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The Effect of Entrepreneurial Competence, Market Orientation, Product Quality, and Product Innovation on Competitive Advantage

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ABSTRACT

MSMEs are the backbone of the Indonesian economy, contributing significantly to GDP and employment. However, they face the challenge of increasingly fierce competition, especially with market revitalization plans that can increase business competition. This research aims to analyze the influence of entrepreneurial competence, market orientation, product quality and product innovation on the competitive advantage of MSMEs in the clothing trade sector at Sudimampir Market, Banjarmasin. This research uses a quantitative approach with 95 respondents who are owners/managers of MSMEs in the clothing trade sector at Sudimampir Market. The sampling technique used purposive sampling, and data analysis was carried out using SEM-PLS with SmartPLS 4.1 software. The research results show that market orientation, product quality and product innovation have a positive and significant influence on the competitive advantage of MSMEs. However, entrepreneurial competence does not have a significant influence on competitive advantage. This research highlights the importance of market orientation, product quality and product innovation in building competitive advantages for MSMEs in the clothing trade sector. Although entrepreneurial competencies do not directly influence competitive advantage, developing these competencies is still important for the long-term success of MSMEs.

1. Introduction

Micro, small, and medium enterprises (MSMEs) have long been recognized as the main pillars of the Indonesian economy. The significant contribution of MSMEs to the gross domestic product (GDP) of 61.07%, equivalent to 8,573.89 trillion rupiah, is clear evidence of the vital role of this sector (Coordinating Ministry for the Economy of the Republic of Indonesia, 2023). More than just numbers, MSMEs also absorb 97% of the national workforce, making them the main source of livelihood for most Indonesians. The contribution of MSMEs to labor absorption puts them

at the forefront of maintaining social and economic stability, especially in the midst of global economic turmoil. Traditional markets, as one of the main venues for MSME activities, have an important role in the national economy. The MSME sector operating in traditional markets contributes 15.657% to GDP, showing how much economic potential is stored within it. Sudimampir Market in Banjarmasin, which is known as the largest traditional market and wholesale clothing trading center, is a clear example of the dynamics and potential of MSMEs in traditional markets.



Sudimampir Market is not just a place for buying and selling transactions, but also a center of economic activity that supports thousands of MSMEs. More than 1,200 MSMEs operate in this market, offering a variety of products, especially clothing, to consumers from various circles. The existence of this market not only has an economic impact, but also a social and cultural impact on the people of Banjarmasin and its surroundings. However, despite their great potential, MSMEs in traditional markets, including Sudimampir Market, also face various challenges. One of the main challenges is increasingly tight business competition. The Banjarmasin city government's plan to revitalize Sudimampir Market by building a seven-story building that can accommodate 2,706 business units (South Kalimantan Province Trade and Industry Service, 2023) will further increase the number of MSMEs in this market. This increase in the number of business actors will certainly have a positive impact on the local economy, but will also increase the intensity of business competition.

In the modern era which is characterized by rapid changes in market trends, technological advances, and increasing consumer expectations, MSMEs are required to be more adaptive and innovative. The ability to compete is no longer only determined by price and product quality, but also by other factors such as speed of response to market changes, ability to adapt to technology, and ability to create added value for customers. To face the challenges of increasingly fierce competition, MSMEs need to develop sustainable competitive advantages (Barney, 1991). Competitive advantage is the ability of MSMEs to produce more value for customers compared to their competitors, so that they can win the hearts of customers and maintain their position in the market. This competitive advantage can be achieved through various means, such as offering unique products or services, having lower production costs, or having access to scarce resources. Previous research has identified several factors that can influence the competitive advantage of

MSMEs. These factors include entrepreneurial competence (Destany et al., 2022; Munir et al., 2019; Trihudyatmanto, 2019; Zebua, 2022), market orientation (Dalimunthe, 2017; Muhajirin, 2019; Puspaningrum, 2017; Safarnia et al., 2015; Setiawan, 2012), product quality (Hendrayanti, 2021; Kurniasari, 2018; Nisa, 2023; Nurussakinah et al., 2018; Rinandiyana et al., 2016), and product innovation (Dalimunthe, 2017; Hendrayanti, 2021; Katuuk et al., 2023; Kurniasari, 2018; Muhajirin, 2019; Nisa, 2023; Nurussakinah et al., 2018; Setiawan, 2012; Zebua, 2022).

