Quality-Based Differentiation Mediating Entrepreneurial Orientation and Marketing Performance

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Abstract: This research aims to explore the variable Quality-Based Differentiation to overcome the gap in entrepreneurial orientation in improving marketing performance rooted in the resource advantage theory of competition. The survey method was used to collect data after inviting 264 owner-managers of small and medium enterprises (SMEs) to participate in this study. The AMOS structural equation modeling software tests our proposed hypothesis. The quantitative analysis resulted in the acceptance of the proposed hypothesis with several significant findings. The most important finding is that companies must invest in developing their resources in order to be able to produce differentiated products based on quality so that it will become a lever in improving marketing performance. A strong entrepreneurial orientation complemented by solid quality-based differentiation supports business strength in achieving a superior competitive position in the market.

Keywords: Entrepreneurial Orientation, Market Orientation, Marketing Performance, Quality-Based Differentiation.

A. Introduction

A competitive market drives business actors to develop resources to consistently adapt quickly to the market (Likoum, Shamout, Harazneh, & Abubakar, 2018; Viinikainen et al., 2017). Dynamic market changes are part of the entrepreneurial spirit indicator (Jolly, 2017). This enthusiasm affects business actors quickly in taking action and business decisions (Octavia & Ali, 2017; Teck, 2012). It also requires total support from all resources owned by the company (Grewal & Tansuhaj, 2001; Kannan & Tan, 2002; Laeequddin, Sahay, Sahay, & Waheed, 2010).

Concrete steps that companies can take in maintaining business performance are developing resources to be able to overcome very dynamic competition with innovative products (Kannan & Tan, 2006; Koufteros, Vickery, & Droge, 2012; Liu, Ke, Kee Wei, & Hua, 2013). The company’s quick response to market changes will positively affect performance (Ardyan, 2016; Likoum et al., 2018). Company performance is inseparable from the company’s courage to take risks in anticipation of changes in the business environment (Fang, Chang, Ou, & Chou, 2014).
Creatively and innovatively exploring market opportunities is part of the company's courage in responding to market changes (Ireland, Hitt, & Sirmon, 2003; Shane & Venkataraman, 2000). Market exploration impacts the productivity of a company's innovation performance (Aloulou & Fayolle, 2005; Green, Covin, & Slevin, 2006). In entrepreneurial orientation research, one of the dimensions is exploring business opportunities (Jeffrey G Covin & Lumpkin, 2011; Ferreira, Fernandes, & Kraus, 2019). Entrepreneurial orientation studies can be applied in all companies (Wiklund & Shepherd, 2003), one of which is a topic of Business and Management Research (Cavusgil & Knight, 2015; Wales, Monsen, & McKelvie, 2011).

Some research results suggest that there is a significant relationship between entrepreneurial orientation and marketing performance (Chandrakumara, De Zoysa, & Manawaduge, 2011; Frank, Kessler, & Fink, 2010) but other studies say that there is no significant relationship between entrepreneurial orientation and marketing performance (Baker, Jr, & Hopkins, 2009; Frank et al., 2010; Merlo & Auh, 2009; Stam & Elfring, 2008). Studies (N.-H. Chen, Huang, Shu, & Wang, 2013) suggest placing a mediating variable in the relationship between the two. Entrepreneurial orientation is a company activity in the process of entering new markets and forming innovative and proactive resource behavior in developing new products (Wiklund & Shepherd, 2005) and producing business performance (Andreas Rauch, Wiklund, Lumpkin, & Frese, 2009; Runyan, Ge, Dong, & Swinney, 2012).

The theoretical approach to solving this research problem is the Resources Advantage Theory of Competition (Shelby D Hunt & Morgan, 1995, 1996) by taking one of the premises, namely, the role of management is to configure strategy based on the advantages of resources built and developed by the company and secondly, the dynamics of competition. It must be understood as a strategy that triggers imbalances through innovation strategy and innovation resources (Shelby D. Hunt, 1997; Shelby, 2001). This research aims to develop a model to bridge the research gap with the theoretical approach of the Resources Advantage Theory of Competition. Quality-based differentiation is a mediating variable between entrepreneurial orientation and marketing performance.

