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Analysis of the Effect of Market and Proactive Orientation with Market Capabilities on Export Performance in East Java Export-Oriented MSMEs

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Abstract

Research aims: This study examines the causal relationships affecting export performance, including market orientation, proactive orientation, and market capability.

Design/Methodology/Approach: This study used a quantitative approach, which was carried out by distributing questionnaires to 140 MSMEs in East Java that had already exported. This study was tested utilizing SmartPLS 4 with partial least squares-structural equation model (PLS-SEM) analysis.

Research findings: The results exhibited that market orientation significantly affected export performance and market capability. Proactive orientation substantially affected export performance and market capabilities. Besides, market capability directly and significantly influenced the relationship between market orientation, proactive orientation, and export performance.

Theoretical Contribution/Originality: Adding market capability as a mediating variable to test the influence of market orientation and proactive orientation on export performance in export MSMEs in Surabaya.

Practitioners/Policy Implications: In improving the export performance of MSMEs, oversight institutions or policymakers are expected to provide regular education, training, and guidance on how to observe and take advantage of changes in the export market, obtain information about customers and the export market situation and study and identify opportunities that exist in the export market.

Research Limitations/Implications: In this study, the research locations were limited to the Surabaya area, so further researchers can expand the research locations. Data collection can also be done by interviewing, so that respondents are more open to answering questions. In addition, there were only three variables affecting export performance in this study: market orientation, proactive orientation, and market capability. Because the R-Square value of market capability was still at 0.392, or 40%, other independent variables can influence as much as 60%, such as customer orientation, international orientation, demographic orientation, strategic orientation, and others. Besides, the R-Square value of export performance was 0.538, or 54%, so other mediating variables may affect as much as 467%, such as innovation, production, and productive and dynamic capabilities.

Keywords: Market Orientation; Proactive Orientation; Market Capability; Export Performance; Internationalization of MSMEs

Introduction

The global economy influences a country's economy (Astuti & Ayuningtyas, 2018). The country's economy can be known from Gross Domestic Product (GDP) data for a certain period (Badan Pusat Statistik, 2022). The basic formula for GDP is that household consumption expenditure, investment, government spending, and exports must be greater than imports (Idris, 2021). This indicates that a country's economic growth is influenced by relations between countries and stimulates international transactions. An international transaction is a transaction that is usually known as an export and import activity that occurs between sellers and buyers who live in different countries. If the value of exports is higher than imports, it will affect state income, increasing the country's economy (Ngatikoh & Faqih, 2020).

In this case, East Java Province occupied the third position by contributing to the value of Indonesia's exports at 8.92%, causing economic growth in the first quarter of 2022 in East Java to 5.20% from the first quarter of 2021 (Dinas Komunikasi dan Informatika Provinsi Jawa Timur, 2022). Quoted from the ekon.go.id and idxchannel pages, the Expert Staff of the Minister of Cooperatives and SMEs for Productivity and Competitiveness expects the export contribution target from Micro, Small, and Medium Enterprises (MSMEs) to be only 15.69% in 2021, increasing to 17% in 2024 (Anggraeni, 2022) (Kementerian Koordinator Bidang Perekonomian, 2022). In addition, as quoted from the Suarasurabaya.net page, the Governor of East Java stated that MSMEs are the backbone of the East Java economy and that he wants to increase the contribution of MSMEs to the economy and welfare of the people of East Java (Roosa, 2022).

For that reason, research is needed on MSMEs in East Java that have been exported. This research's impact is influential at the provincial and state levels. Moreover, with an export value of only 15.69% of total exports, the Indonesian government encouraged MSMEs to enter the global market (Kementerian Koordinator Bidang Perekonomian, 2021). To improve the export performance of MSMEs, it is essential to pay attention to their market orientation and proactive orientation (Robb & Stephens, 2021).