Entrepreneurial competencies refer to individual characteristics that enable entrepreneurs to identify and exploit business opportunities (Man, 2000; Man et al., 2008). Entrepreneurs who have high entrepreneurial competence tend to be more innovative, responsive to market changes, and able to produce high-quality products or services. Market orientation is the ability of MSMEs to understand and respond to customer needs and desires (Kohli, 1990; Kohli et al., 1993; Narver, 1990; Uncles, 2000). Market-oriented MSMEs tend to be more focused on customers, more responsive to market changes, and more innovative in developing new products or services. Product quality is the level at which a product meets or exceeds customer expectations (Abdullah, 2013; Dwanto et al., 2015; Kotler, 2009). MSMEs that are able to produce high-quality products tend to have a higher competitive advantage compared to MSMEs that produce low quality products. Product innovation is the process of developing and introducing new products or improving existing products (Dwanto et al., 2015; Gatignon, 1997; Lukas, 1997; Widjaja, 2019). Innovative MSMEs tend to be more attractive to customers and are able to create new demand.

The initial survey conducted at Sudimampir Market showed that several MSME players had not fully implemented indicators of competitive advantage, entrepreneurial competence, market orientation, product quality and product innovation. For example,



some MSMEs do not have products that are unique and difficult to imitate, do not have technical competence in product distribution, pay little attention to competitors, and lack innovation in developing new products. These findings indicate that there is still room for MSMEs in Sudimampir Market to increase their competitive advantage through developing entrepreneurial competence, market orientation, product quality, and product innovation. This research aims to analyze the influence of entrepreneurial competence, market orientation, product quality, and product innovation on the competitive advantage of MSMEs in the clothing trade sector at Sudimampir Market, Banjarmasin. By understanding the factors that influence competitive advantage, MSMEs can develop more effective strategies to face increasingly fierce competition and improve their business performance.

2. Literature Review

Entrepreneurship competency

Entrepreneurial competence is an important factor in determining the success of a business (Wibowo, 2007). This competency covers various aspects, including technical, marketing, financial, and human relations competencies (Kuriloff et al., 1993 in Suryana, 2013). Technical competency relates to the ability to produce products or services, marketing competency relates to the ability to market products or services, financial competency relates to the ability to manage business finances, and human relations competency relates to the ability to build good relationships with customers, suppliers, and employees. Previous research has shown that entrepreneurial competence has a positive influence on the competitive advantage of MSMEs (Destany et al., 2022; Munir et al., 2019; Trihudiyatmanto, 2019; Zebua, 2022). MSMEs that have high entrepreneurial competence tend to be more innovative, responsive to market changes, and able to produce high-quality products or services. However, several studies also

found that entrepreneurial competence does not have a significant influence on the competitive advantage of MSMEs (Kurniawan, 2018). This shows that the relationship between entrepreneurial competence and the competitive advantage of MSMEs still needs further research.

Market orientation

Market orientation is an important concept in marketing that emphasizes the importance of understanding and responding to customer needs and desires (Kohli, 1990; Kohli et al., 1993; Narver, 1990; Uncles, 2000). Market-oriented MSMEs tend to be more focused on customers, more responsive to market changes, and more innovative in developing new products or services. Previous research has shown that market orientation has a positive and significant influence on the competitive advantage of MSMEs (Dalimunthe, 2017; Muhajirin, 2019; Puspaningrum, 2017; Safarnia et al., 2015; Setiawan, 2012). Market-oriented MSMEs tend to have a better understanding of customer needs and wants, so they can develop products or services that are more in line with market needs. However, several studies also found that market orientation does not have a significant influence on the competitive advantage of MSMEs (Nugroho et al., 2021). This shows that the relationship between market orientation and the competitive advantage of MSMEs still needs further research.

