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Factors Influencing Competitive Advantage: Market Orientation and Innovation

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Abstract: Competitive advantage is the main goal for companies that want to continue to exist and develop in a competitive market. Two important factors that influence the achievement of competitive advantage are market orientation and innovation. Market orientation helps companies to understand customer needs and respond to market dynamics, while innovation plays a role in creating unique new products and services. This article presents a literature review on the influence of market orientation and innovation on competitive advantage. The results of this study are: (1) Market orientation has a significant influence on competitive advantage. (2) Innovation has a significant influence on competitive advantage. (3) Market orientation and innovation have a simultaneous influence on competitive advantage.

Keywords: Market Orientation, Innovation, Competitive Advantage

INTRODUCTION

The increasingly dynamic business environment forces companies to continue to find ways to improve competitiveness and maintain their position in the market. Competitive advantage is one of the main indicators of a company's success in facing global competition. In management literature, market orientation and innovation are two strategic approaches that are widely discussed because of their significant influence on company performance and competitive advantage.

Market orientation refers to a company's ability to continuously monitor, understand, and respond to customer needs and competitor actions. Meanwhile, innovation refers to a company's ability to generate new ideas, products, or processes that can create added value for customers and strengthen the company's competitive position in the market.

This literature review aims to explore how market orientation and innovation can collaborate in creating sustainable competitive advantage. The main focus is on the role of market orientation as a foundation in identifying customer needs and innovation as a tool to implement change and produce products or services that are different from competitors.

Based on this background , the questions in this review article are : 1) Does market orientation have an effect? on competitive advantage?. 2) Does Innovation have an effect on competitive advantage?. Are Market Orientation and Innovation simultaneously influence competitive advantage?

METHOD

This article uses a literature review method by collecting and analyzing various academic articles, scientific journals, and books related to the topics of market orientation, entrepreneurial orientation, and competitive advantage. The sources used come from leading academic databases such as Google Scholar, Scopus, and JSTOR, with a span of 2010 to 2024. Relevant studies in the context of industry, manufacturing, and service sectors are also analyzed to provide a comprehensive picture.

RESULTS AND DISCUSSION

Reviewing relevant articles as a basis for formulating research hypotheses by explaining the results of previous studies, based on relevant research as shown in Table 1 below.

Table 1 Research Results

No	Author (Year)	Previous Research Results	Similarities With This Article	Differences With This Article	H
1	Syukron & Ngatno (2016)	<ul style="list-style-type: none"> Market orientation and entrepreneurial orientation, both independently and together, are able to drive product innovation. Market orientation also has a direct influence on competitive advantage, in addition to its indirect influence through product innovation. Product innovation acts as a partial mediator between market orientation and competitive advantage. This means that part of the influence of market orientation on competitive advantage occurs through the mechanism of product innovation. (Syukron & Ngatno, 2016) . 	This study also examines the influence of Market Orientation and Innovation on Competitive Advantage.	This study examines other factors, namely: Entrepreneurial Orientation	H1 & H2
2	The Last Supper (2017)	<ul style="list-style-type: none"> Market orientation has a significant influence on competitive advantage: Innovation has a significant impact on Competitive Advantage: Entrepreneurial Orientation has a significant influence on Competitive Advantage Market Orientation has a significant influence on Marketing Performance: 	This study also examines Market Orientation and Innovation towards Competitive Advantage.	This study examines other factors, namely: Entrepreneurial Orientation	H1 & H2

	<ul style="list-style-type: none"> • Innovation has a significant impact on Marketing Performance: • Entrepreneurial Orientation has a significant influence on Marketing Performance: • Competitive Advantage has a significant influence on Marketing Performance (Jayaningrum, 2017). 				
3	Rahmadi et al., (2020)	<ul style="list-style-type: none"> • Market Orientation has a significant influence on Competitive Advantage • Entrepreneurial Orientation has a significant influence on Competitive Advantage • Innovation has a significant influence on Competitive Advantage (Rahmadi et al., 2020) 	This study also examines Market Orientation and Innovation towards Competitive Advantage.	This study examines other factors, namely: Entrepreneurial Orientation	H1 & H2
4	Fatmawati et al. (2016)	<ul style="list-style-type: none"> • Market Orientation has a significant influence on Competitive Advantage • Entrepreneurial Orientation has a significant influence on Competitive Advantage • Competitive advantage has a positive and significant effect on marketing performance 	This study also examines Market Orientation and Entrepreneurial Orientation towards Competitive Advantage.	This study uses competitive advantage as an intervening variable.	H1 & H2
5	Batara et al., 2023	<ul style="list-style-type: none"> • Market Orientation has a significant influence on Competitive Advantage • Entrepreneurial Orientation does not have a significant influence on Competitive Advantage • Training has a significant influence on Competitive Advantage • Management capability has a significant influence on Competitive Advantage • Market Orientation, Entrepreneurial Orientation, Training and Management Capability simultaneously have a positive and significant effect on Competitive Advantage (Batara et al., 2023). 	This study also examines Market Orientation and Entrepreneurial Orientation towards Competitive Advantage.	This study examines other factors, namely: Training and Management skills and Entrepreneurial orientation.	H1 & H2
6	The Untamed (2015)	<ul style="list-style-type: none"> • Entrepreneurial orientation has a significant influence on competitive advantage • Market Orientation has a significant influence on Competitive Advantage • Entrepreneurial orientation and market orientation have a 	This study also examines Market Orientation and Entrepreneurial Orientation towards Competitive Advantage.	This study uses competitive advantage as an intervening variable.	H1 & H2