B. Literature Review

**Entrepreneurial Orientation and Quality-Based Differentiation**

Entrepreneurial orientation is the company's ability to identify and exploit market information and opportunities. Companies that have a strong entrepreneurial orientation will stick to the old strategy and are bolder in taking risks (Lumpkin & Dess, 1996) as well as the ability to develop products or services (Gray & Gartner, 2010). According to several studies, entrepreneurial orientation (Jeffrey G. Covin & Slevin, 1989; Kreiser & Davis, 2010; Wiklund, 1999) consists of innovation, bold risk-taking, autonomy, and aggressiveness.

Innovation is a way for companies to increase the company's capabilities and capacities and produce high-quality products (Dibrell, Craig, & Neubaum, 2014).
Companies that can encourage resources to innovate will enable the company to survive amid competition (Goksel Yalcinkaya, Calantone, & Griffith, 2007). Superior innovation mediated by explorative innovation and market exploitation further studies state that the dimensions of innovation consist of product development, market penetration, market development, and product diversity. Likewise, the study (Avlonitis & Salavou, 2007), states that product innovation consists of product uniqueness and novelty and positively affects marketing performance. Therefore, the following hypothesis is proposed:

H1: Entrepreneurial Orientation has a positive influence on Quality-Based Differentiation

Quality-Based Differentiation and marketing Performance

According to Tan and Sousa (2015), marketing planning is very important for improving performance related to marketing capabilities that can affect other organizational activities such as operational capabilities, R & D, and the ability to create and strengthen marketing networks. Resource and skill factors become strong supporters of achieving a company's competitive advantage (Gunday, Ulusoy, Kilic, & Alpkan, 2011).

The company's ability to create customer value is a key element of the value-creation process. Creating superior value is important for sustainability to respond to customer needs and wants in the future (Kung, Ho, Hung, & Wu, 2015). The stronger the company's resources' ability to produce products that are different from its competitors will further improve the company's performance. The logic that is built is that the company's ability to create differentiated products continuously will become the company's strength in maintaining its performance (Nishikawa, Schreier, & Ogawa, 2013). The effort and hard work of resources in producing differentiated products will significantly affect company performance. Therefore, the following hypothesis is proposed:

H2: Quality-Based Differentiation has a positive influence on marketing Performance

Market Orientation and Quality-Based Differentiation

Market orientation is the company's response to a competitive business environment. The dimensions of market orientation are customer orientation, competitor orientation, and inter-functional coordination (Jaworski & Kohli, 1996; J. Narver & S. Slater, 1990). The definition of market orientation in the study (Acosta, Crespo, & Agudo, 2018) is the ability of a company's market intelligence to make breakthroughs for current and future customer needs.

Customer-based information is needed so that companies quickly make strategic decisions to win the market (Morgan, Vorhies, & ... 2009) by developing products to be part of one of the company's responses to market changes (Lindblom, Olkkonen,
A superior product is an effective and efficient way of working in creating superior value for the market/customers. Companies in competitive markets must have products that are valuable and accepted by customers (Peña-Vinces, Casanova, Guillen, & Urbano, 2017).

High productivity and comparative product value positively impact performance that exceeds competitors. Competitive strength can be sourced from the company’s ability to explore markets and design products that are unique from competitors' products (Blazeska & Ristovska, 2016; Gouws & Rheede van Oudtshoorn, 2011; Rytko, 2016). Companies must be able to manage company resources supported by strategic leadership. market (Bhawsar & Chattopadhyay, 2015; Porter, 1990). Therefore, the following hypothesis is proposed:

H3: Market Orientation has a positive influence on Quality-Based Differentiation.