Product quality

Product quality is an important factor that influences consumer purchasing decisions (Abdullah, 2013; Dwanto et al., 2015; Kotler, 2009). Product quality refers to the degree to which a product meets or exceeds customer expectations. MSMEs that are able to produce high-quality products tend to have a higher competitive advantage compared to MSMEs that produce low-quality products. Previous research has shown that product quality has a positive and



significant influence on the competitive advantage of MSMEs (Hendrayanti, 2021; Kurniasari, 2018; Nisa, 2023; Nurussakinah et al., 2018; Rinandiyana et al., 2016). MSMEs that produce high-quality products tend to find it easier to attract and retain customers, Response finalized so they can increase sales and strengthen their position in the market.

Product innovation

Product innovation is the key for MSMEs to remain relevant and competitive in an ever-changing market (Dwanto et al., 2015; Gatignon, 1997; Lukas, 1997; Widjaja, 2019). Product innovation can take the form of developing new products, improving existing products, or even changing business models. Innovative MSMEs tend to be more attractive to customers and are able to create new demand. Previous research has shown that product innovation has a positive and significant influence on the competitive advantage of MSMEs (Dalimunthe, 2017; Hendrayanti, 2021; Katuuk et al., 2023; Kurniasari, 2018; Muhajirin, 2019; Nisa, 2023; Nurussakinah et al., 2018; Setiawan, 2012; MSMEs that innovate in their products tend to have products that are unique and difficult to imitate, so they can differentiate themselves from competitors and create a sustainable competitive advantage.

Competitive advantage

Competitive advantage is the ability of MSMEs to produce more value for customers compared to their competitors (Barney, 1991; Day, 1988; Porter, 2020). Competitive advantage can be achieved in a variety of ways, such as offering unique products or services, having lower production costs, or having access to scarce resources. This research focuses on three indicators of competitive advantage proposed by Barney (1991), namely valuable, rare and imperfectly imitable. Valuable refers to the ability of MSMEs to produce products or services that are valued by customers. Rare refers to the ability of MSMEs to offer

products or services that are not easily found on the market. Imperfectly imitable refers to the ability of MSMEs to produce products or services that are difficult for competitors to imitate.

3. Methods

This research uses a quantitative approach which aims to test the cause-and-effect relationship between the variables studied, namely entrepreneurial competence, market orientation, product quality, and product innovation as independent variables, and competitive advantage as the dependent variable. The research design used is explanatory research, which allows researchers to explain the relationship between these variables in more depth. The population in this research is all MSMEs in the clothing trading sector operating at Sudimampir Market, Banjarmasin. This market was chosen because it is the largest traditional market in Banjarmasin and is the center of the wholesale clothing trade, so it is considered representative for this research. The sampling technique used was purposive sampling. This technique was chosen because it allows researchers to select samples that fit certain criteria, namely MSMEs in the clothing trading sector at Sudimampir Market whose owners or managers are directly responsible for business activities. This criterion is important to ensure that respondents have adequate knowledge and experience about the variables studied. The number of samples used in this research was 95 respondents. Determination of the sample size is based on SEM (Structural Equation Modeling) analysis rules which require a minimum sample size of five times the number of variable indicators used. In this research, there are 19 variable indicators, so the minimum sample size required is 95 respondents.

The research instrument used in this research was a questionnaire. This questionnaire is designed to collect data on entrepreneurial competence, market orientation, product quality, product innovation, and competitive advantages of MSMEs. The questions in



the questionnaire are prepared based on indicators that have been identified in the literature review. The questionnaire uses a 5-point Likert scale, where 1 indicates “strongly disagree” and 5 indicates “strongly agree”. The Likert scale was chosen because it allows respondents to provide a more detailed assessment of the variables studied. Apart from that, the Likert scale is also easy for respondents to understand and fill out.

Before being used to collect data, the questionnaire was tested for validity and reliability. Validity tests are carried out to ensure that the questionnaire measures what it is supposed to measure. Reliability testing is carried out to ensure that the questionnaire provides consistent results over time. The results of the validity and reliability tests show that the questionnaire used in this research is valid and reliable.

Table 1. Indicators of each test variable.