Market orientation is a company strategy to identify products or services that customers need or want to make the company's performance better (Kohli & Bernard, 1990). Meanwhile, proactive orientation is the company's initiative to understand and meet customer needs by creating a solution to the problems experienced by customers (Voola & O'Cass, 2010). Proactive companies will find it easier to expand their business into international markets (Palacios & Patiño C, 2019).

Some research has uncovered that a proactive attitude increases export performance (Hossain et al., 2022; Robb & Stephens, 2021; Palacios & Patiño C, 2019). Market-oriented companies will also improve their export performance (Acikdilli, Wimsatt, Kara, & Spillan, 2020; Sefnedi, 2017; Alotaibi & Zhang, 2017). Nevertheless, a study demonstrated that market orientation did not affect export performance (Robb & Stephens, 2021).

Therefore, in this research, market capability was added as a mediating variable to test the influence of independent and dependent variables on the object of export-oriented MSMEs in Surabaya City. Based on the existing problems, this research wants to determine the influence between variables and find out the causes of low export performance in MSMEs in Surabaya City. Hence, it can improve export performance, which will have a positive effect on the country's foreign exchange.

Literature Review and Hypotheses Development

Market Orientation

Market orientation is a strategy carried out by companies to identify products or services that customers need or want. The higher the market orientation, the better the company's performance (Kohli & Bernard, 1990). Market-oriented companies will always carry out efficiency and try to create value for customers to generate long-term benefits for the company (Narver & Slater, 1990). Market-oriented companies will also systematically collect, analyze, and utilize market-related data better than other companies and assess the impact of market orientation on company performance (Beverland & Lindgreen, 2007). Market orientation applies not only to domestic businesses but also to exports. Before carrying out export activities, exporters must know the export destination countries and the products or services that are popular with the people there (Joewono, Tanjung, & Ralyanata, 2010).

Previous research has proven that market orientation positively affects market capability (Kayabasi & Mtetwa, 2016; The, 2016; Kamboj & Rahman, 2017; Robb & Stephens, 2021). Market orientation significantly affects export performance (Acikdilli, Wimsatt, Kara, & Spillan, 2020), and market orientation positively influences export performance (Sefnedi, 2017; Alotaibi & Zhang, 2017). Nonetheless, a study revealed that market orientation does not directly affect performance (Robb & Stephens, 2021; Kayabasi & Mtetwa, 2016).

As such, this study's conceptual framework is depicted in Figure 1.

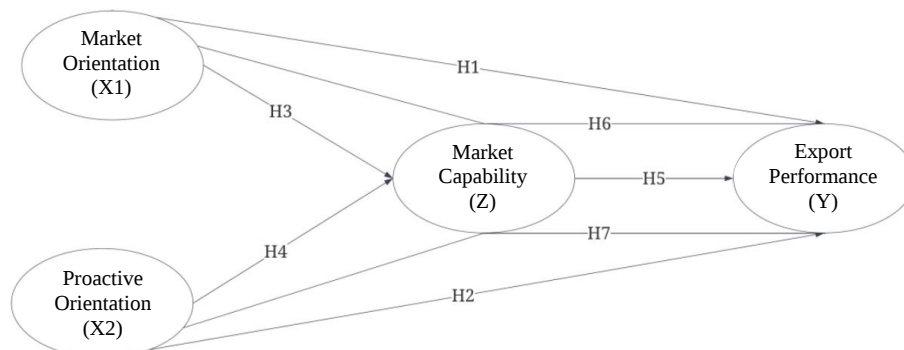


Figure 1 Conceptual Framework

H₁: Market orientation has a significant effect on export performance.

H₃: Market orientation has a significant effect on market capability.

Proactive Orientation

Proactive orientation is a company initiative to understand and meet customer needs by creating a solution to the problems experienced by customers (Voola & O'Cass, 2010). Proactive orientation is also the spirit of corporate initiatives that always want to be number one and outperform competitors (Morris, Kuratko, & Covin, 2011). This proactive orientation facilitates companies to develop organizational capacities and skills to meet current and future customer needs (Slater & Narver, 2000). Companies that adopt a proactive orientation will achieve coaching by developing a competitive advantage (Porter, 1987). In addition, proactive companies will continue to try to find and establish company resources to meet customer needs so that they can more easily expand their business to international markets (Mujanah et al., 2022; Palacios & Patiño C, 2019).