Market Orientation and Marketing Performance

The needs and desires of consumers become important in the company's attention so that the company's productivity becomes effective compared to its competitors (J. C. Narver & S. F. Slater, 1990). Customer orientation is key. The company’s interaction with customers is determined by the company’s ability to build trust and mutual dependence. This dependence can be indicated by a company's ongoing cooperation with customers,(Homburg, Müller, & Klarmann, 2011; Taylor et al., 2008).Likewise, a study (Avlonitis & Salavou, 2007) states that a company's ability to manage information and market-changing trends can increase product novelty and positively affect marketing performance. Therefore, the following hypothesis is proposed:

H4: Market Orientation has a positive influence on Marketing Performance

C. Methods

Sample Design and Data Collection

The sample in this research is business actors/managers in the creative industries in several districts of Central Java. Researchers ensure that respondents understand the company's values to minimize errors in filling out the questionnaire. The sampling technique used was purposive sampling with the criteria that the owner/manager has been operating for at least five years. The number of samples was planned to be 300 with consideration of fulfilling the requirements in the data processing. This number follows the adequacy of the sample in the structural equation model (Hair, Black, Babin, & Anderson, 2010). The software used to analyze the model is Amos 24. Based on the analysis results, there are outlier data, so they must be deleted. The final data in this study were 264 respondents. The characteristics of respondents based on the results of data processing are presented in Table 1.
The number of respondents aged 25-40 was 164 (62.12%), and aged 41-60 was 100 (37.88%), with the most education being High School, the business owner being Famela, and the majority marketing area being domestic.

**Development of Measures**

**D. Results and Discussion**
Confirmatory factor analysis is used to see the validity and reliability of indicators for each variable (Tabachnick, Fidell, & Ullman, 2007). variance average variance extracted (AVE) ≥ 0.5 to evaluate convergent validates—entrepreneurial orientation, 0.578. Quality-based differentiation is 0.539, market orientation 0.524 and marketing performance 0.582. Factor loading of all indicators ≥ 0.60 (Bagozzi & Yi, 1988) and construct reliability index ≥ 0.70 (Arbuckle et al., 2016).

<table>
<thead>
<tr>
<th>Table 1. Demographic Features</th>
<th>F</th>
<th>F (%)</th>
<th>F</th>
<th>F (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 25-40 Year</td>
<td>164</td>
<td>62.12</td>
<td>190</td>
<td>72</td>
</tr>
<tr>
<td>41-60 Year</td>
<td>100</td>
<td>37.88</td>
<td>74</td>
<td>28</td>
</tr>
<tr>
<td>Education High School</td>
<td>244</td>
<td>92.44</td>
<td>213</td>
<td>80.7</td>
</tr>
<tr>
<td>Marketing Domestic</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undergraduate</td>
<td>43</td>
<td>16.29</td>
<td>34</td>
<td>12.9</td>
</tr>
<tr>
<td>Post graduate</td>
<td>4</td>
<td>1.52</td>
<td>17</td>
<td>6.4</td>
</tr>
</tbody>
</table>

Note: N = 264
Source : Authors' own
Table 2. Measurement of Validity and Reliability of the Construct

<table>
<thead>
<tr>
<th>Variable Indicators</th>
<th>Standardized loadings</th>
<th>Cronbach's alpha</th>
<th>CRI</th>
<th>CV-AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Orientation</td>
<td></td>
<td>0.836</td>
<td>0.936</td>
<td>0.561</td>
</tr>
<tr>
<td>ORK1</td>
<td>0.707</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ORK2</td>
<td>0.766</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ORK3</td>
<td>0.783</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ORK4</td>
<td>0.737</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality-Based Differentiation</td>
<td></td>
<td>0.788</td>
<td>0.826</td>
<td>0.484</td>
</tr>
<tr>
<td>QDB1</td>
<td>0.721</td>
<td></td>
<td></td>
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<tr>
<td>QDB2</td>
<td>0.74</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>QDB3</td>
<td>0.721</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>QDB5</td>
<td>0.592</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Orientation</td>
<td></td>
<td>0.756</td>
<td>0.876</td>
<td>0.451</td>
</tr>
<tr>
<td>MO1</td>
<td>0.742</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MO2</td>
<td>0.736</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MO3</td>
<td>0.663</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MO5</td>
<td>0.52</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing Performance</td>
<td></td>
<td>0.855</td>
<td>0.838</td>
<td>0.599</td>
</tr>
<tr>
<td>MP1</td>
<td>0.768</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MP2</td>
<td>0.782</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MP3</td>
<td>0.726</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MP5</td>
<td>0.816</td>
<td></td>
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<td></td>
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</tbody>
</table>

The stages of model and hypothesis testing, first, goodness-of-fit with a signature requirement of 0.000, the results are still above 0.05, as presented in Table 3.