Variable	Indicator	Source
Entrepreneurship Competency (X1)	Technical competency, marketing competency, financial competency, human relations competency	Kuriloff et al (1993) in Suryana (2013)
Market Orientation (X2)	Customer orientation, competitor orientation, cross-functional coordination	Narver 1990)
Product Quality (X3)	Performance, features, reliability, serviceability, durability, aesthetics	Gasperz (2001)
Product Innovation (X4)	Product line expansion, "Me Too" products, new products in the market	Lukas (1997)
Competitive Advantage (Y)	Precious, rare, difficult to imitate	Barney (1991)

Data analysis was carried out using structural equation modeling partial least squares (SEM-PLS) with the help of SmartPLS 4.1 software. SEM-PLS is a multivariate analysis technique that allows researchers to test complex relationships between latent variables and their indicators. In this research, SEM-PLS is used to test the relationship between entrepreneurial competence, market orientation, product quality, and product innovation as latent variables with competitive advantage as another latent variable. The use of SEM-PLS in this research is based on several considerations. First, SEM-PLS allows researchers to test complex models with many variables and indicators. Second, SEM-PLS can be used to analyze data with a relatively small sample size. Third, SEM-PLS can be used to analyze data that does not meet the normality assumption. Before carrying out SEM-PLS analysis, a data normality test

was carried out to ensure that the data met normality assumptions. If the data does not meet the normality assumption, it is necessary to carry out data transformation or use other analysis techniques that do not require the normality assumption. After the normality test, SEM-PLS analysis was carried out to test the research hypothesis.

4. Results and Discussion

Table 2 presents the characteristics of respondents. There is an almost equal proportion of male (50.5%) and female (49.5%) MSME owners/managers. This shows that both men and women have a significant role in managing MSMEs in this market. The majority of MSME owners/managers are in the productive age range, with 36.8% aged 20-30 years and 40.0% aged 31-40 years. This shows that MSMEs in this market are managed by the young and



middle-aged generation who have the enthusiasm and energy to develop their businesses. Most MSME owners/managers had a high school education (47.4%) or lower, with 23.2% having a junior high school education and 8.4% having a primary school education. However, there are also 21.1% who have tertiary education (PT). This shows that the level of

formal education is not the only determining factor for success in managing MSMEs. The majority of MSMEs have been operating for 5 years or more, with 44.2% aged 5-10 years and 26.3% aged more than 10 years. This shows that MSMEs in this market have sufficient experience and knowledge in running their business.

Table 2. Characteristics of respondents.

Characteristics of respondents	Number of respondents	Percentage (%)
Gender		
Male	48	50.5
Female	47	49.5
Age		
20-30 years	35	36.8
31-40 years	38	40.0
41-50 years	17	17.9
>50 years	5	5.3
Last education		
Primary school	8	8.4
Junior high school	22	23.2
Senior high school	45	47.4
College	20	21.1
Length of business		
<5 years	28	29.5
5-10 years	42	44.2
>10 years	25	26.3

Table 3 presents the results of the reliability test of the research instruments used in the study on the influence of entrepreneurial competence, market orientation, product quality and product innovation on the competitive advantage of MSMEs. Reliability refers to the consistency and stability of the measurement results of an instrument. Cronbach's Alpha value for all variables is greater than 0.70. This shows that the research instrument has high internal consistency. This means that the items in each variable are related to each other and measure the same concept consistently. The composite reliability value for all variables is also greater than 0.70. This shows that the

research instrument has high reliability. This means that research instruments can be relied on to produce consistent results if reused on the same or similar samples. Overall, the results of the reliability test show that the research instrument used in this study has high reliability. This means that the research instrument can be relied on to measure the variables studied (entrepreneurial competence, market orientation, product quality, product innovation and competitive advantage) consistently. This strengthens the validity of the research results and provides confidence that the research findings can be generalized to a wider population.



Table 3. Validity and reliability tests.