Previous research has confirmed that if a company has a proactive attitude, its market capability will improve (Morris, Kuratko, & Covin, 2011). A proactive orientation is also essential in enhancing export performance (Robb & Stephens, 2021) because a proactive orientation improves export performance (Hossain et al., 2022; Palacios & Patiño C, 2019).

H₂: Proactive orientation has a significant effect on export performance.

H₄: Proactive orientation has a significant effect on market capability.

Market Capability

Market capability is a skill or ability possessed by a company in using resources to develop a business (Suciati, Danial, & Ramdan, 2020). Market capabilities are categorized as inside-out capabilities (market information, customer relations), inside-out capabilities (logistics, cost control), and integration capabilities (pricing, product, or service development) (Day, 1994). Market capabilities occur with knowledge integration and employee skills in knowing the market (Möller & Anttila, 1987). Market capability is a process designed to implement knowledge, skills, and company resources to meet customer needs, increase value, and achieve a competitive advantage (Morris, Schindehutte, & LaForge, 2002).

Prior studies have verified that market capability influences business performance and success (Narver & Slater, 1990). Market capability increases export performance (Robb & Stephens, 2021). Market capability also positively affects export performance (Acikdilli, Wimsatt, Kara, & Spillan, 2020). With good market capability, overall exports will increase rapidly. The existence of market capability can help mediate the relationship between

market orientation and proactive orientation with export performance (Bodlaj & Čater, 2022; Robb & Stephens, 2021; Joensuu-Salo, Sorama, & Kettunen, 2016).

H₅: Market capability has a significant effect on export performance.

Export Performance

Export performance is the extent to which the success or failure of a company sells products or services in international markets. Export performance is influenced by many things, including market orientation, proactive orientation, and good market capability (Ngo-Thi-Ngoc & Nguyen-Viet, 2021). Successful exporters are always proactive in maintaining exports sustainably, with a higher level of export involvement and paying attention to changes in the market environment (Samiee & Walters, 1990).

Previous studies have established that export performance is influenced by market orientation and proactive orientation through market capability (Bodlaj & Čater, 2022; Robb & Stephens, 2021; Joensuu-Salo, Sorama, & Kettunen, 2016).

H₆: Market orientation significantly affects export performance through market capability.

H₇: Proactive orientation significantly affects export performance through market capability.

Based on the existing problems, this study wants to prove the influence between variables, find out the causes of the low export performance of MSMEs in East Java, and develop and support the results of previous studies. The research results will be submitted to the hosting institution as suggestions and input, hoping to evaluate and improve export performance, which will positively impact the country's foreign exchange.

Research Method

The existence of market capability can help mediate the relationship between market orientation and proactive orientation with export performance. This research was included in the explanatory study conducted to test the causal relationship between variables through hypothesis testing (Sugiyono, 2017). This research was carried out using a quantitative approach, in which the researchers decided what to study, formulated problems, collected data from respondents, and analyzed numbers with statistics (Bandur & Prabowo, 2021).

The population of this study was MSME owners in East Java who had already exported. The research sample was taken using a purposive sampling technique, where the researchers had criteria: only MSME owners in East Java that had exported. According to

Roscoe, the minimum sample size is ten times the variable studied (Sugiyono, 2015, p. 131). Since this study consisted of four variables, the number of samples was 40. Data were collected from November to December using an online questionnaire filled out by 140. The company characteristics are presented in Table 1.

