientation, characterized by innovation, risk-taking, and proactivity, will only be optimal when combined with market orientation, because the courage to explore new opportunities and the ability to innovate must be directed towards meeting consumer needs (Homaid et al., 2018).

In practice, market orientation provides a real contribution to MSMEs, which often face internal obstacles such as limited capital, managerial weaknesses, and lack of experience, as well as external obstacles in the form of intense competition, government policies, limited access to technology, and economic conditions (Kagnew Abebaw et al., 2018; Kasimu et al., 2017; Abdissa & Fitwi, 2016). Market orientation helps MSMEs understand customer needs so that they can improve customer performance through increased product demand, repeat orders, and fewer complaints (Tehseen et al., 2023). In addition, market orientation enables MSMEs to anticipate competition by mapping their market position and responding quickly to competitors' strategies, which has an impact on sales growth, market share expansion, and marketing area expansion (Athia et al., 2023). Furthermore, good internal coordination encourages the creation of more effective marketing strategies, proper financial planning, and product innovation that meets consumer needs (Ibrahim & Mahmood, 2016). Market orientation is not merely an instrument for improving customer satisfaction, but rather the key to creating sustainable competitive advantage for MSMEs. Market-oriented companies are better able to survive resource constraints, expand their customer base, increase profitability and productivity, and strengthen their position in the market. This means that the success of MSMEs is not only determined by their financial capabilities, but also by the extent to which they are able to understand the market and adapt their business strategies to the needs and dynamics of the external environment.

The Role of Dynamic Capabilities in Achieving Competitive Advantage

Dynamic capabilities play an important role in helping MSMEs achieve sustainable competitive advantage because companies are required to be able to adapt to a dynamic, uncertain, and competitive business environment (Prabowo et al., 2021). Within the framework of strategic management, this concept is rooted in the Resource Based View (RBV) perspective, which emphasizes that a company's internal resources and capabilities are the main determinants of business performance. Resources are heterogeneous and not easily transferable, so competitive advantage arises from how companies manage, combine, and renew these resources. To survive and excel, a company's resources must meet four main criteria, namely valuable, rare, inimitable, and non-substitutable (Prabowo et al., 2021). Dynamic capabilities ensure that these criteria can be realized in business practices. Through these capabilities, MSMEs are able to anticipate external changes, respond to competitors' strategies, take advantage of market opportunities (Olanipekun et al., 2015), and integrate internal functions so that resources are used optimally to support business strategies (Nurhilalia et al., 2019). In addition, companies can develop innovations and update their competencies, so that they not only survive with their current advantages, but are also ready to face competition in the future (Ferreira et al., 2020; Sugiono, 2018).

Teece, Pisano, and Shuen (1997) explain that competitive advantage is not enough to rely solely on resource ownership, but must be strengthened through dynamic capabilities—namely, the ability of companies to integrate, build, and reorganize internal and external competencies to align with market dynamics (Agus, 2024). These capabilities make companies more adaptive, innovative, and responsive to changes in customer needs and competitor strategies (Suliah et al., 2022). Thus, superior companies not only have valuable assets, but are also able to renew, combine, and redirect those assets to face new challenges and opportunities. In the context of market orientation, dynamic capabilities also serve as an important mechanism for processing market information, improving organizational adaptation, and creating sustainable customer value. Companies that are proactive in acquiring and managing market intelligence are able to use it as a basis for strategic decision-making (Fernandes et al., 2020). This capability also connects customer orientation, competitor orientation, and inter-functional coordination so that the superior value created is difficult for competitors to imitate (Bamfo & Kraa, 2019). In line with RBV, valuable, rare, difficult to imitate, and irreplaceable internal capabilities become the main source of competitive advantage ((Farida et al., 2022); (Ratnawati, 2019)). Companies with strong dynamic capabilities can improve competitive advantage dimensions such as cost, quality, flexibility, and service speed (Farida et al., 2022; Kanapathipillai et al., 2022).

For MSMEs, dynamic capabilities are a crucial internal factor that determines success in improving business performance. Unlike large companies that have abundant resource reserves, MSMEs are more vulnerable to failure due to limitations in capital, management, and technology. In these circumstances, dynamic capabilities help MSMEs overcome internal limitations, adapt to the external environment, and improve customer and product performance. This is evident in the ability to increase customer satisfaction through repeat purchases, reduced customer complaints (Tehseen et al., 2023), revenue growth, product variety development, and market expansion (Sumiati, 2019). Dynamic capabilities are not only a means of maintaining competitiveness, but also a key driver of sustainable competitive advantage (Beigi et al., 2023). Companies that successfully develop and update these capabilities will be better prepared to face resource constraints, more adaptive to market changes, and more successful in achieving sustainable financial performance, productivity, and growth.

Strengthening market orientation and dynamic capabilities in empowering MSMEs to achieve competitive advantage

Empowering MSMEs to achieve competitive advantage requires strategic management that is capable of anticipating changes in a dynamic, uncertain, and highly competitive business environment (Olanipekun et al., 2015). At the middle theory level, the resource-based view (RBV) framework explains that competitive advantage is achieved when a company possesses resources that are valuable, rare, difficult to imitate, and non-substitutable (VRIN) (Prabowo et al., 2021). Thus, empowering MSMEs requires a combination of external strategies through market orientation and internal strategies through dynamic capabilities in order to survive and thrive in a competitive market.