Variable	Cronbach's alpha	Composite reliability
Entrepreneurship competency	0.862	0.899
Market orientation	0.868	0.904
Product quality	0.943	0.951
Product innovation	0.938	0.949
Competitive advantage	0.949	0.958

Table 4 hypothesis testing shows the relationship between the variables examined in the study on the influence of entrepreneurial competence, market orientation, product quality and product innovation on the competitive advantage of MSMEs. H1: Entrepreneurial competence has a positive effect on the competitive advantage of MSMEs: Hypothesis test results show a positive path coefficient (0.086) but not statistically significant ($p > 0.05$). This means that although there is a positive relationship between entrepreneurial competence and competitive advantage, this relationship is not strong enough to be considered statistically significant. In other words, increasing entrepreneurial competence does not directly or consistently result in increasing the competitive advantage of MSMEs. H2: Market orientation has a positive effect on the competitive advantage of MSMEs: Hypothesis test results show the path coefficient is positive (0.275) and statistically significant ($p < 0.05$). This means that there is a strong positive relationship between market orientation and competitive advantage. Increasing the market orientation of MSMEs will significantly increase their competitive advantage. H3: Product quality

has a positive effect on the competitive advantage of MSMEs: Hypothesis test results show the path coefficient is positive (0.185) and statistically significant ($p < 0.05$). This means that there is a strong positive relationship between product quality and competitive advantage. Improving the quality of MSME products will significantly increase their competitive advantage. H4: Product innovation has a positive effect on the competitive advantage of MSMEs: Hypothesis test results show the path coefficient is positive (0.322) and statistically significant ($p < 0.05$). This means that there is a strong positive relationship between product innovation and competitive advantage. Increasing MSME product innovation will significantly increase their competitive advantage. Overall, the results of hypothesis testing show that market orientation, product quality, and product innovation are important factors that significantly influence the competitive advantage of MSMEs. However, entrepreneurial competence, although it has a positive relationship, does not have a statistically significant influence on the competitive advantage of MSMEs.



Table 4. Hypothesis test results.

Hypothesis	Path coefficient	t value	p-value	Conclusion
H1: Entrepreneurial competence has a positive effect on competitive advantage	0.086	0.986	0.162	Not significant (Entrepreneurial competence has no significant effect on competitive advantage)
H2: Market orientation has a positive effect on competitive advantage	0.275	2.919	0.018	Significant (Market orientation has a positive effect on competitive advantage)
H3: Product quality has a positive effect on competitive advantage	0.185	2.240	0.048	Significant (Product quality has a positive effect on competitive advantage)
H4: Product innovation has a positive effect on competitive advantage	0.322	2.780	0.003	Significant (Product innovation has a positive effect on competitive advantage)

Table 5 goodness of fit (GoF) index in this study presents the standardized root mean square residual (SRMR) values for the saturated model and the estimated model. The SRMR value is used to measure how well the proposed model fits the observed data. The SRMR value for the saturated model and the estimated model is 0.087. This value is less than 0.10, which is a commonly used threshold to indicate a good model fit. This means that the model proposed in this study has a good fit to the data collected. In other

words, the model can explain variations in the data well and can be used to make accurate predictions. A low SRMR value indicates that the SEM-PLS model used in this study is suitable for the data collected. This provides additional support for the validity of the research results and shows that the model can be used to explain the relationship between entrepreneurial competence, market orientation, product quality, product innovation, and competitive advantage of MSMEs.

Table 5. Goodness of fit (GoF) index.

SRMR	Saturated model	Estimated model
0.087	0.087	0.087

The results of this research provide in-depth insight into the factors that influence the competitive advantage of micro, small, and medium enterprises (MSMEs) in the clothing trade sector at Sudimampir Market, Banjarmasin. These findings not only enrich the body of research on MSMEs, but also provide practical implications for MSME actors and policymakers. One of the important findings from this research is the positive and significant influence of market orientation on the competitive advantage of MSMEs. These results are in accordance with the theory put forward by Narver (1990) which states that market-oriented companies tend to be more profitable.

This is supported by research by Dalimunthe (2017) which found that market orientation makes a significant contribution to the competitive advantage of MSMEs. Market orientation, in this context, refers to the ability of SMEs to understand and respond to customer needs and desires (Kohli, 1990; Kohli et al., 1993). MSMEs that have a strong market orientation tend to be more customer-focused, more responsive to market changes, and more innovative in developing new products or services. In the context of Sudimampir Market, market orientation is very crucial considering the high level of competition. MSMEs that are able to understand and meet customer needs will



find it easier to attract and retain customers, so they can increase sales and strengthen their position in the market. This is in line with research by Muhajirin (2019) which shows that market orientation has a positive effect on the competitive advantage of MSMEs in the weaving crafts sector.