Table 1 Company Characteristics

Characteristics	Frequency	%	Characteristics	Frequency	%
Form of Business Entity			Number of Employees		
CV	28	20%	0-10	110	79%
Sole Proprietorship	48	34%	11-50	20	14%
PT	58	41%	51-150	2	1%
UD	6	4%	151-250	8	6%
Business Age (Year)			Export Experience (Year)		
0-5	92	66%	0-5	116	83%
6-10	26	19%	11-15	10	7%
11-15	8	6%	16-25	6	4%
16-25	6	4%	6-10	6	4%
> 25	8	6%	>25	2	1%
Export Intensity			Annual Income (Rupiah)		
<20%	88	63%	< 50 million	62	44%
20-49%	18	13%	51-150 million	20	14%
50-80%	20	14%	151-300 million	18	13%
>80%	14	10%	301-500 million	4	3%
			501 million-1 billion	6	4%
			1-2.5 billion	8	6%
			2.5-5 billion	8	6%
			> 5 billion	14	10%
HS Code					
01 - 05: Animal Products	8	6%	44 - 49: Wood Products	8	6%
06 - 15: Agricultural Products	50	36%	50 - 63: Textiles	6	4%
16 - 24: Processed Food	32	23%	72 - 83: Metal	4	3%
25 - 27: Mineral Products	2	1%	86 - 89: Transportation	2	1%
28 - 38: Chemical Industry	2	1%	90 - 97: Other Products	24	17%
41 - 43: Raw Hides, Skins, Leathers, and Furs	2	1%			
Number of Export Destination Countries					
1 Country	62	44%	7 Countries	6	4%
2 Countries	16	11%	8 Countries	10	7%
3 Countries	14	10%	9 Countries	4	3%
4 Countries	12	9%	13 Countries	4	3%
5 Countries	6	4%	14 Countries	2	1%
6 Countries	4	3%			

The collected data were then put through SmartPLS 4 software's Partial Least Square Structural Equation Modeling (PLS-SEM) analysis to test the outer and inner models (Narimawati, Sarwono, Affandy, & Priadana, 2020). The researchers used PLS-SEM because it can be used for all sizes of data, small samples (less than 100), complex models with many independent and dependent variables, makes predictions and confirms the relationship between variables by testing hypotheses, and can accept insignificant relationships with flexible assumptions.

Table 2 Research Variable Indicators

Variable	Indicator	Statement
Market Orientation (X1)	X1.1	Companies can understand market trend information.
	X1.2	Companies can create information on customer needs and preferences.
	X1.3	The company has a level of commitment and orientation to serve customer needs.
	X1.4	Companies can observe changes in the export environment.
	X1.5	Companies can share information about customer satisfaction.
	X1.6	Companies can inform employees about customers or market events quickly.
	X1.7	The company can complete the required export documents.
	X1.8	Companies can respond to changes in the business environment quickly.
	X1.9	Companies can respond to competitors' price changes.
	X1.10	Companies can respond to threatening competitors' actions.
Proactive Orientation (X2)	X2.1	The company has the initiative in every situation.
	X2.2	Companies can identify opportunities.
	X2.3	Companies can take advantage of the changes.
	X2.4	Companies can form a good business environment.
Market Capability (Z)	Z.1	The company has the resources to meet customer needs.
	Z.2	Companies can adopt new methods and concepts in their processes.
	Z.3	The company can fulfill customer requests.
	Z.4	The company has human resources who can research export markets.
	Z.5	The company has an internationally oriented culture.
	Z.6	The company has a good market selection strategy.
Export Performance (Y)	Y.1	The company generates profits from export sales.
	Y.2	The company experienced an increase in sales volume due to exports.
	Y.3	The company experienced business growth.
	Y.4	The company gets a certain amount of turnover from investment capital.
	Y.5	The company has a strategic position in the global market.
	Y.6	The company has a global market share.