		<ul style="list-style-type: none"> significant influence on company performance. Competitive Advantage as an intervening variable has a significant effect on Company Performance Competitive Advantage successfully partially mediates the relationship between the variables Entrepreneurial Orientation and Market Orientation on Company Performance (Usvita, 2015) 			
7	Lestari et al. (2019)	<ul style="list-style-type: none"> Entrepreneurial orientation has a significant influence on competitive advantage Entrepreneurial innovation has a significant influence on competitive advantage Entrepreneurial orientation has a significant influence on culinary competitiveness (Lestari et al., 2019) 	This study also examines Market Orientation and Entrepreneurial Orientation towards Competitive Advantage.	This study also analyzes the influence of entrepreneurial orientation on company performance.	H1 & H2
8	English: Verbyani & Handoyo, 2021	<ul style="list-style-type: none"> Entrepreneurial orientation has a significant influence on competitive advantage Market Orientation has a significant influence on Competitive Advantage 	This study also examines Market Orientation towards Competitive Advantage.	This study examines other factors, namely: Entrepreneurial orientation.	H1
9	Puspasari & Rahardjo, (2017)	<ul style="list-style-type: none"> Entrepreneurial orientation has a positive influence on competitive advantage Product innovation has a positive effect on competitive advantage Partner support has a positive effect on competitive advantage. (Puspasari & Rahardjo, 2017) 	This study also examines the influence of innovation on competitive advantage.	This study examines other factors, namely: Partner Support	H2

Discussion

a. Market orientation towards competitive advantage

Market orientation has a very significant influence on a company's competitive advantage. Market-oriented companies will conduct intensive market research to understand their customers. By understanding customer needs, wants, and behavior, companies can develop products or services that truly match what customers want. Market orientation encourages companies to continue to innovate and develop new products or services that can meet the changing needs of customers. This innovation will provide a competitive advantage for the company (Susanto et al., 2021).

The results of this study strengthen the opinion of Larasetiati & Ali (2019) who stated that market-oriented companies will build strong and long-term relationships with their customers. This good relationship will make customers more loyal and tend to

recommend the company's products or services to others. By understanding customer needs in depth, companies can create products or services that are different from competitors (Larasetiati & Ali, 2019) . This product differentiation will make the company more attractive in the eyes of customers. Market-oriented companies will be faster and more effective in responding to changes in the market. This allows companies to remain relevant and competitive. Market orientation is the key to achieving competitive advantage in modern business. By placing customers at the center of all business activities, companies can create greater value for customers, build customer loyalty, and ultimately achieve sustainable business success (Ulfa & Ali, 2024) .

Market orientation contributes significantly to achieving competitive advantage through increased understanding of customer needs and market dynamics. Companies with high market orientation are able to develop products and services that meet customer needs and respond to changes in the business environment more quickly. Thus, market orientation enables companies to create added value that is difficult for competitors to imitate, which ultimately increases their competitiveness in the market. Market orientation has a positive relationship with company performance, especially in terms of product innovation, customer satisfaction, and market share. Companies that focus on market orientation are more flexible in responding to changes in consumer demand and have an advantage in creating effective marketing strategies (Octavia & Ali, 2017) .

Market orientation has a direct impact on a company's competitive advantage. According to the study of Kirca et al. (2005), market orientation encourages companies to develop better products and services by understanding customer needs and competitor behavior. This allows companies to offer solutions that are more in line with market preferences, thus creating a sustainable competitive advantage (Bangapadang & Ali, 2018)

Market orientation also facilitates faster adaptation to changes in the business environment. Companies with a strong market orientation are quicker to respond to changes in consumer preferences and threats from competitors. Thus, they are better able to maintain a competitive position in a changing market (Andina & Ali, 2024) .

b. Innovation towards competitive advantage

Innovation is the process of introducing new ideas, products, services, or processes that are different and better than those that already exist. Innovation is not only limited to the development of new products, but also includes improvements in production processes, new business models, or even unique marketing approaches. Innovation plays an important role in creating competitive advantage by offering products and services that are different from competitors. According to Hamid & Ali (2023), innovation allows companies to get out of the constraints of price competition and create added value that is difficult for competitors to imitate. Product innovation, for example, allows companies to attract new market segments or maintain the loyalty of existing customers by improving product features or quality. (Hamid et al., 2023) .