This research also found that product quality has a positive and significant influence on the competitive advantage of MSMEs. This finding is in accordance with the theory put forward by Kotler (2009) that product quality is the totality of product features and characteristics that depend on its ability to meet customer needs. MSMEs that are able to produce high-quality products tend to have a higher competitive advantage compared to MSMEs that produce low quality products. High product quality can increase customer satisfaction, build customer loyalty, and improve the brand image of MSMEs. This is in line with research by Hendrayanti (2021) which found that product quality is one of the key factors in building competitive advantage. In the context of Sudimampir Market, product quality is very important considering that consumers in this market tend to be sensitive to price and quality. MSMEs that are able to offer quality products at competitive prices will find it easier to attract and retain customers.

Product innovation has also been proven to have a positive and significant influence on the competitive advantage of MSMEs. This finding is in accordance with the theory put forward by Dwanto et al. (2015) that product innovation is a determining factor in increasing the economic growth of a business. Innovative MSMEs tend to be more attractive to customers and are able to create new demand. Product innovation can take the form of developing new products, improving existing products, or even changing business models. In the context of Sudimampir Market, product innovation can take the form of developing more attractive clothing designs, using higher quality raw materials, or even developing online business models to reach a wider range of

customers. This research is in line with research by Katuuk et al. (2023) which shows that product innovation can increase the competitive advantage of MSMEs in the Sasirangan fabric sector. MSMEs that are able to innovate in their products tend to have products that are unique and difficult to imitate, so they can differentiate themselves from competitors and create a sustainable competitive advantage.

The results of this research indicate that entrepreneurial competence does not have a significant influence on the competitive advantage of MSMEs. This finding is different from several previous studies which show that entrepreneurial competence has a positive influence on the competitive advantage of MSMEs (Destany et al., 2022; Munir et al., 2019; Trihudyatmanto, 2019; Zebua, 2022). There are several possible explanations for this finding. First, it is possible that the entrepreneurial competence possessed by MSMEs in Sudimampir Market is not high enough to produce a significant impact on their competitive advantage. Second, there may be other factors that are more dominant in influencing the competitive advantage of MSMEs in this market, such as market orientation, product quality, and product innovation. Third, it is possible that the research instruments used to measure entrepreneurial competence are not fully valid and reliable. Although entrepreneurial competencies do not directly influence the competitive advantage of MSMEs in this research, the development of these competencies is still important for the long-term success of MSMEs. Entrepreneurial competencies can help MSMEs to identify and exploit business opportunities, overcome challenges, and develop effective business strategies.

The results of this research have several important implications for MSMEs and policymakers. For MSME players, this research provides evidence that market orientation, product quality, and product innovation are important factors that need to be considered to build a competitive advantage. MSMEs can improve their market orientation by conducting regular market



research, listening to customer feedback, and adapting their products or services to market needs. MSMEs can also improve the quality of their products by using quality raw materials, implementing strict quality standards, and providing good after-sales service. In addition, MSMEs can increase their product innovation by developing new products, improving existing products, or even changing their business models. For policymakers, this research provides evidence that policies that support the development of market orientation, product quality, and product innovation can help MSMEs increase their competitive advantage. These policies could take the form of entrepreneurship training, technical assistance, financial incentives, or access to wider markets.

5. Conclusion

This research provides empirical evidence that market orientation, product quality, and product innovation are important factors in building competitive advantages for MSMEs in the clothing trade sector. MSMEs that are market-oriented, produce high-quality products, and innovate in their products tend to have a higher competitive advantage compared to MSMEs that do not have these three factors. However, this research also shows that entrepreneurial competence does not directly influence the competitive advantage of MSMEs. This shows that developing entrepreneurial competence alone is not enough to build a competitive advantage. MSMEs also need to pay attention to other factors such as market orientation, product quality, and product innovation.

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