Source: (Robb & Stephens, 2021)

The outer model in this study would be valid if convergent validity with the loading factor value was higher than 0.70. An Average Variance Extracted (AVE) value above 0.50 and discriminant validity with an indicator value more significant than the other constructs

are said to be reliable if Cronbach's alpha is more than 0.60 and Composite Reliability is more than 0.70 (Ghozali & Latan, 2015; Chin & Todd, 1995). Inner model testing in this study was conducted to measure and predict the accuracy of the relationship model between variables by testing the R-Square value to measure how strong the influence of the research model was, as well as the influence of independent variables on mediating and dependent variables (Ghozali, 2016, p. 81). Hypothesis testing was then calculated using the bootstrapping method (significance test) in SmartPLS 4 software. Hypothesis testing is acceptable if the t-statistic value is higher than the t-table (1.96) and p-values are less than 0.05 with a significance level of 5% (Hair, 2014). The instrument used was a questionnaire containing statements on each variable indicator in Table 2.

Results and Discussion

The results of the outer model analysis in Table 3 reveal a loading factor value above 0.07 with two tests using the PLS algorithm. Since the indicators X1.3, X1.5, X1.7, X1.8, X1.9, X1.10, X2.1, Z.2, Z.5, and Y.4 were not under the requirements, they were not included as research constraints. It also denotes that each indicator was higher than the other constructs, met the discriminant validity criteria, and could be used to measure research variables.

Table 3 Loading Factor Test Results

Indicator	X1	X2	Y	Z
X1.1	0.825	0.543	0.500	0.547
X1.2	0.718	0.476	0.475	0.338
X1.4	0.883	0.595	0.539	0.557
X1.6	0.804	0.497	0.485	0.471
X2.2	0.496	0.776	0.472	0.493
X2.3	0.558	0.808	0.471	0.344
X2.4	0.564	0.883	0.531	0.459
Y.1	0.301	0.423	0.755	0.445
Y.2	0.353	0.311	0.728	0.290
Y.3	0.603	0.631	0.780	0.527
Y.5	0.440	0.413	0.708	0.521
Y.6	0.541	0.405	0.801	0.595
Z.1	0.483	0.387	0.479	0.776
Z.2	0.497	0.442	0.489	0.747
Z.4	0.487	0.430	0.521	0.720
Z.6	0.243	0.271	0.419	0.702

Table 4 shows Cronbach's alpha value of more than 0.60, Composite Reliability of more than 0.70, and Average Variance Extracted (AVE) value above 0.50. Then, these indicators were declared valid and reliable, so they could be used to measure research variables.

Table 4 Cronbach's Alpha, Composite Reliability, and AVE Test Results

Variable	Cronbach's alpha	Composite Reliability	AVE
X1	0.823	0.883	0.656
X2	0.762	0.863	0.678
Y	0.814	0.869	0.570
Z	0.722	0.826	0.543

The R-squared value of market orientation and proactive orientation towards market capability and export performance was determined. The effect of market orientation and proactive orientation variables on market capability was 0.392, implying that market orientation and proactive orientation variables could explain market capability variables by 40%, and variables outside this study described the remaining 60%. In addition, the effect of market orientation and proactive orientation variables on export performance was 0.538, indicating that market orientation and proactive orientation variables could explain 54% of export performance variables, and variables outside this study elucidated the remaining 46%.

Furthermore, the research model was tested for validity and reliability. From the results of these tests, several indicators that did not meet the requirements were dropped, leaving indicators that had proven valid and reliable, which can be observed in Figure 2.