Market orientation plays an important role as a market-based view that emphasizes the ability of MSMEs to understand consumer needs, follow industry trends, and understand competitor behavior to create superior value for customers (Sugiono, 2018). This orientation places customers at the center of attention, competitors as a benchmark, and inter-functional coordination as an instrument to drive the organization in an integrated manner (Udriyah et al., 2019). Kohli and Jaworski (1990) add that market orientation is manifested through the process of gathering market intelligence, disseminating information throughout the organization, and the ability to respond quickly to external dynamics (Agus et al., 2023). With a strong market orientation, MSMEs are able to adjust their business strategies to remain relevant to consumer demands and changes in competition.

On the other hand, the RBV perspective emphasizes that each MSME has heterogeneous resources, so that performance varies greatly between companies (Agus et al., 2023). To bridge resource limitations, MSMEs need dynamic capabilities that serve to integrate, build, and update internal and external resources to keep pace with market changes (Gintings et al., 2021). Dynamic capabilities include sensing (reading new customer opportunities and needs), seizing (capturing opportunities through new products or services), leveraging (utilizing cross-disciplinary knowledge and resources), transforming (updating business processes), and reconfiguring (reorganizing assets and work systems to be more flexible). This process enables MSMEs to not only be adaptive, but also proactive in facing disruption and utilizing change as a strategic opportunity.

The alignment between market orientation and dynamic capabilities is key to the competitive advantage of MSMEs. Market orientation provides strategic direction in the form of a deep understanding of customers and competitors, while dynamic capabilities provide the power to implement strategies through flexible and innovative resource management. Without dynamic capabilities, market orientation only produces short-lived, unsustainable responses; conversely, without market orientation, dynamic capabilities risk producing innovations that do not meet consumer needs. When the two are combined, MSMEs are able to create innovative products and services, improve

operational efficiency, maintain profitability, and expand their market in ways that are difficult for competitors to replicate. Dynamic capabilities act as an engine of adaptation that enables MSMEs to learn, absorb experiences, and develop governance mechanisms to improve performance in a sustainable manner (Khouroh et al., 2021).

The implications of reinforcement of market orientation and dynamic capabilities for empowering MSMEs are significant. Market orientation helps businesses become more responsive to consumer needs, monitor competitors, and integrate internal functions, thereby increasing customer satisfaction, loyalty, and long-term business growth (Qamariah & Muchtar, 2019; Tehseen et al., 2023). Meanwhile, dynamic capabilities strengthen MSMEs' ability to adapt to technology, diversify products, and respond to changes in the business environment through innovation and quality improvement (Athia et al., 2023). The integration of both makes MSMEs more resilient in facing internal limitations and external pressures, enabling them to achieve sustainable competitive advantages in the form of cost efficiency, production flexibility, service speed, and superior product quality. Strengthening market orientation and dynamic capabilities is not merely an adaptive strategy, but rather an instrument for empowering MSMEs to achieve optimal performance, maintain business sustainability, and strengthen their position in an increasingly complex global competition.

IV. CONCLUSIONS

Competitive advantage for MSMEs can be achieved through a combination of external strategies in the form of market orientation and internal strategies in the form of dynamic capabilities. Competitive advantage itself is reflected in the ability of MSMEs to offer products or services that are valuable, unique, difficult to imitate, durable, and able to provide a superior position in the market. Market orientation plays an important role as the foundation of external strategies that emphasize understanding customer needs, competitor behavior, and business environment dynamics. Through customer orientation, competitor orientation, and inter-functional coordination, MSMEs can create superior value, increase customer satisfaction and loyalty, and strengthen their competitive position in a sustainable manner.

The dynamic capabilities are internal mechanisms that enable MSMEs to adapt and innovate amid a dynamic environment. Its main dimensions are sensing, seizing, leveraging, transforming, and reconfiguring—enabling companies to read new opportunities, seize strategic opportunities, update competencies, and reorganize resources to be more flexible. With these capabilities, MSMEs are able to overcome internal limitations, improve efficiency, and create competitive advantages that are difficult for competitors to imitate. The alignment of market orientation with dynamic capabilities makes MSMEs more resilient in facing external challenges and internal limitations. Market orientation provides strategic direction based on consumer needs and the competitive landscape, while dynamic capabilities provide the power to implement strategies in an adaptive and innovative manner. By strengthening both, SMEs are not only able to survive, but also thrive, expand their markets, increase profitability, and achieve sustainable competitive advantage in an increasingly complex global competition.

This research has revealed the role of market orientation and dynamic capabilities in achieving competitive advantage for MSMEs. Market orientation and dynamic capabilities can be used as a basis for empowering MSMEs to achieve and maintain their competitive advantage. The analysis in this study is still based on literature reviews and previous research results. Empirical research needs to be conducted to ensure that market orientation and dynamic capabilities can be used as a basis for empowering MSMEs in achieving competitive advantage in the market.

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