Table 3. The Structural Coefficient of Regression

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Standardized Estimate</th>
<th>Critical Ratio</th>
<th>P-Value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Quality based Differentiation</td>
<td></td>
<td></td>
<td>***</td>
<td>Supported</td>
</tr>
<tr>
<td>H2: Marketing Orientation</td>
<td></td>
<td></td>
<td>***</td>
<td>Supported</td>
</tr>
<tr>
<td>H3: Quality based Differentiation</td>
<td></td>
<td></td>
<td>.002</td>
<td>Supported</td>
</tr>
<tr>
<td>H4: Marketing Orientation</td>
<td></td>
<td></td>
<td>.149</td>
<td>Not Supported</td>
</tr>
</tbody>
</table>

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This study aims to overcome the gap between entrepreneurial orientation and marketing performance with inconsistent results. Differentiation-based quality becomes a mediating variable to overcome research gaps. Acceptance of our hypothesis leads to the conclusion that quality shares differentiation encourages small and medium enterprises to improve marketing performance (Arshad, Rasli, Arshad, & Zain, 2014; Y.-C. Chen, Li, & Evans, 2012; Eggers, Kraus, Hughes, Laraway, & ... 2013; Gupta & Batra, 2016). Four hypotheses are proposed in the model. The results of the last test show that three hypotheses are supported while one hypothesis is rejected, namely market orientation towards marketing performance.

The differentiation-based quality mediating variable contributes to developing a resource-based competitive advantage theory that is expected to produce superior products based on market segments so that they have competitive advantages and produce superior performance (Shelby D Hunt & Morgan, 1995; Jones et al., 2018). Resource capability is a pillar in a dynamic business environment. Because it is developed consistently in response to market preferences (Tajeddini, Martin, & Ali, 2020), this is to anticipate competitors to imitate or replace them. (Tokman, Glenn Richey, Morgan, Marino, & Dickson, 2013). According to Hassan (2000) four important issues in a competitive market are comparative advantage, demand orientation, industry structure and commitment. Some of the things that become competitive strengths include the company's ability to explore market opportunities, design and develop core and substitute products and anticipate the presence of new entrants (Lin, 2012).

Entrepreneurial orientation contributes to the differentiation-based quality and becomes a reference for business actors in improving their performance. The results of this study prove that the better the company's entrepreneurial orientation, the

Figure 1. Full Model
greater the company's ability to produce differentiation-based products. The strength of the company's entrepreneurial orientation has proven to encourage companies to produce differentiation-based products (Hitt, Ireland, Sirmon, & Trahms, 2011). Creative, innovative, exploring market opportunities, daring to take risks, giving freedom of resources to develop products, and the spirit of aggressive competition will increase companies to produce differentiation-based products (Lisboa, Skarmeas, & Lages, 2011, 2013). Innovation is a way for companies to increase the company's capabilities and capacities and produce high-quality products (Dibrell et al., 2014).

The data taken from the four districts still need to describe the craft sub-sector in every other district in Central Java, so it is necessary to collect data in several more districts to describe the characteristics of the creative industries in the craft sub-sector in Central Java. Java. The research model can be implemented in other industries, such as fashion, culinary, or across industries. Future research can also use a business perspective and consumer behavior. Dimensions of developing entrepreneurial orientation are proactive, innovative, courage to take risks, autonomy, and compete aggressive (Lumpkin & Dess, 2001; Miller, 2011; Rauch, Wiklund, Lumpkin, & ... 2009). Entrepreneurial orientation is explicitly a corporate strategy and differentiates the company from its competitors (Alshanty & Emeagwali, 2019) and is very good at understanding the problems faced by companies in various industries (Jeffrey G Covin & Miller, 2014; Martín-de Castro et al., 2011).

D. Conclusion

Companies must invest in developing their resources in order to be able to produce differentiated products based on quality so that it will become a lever in improving marketing performance.

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