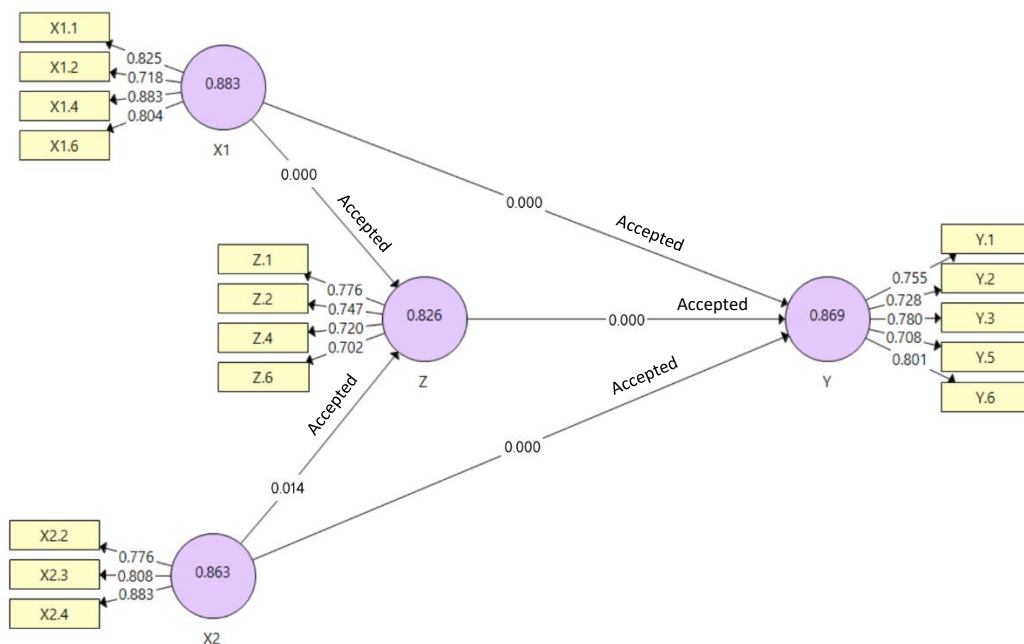


Figure 2 Results from SmartPLS 4

The results of testing the relationship between variables are in Table 5, showing a direct effect of market orientation and proactive orientation on export performance and market orientation on market capability. Still, proactive orientation had no impact on market capability or export performance. An indirect effect indicates that the capability market

mediated the relationship between market orientation and export performance, but not with proactive orientation.

Table 5 Direct and Indirect Test Results

	Sample Mean (M)	T-Statistics	P-Values	Results
X1 -> Y	0.390	3.850	0.000	Accepted
X2 -> Y	0.352	3.548	0.000	Accepted
X1 -> Z	0.437	4.247	0.000	Accepted
X2 -> Z	0.255	2.454	0.014	Accepted
Z -> Y	0.383	5.179	0.000	Accepted
X1 -> Z -> Y	0.168	3.248	0.001	Accepted
X2 -> Z -> Y	0.097	2.356	0.019	Accepted

In this regard, market-oriented companies always employ a strategic approach to ascertain how customer desires can impact their export performance. This study underscores that firms possessing market knowledge can gather customer information, disseminate it among their workforce, and keenly observe shifts in foreign markets. The concept of market orientation is grounded in the idea that companies that actively understand and respond to customer needs and preferences are better positioned for international business success. This research aligns with the findings of previous studies conducted by Acikdilli, Wimsatt, Kara, & Spillan (2020), Sefnedi (2017), and Alotaibi & Zhang (2017), which have evidenced that export performance was influenced by market orientation.

Proactive companies take deliberate initiatives to meet customer needs and enhance their export performance. This study emphasizes that these companies were adept at identifying opportunities, capitalizing on market changes, and cultivating a conducive business environment to achieve superior export performance. The research builds upon the findings of prior studies by Hossain et al. (2022), Robb & Stephens (2021), and Palacios & Patiño C. (2019), all of which provided compelling evidence that a proactive orientation significantly influenced and contributed to improved export performance. This proactive approach involves not only responsiveness but also a proactive quest for opportunities, enabling companies to effectively navigate dynamic global markets and maintain a competitive edge in the export domain.

Moreover, market-oriented companies persistently strive to understand and meet customer needs. This ongoing pursuit enables these firms to identify opportunities, ultimately solidifying the impact of market orientation on their market capabilities. This study highlights the importance of having proactive human resources dedicated to gathering information and understanding customer preferences. Consequently, such companies can consistently embrace innovative concepts to satisfy customer desires. The findings of this research corroborate with previous studies conducted by Kamboj & Rahman (2017), Kayabasi & Mtetwa (2016), and The (2016), all of which presented substantial evidence that market capability was significantly shaped by market orientation. In essence, the ability of a company to continuously adapt and align with customer demands hinges on its market-oriented approach, enabling it to maintain a competitive edge in the dynamic business landscape.