In addition, Ernawati & Ali, (2024) stated that the innovation process can increase the operational efficiency of the company, which allows the company to offer products or services at lower costs or with faster delivery times. This provides a significant competitive advantage in a market that is very sensitive to price and speed of service. (Ernawati & Ali, 2024) .

Ikhsani & Ali, (2017) stated that Innovation has a very crucial role in creating competitive advantage for a company. Innovation allows companies to create products or services that are unique and different from competitors. Thus, companies can attract new customers and retain existing customers. Innovation often produces products or services that have added value for customers. For example, new, more sophisticated features, better

quality, or more competitive prices. Innovation can open up new markets that have not been previously explored. Innovative products or services can create new demand and expand the company's market share. Innovation in the production or management process can increase company efficiency, reduce production costs, and increase profitability. Customers tend to be more loyal to companies that continue to innovate and offer the latest products or services (Ikhsani & Ali, 2017). Innovation is the key to surviving and growing in an increasingly competitive business environment. Companies that are able to continuously innovate will have a better competitive advantage and can achieve long-term success. (Ali et al., 2023).

c. Market orientation and Innovation towards Competitive Advantage

Market orientation is a business philosophy that places customer needs and wants as the top priority. Meanwhile, innovation is the process of introducing new ideas, products, services, or processes that are different and better than those that already exist. Market orientation provides an invaluable source of inspiration for companies to innovate. By understanding customer needs and wants in depth, companies can identify gaps in the market that are not yet met. These gaps then become opportunities for companies to develop innovative products or services (Ernawati & Ali, 2024).

The results of this study strengthen the opinion of Azhari & Ali (2024), When companies are customer-oriented, they will focus more on creating value for customers. This encourages companies to continue to innovate and improve the quality of products or services offered. Market orientation encourages companies to take measured risks in innovating. By understanding customer needs, companies can minimize the risk of failure and maximize the chances of success. Market-oriented companies are more flexible in dealing with market changes. They can quickly adjust their business strategies to respond to these changes. This flexibility is very important in driving innovation (Azhari & Ali, 2024).

Market orientation creates an organizational culture that encourages innovation. Employees feel encouraged to come up with new and creative ideas because they know that they will be heard and considered. Market orientation and innovation are two sides of the same coin. Market orientation provides direction and focus for a company to innovate, while innovation enables a company to create added value for customers and maintain a competitive advantage (Hia et al., 2022).

In short, market orientation is the key to driving sustainable innovation. By understanding customer needs, companies can create innovative and relevant products or services, thereby winning the competition and achieving long-term success. (Layanah & Ali, 2023).

Studies show that the combination of market orientation and innovation creates a strong synergy in achieving competitive advantage. Market orientation provides important information that allows companies to innovate that is relevant and in accordance with customer needs. On the other hand, innovation allows companies to offer different and superior solutions compared to competitors, based on market information obtained through market orientation (Haryono & Marniyati, 2017).

Companies that have strong market orientation and innovation capabilities are better able to create differentiated and more valuable products for customers, which ultimately increases the company's competitiveness in the market. This combination allows companies to be more flexible in responding to market changes and taking advantage of opportunities that arise from competitive dynamics.

Conceptual Framework

Based on the problem statement, relevant discussions, and research, the conceptual framework of this article is derived as shown in Figure 1 below.

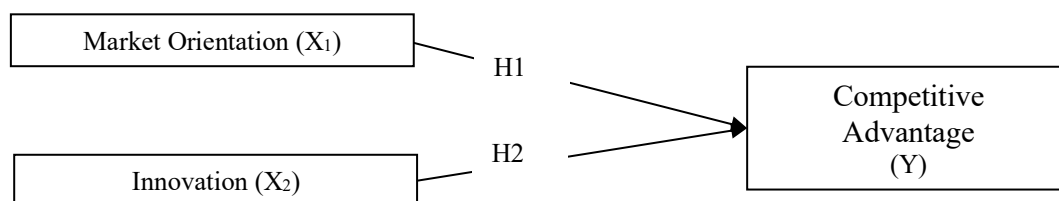


Figure 1. Conceptual Framework

The Conceptual Framework image above, then: Market Orientation and Innovation influence Purchasing Decisions. Apart from the two variables that influence Purchasing Decisions, there are many other variables including:

- 1) Entrepreneurial Orientation (Syukron & Ngatno, 2016), (Jayaningrum, 2017), (Rahmadi et al., 2020), (Verbyani & Handoyo, 2021)
- 2) Training and Management Skills (Batara et al., 2023)
- 3) Partner Support (Puspasari & Rahardjo, 2017)

CONCLUSION

review reveals that: 1) Market orientation has a significant influence on competitive advantage. 2) Innovation has a significant influence on competitive advantage. 3) Market orientation and innovation have a simultaneous influence on competitive advantage. Market orientation and Innovation are factors that contribute significantly to a company's competitive advantage. Market orientation allows a company to understand customer needs and competitor behavior, while innovation allows a company to respond to that information by creating unique and valuable products or services. The combination of these two factors allows a company to not only survive in a competitive market but also create a sustainable advantage.

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