Proactive companies, driven by their initiatives to cater to customer needs, exhibit an enhanced capacity for market capability improvement. This study underlines the significance of companies' abilities to discern opportunities, proactively leverage transformations, and foster a conducive business environment. Consequently, such companies can consistently seize initiatives, seek out opportunities, and capitalize on evolving dynamics. This research supports a prior study conducted by Robb and Stephens (2021), which substantiated that market capability was indeed influenced by a proactive orientation. Fundamentally, the proactivity of a company plays a pivotal role in shaping its market capability, enabling it to continually adapt, innovate, and thrive in the ever-evolving business landscape.

Furthermore, companies equipped with the necessary capabilities and resources to meet market demands are poised to enhance their export performance. This assertion is grounded in the presence of skilled personnel in the production process and robust market research, which afford the company a strategic advantage in the global marketplace, leading to sustained business growth (Robb & Stephens, 2021; Acikdilli, Wimsatt, Kara, & Spillan, 2020). In essence, a company's ability to align its capabilities with market needs is pivotal in driving successful export endeavors and fostering continued growth in the global business landscape.

The presence of market capability also plays a crucial mediating role in the relationship between market orientation and export performance. This study has been substantiated by the fact that companies adept at swiftly monitoring market changes and possessing comprehensive market knowledge are better positioned to meet customer needs, ultimately leading to increased sales and profitability in the export market (Robb & Stephens, 2021; Joensuu-Salo, Sorama, & Kettunen, 2016). The studies also confirm that market capability mediates the relationship between market orientation and proactive orientation, enhancing export performance. Essentially, a company's effective use of market capability bridges its customer focus and proactive approach, significantly contributing to export success. In addition, the presence of market capability does not necessarily exhibit a direct impact on export performance when considered independently of a proactive orientation. This implies that a company can achieve robust performance even in the absence of exceptional market capability (Bodlaj & Čater, 2022; Robb & Stephens, 2021).

Conclusion

This study examined the effect of market orientation and proactive orientation, with market capability as a mediating variable, on the export performance of MSMEs in East Java. Based on the test results, it can be concluded that market orientation and proactive orientation affected export performance, as well as market capability mediation. Market capability also affected export performance.

In improving the export performance of MSMEs, oversight institutions or policymakers are expected to provide regular education, training, and guidance on how to observe and

take advantage of changes in the export market, obtain information about customers and the export market situation and study and identify opportunities that exist in the export market.

To create good export performance, MSME actors must pay attention to market orientation, proactive orientation, and market capability. In improving market orientation, MSMEs are also expected to observe changes in the export environment, understand market trend information, provide information on customer needs and preferences, and be responsive in informing employees about customers or what is happening in the market. In increasing their proactive orientation, MSMEs are expected to identify opportunities in the export market, take advantage of changes that occur in the export market, and form a good business environment between employees and business partners. In enhancing market capability, MSMEs are expected to have human resources who can research export markets, have resources that can meet customer needs, and adopt new methods and concepts in existing processes in the company. After this is done, it is hoped that the MSME business will experience growth and export performance will increase.

In this study, the research locations were limited to the Surabaya area, so further researchers can expand the research locations. Data collection can also be done by interviewing, so that respondents are more open to answering questions. In addition, there were only three variables affecting export performance in this study: market orientation, proactive orientation, and market capability. Because the R-Square value of market capability was still at 0.392, or 40%, other independent variables can influence as much as 60%, such as customer orientation, international orientation, demographic orientation, strategic orientation, and others. Besides, the R-Square value of export performance was 0.538, or 54%, so other mediating variables may affect as much as 467%, such as innovation, production, and productive and dynamic capabilities.

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