

## Enhancing the competitive advantage and the performance of MSMEs through entrepreneurial marketing, intellectual capital, and learning capability

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### Abstract

SMEs play a strategic and vital role in enhancing Indonesia's economic growth. In 2021, MSMEs generated 60.51 percent of Indonesia's total GDP, or IDR 9,580 trillion. Furthermore, MSME's able to reduce unemployment in Indonesia because they absorb a large amount of labor. This study aims to analyze and prove empirically how to improve the MSME's performance and sustainable competitive advantage in Medan City through Entrepreneurial Marketing, Intellectual Capital, Learning Capability, and Leading Innovation Capability as intervening variables. The research population consists of all 38,343 MSMEs. Determining the samples in this research uses purposive sampling: a data source sampling technique with certain considerations (Sugiyono, 2010) [33]. The entire sample size was 120 leading MSME samples, from eight leading MSME product categories: Food and Drinks, Handy crafts, Fashion, Agribusiness, Bakeries, Restaurants, Services, and Coffee Shops. Data analysis uses Smart PLS. The results of this research show Intellectual Capital has a positive and significant effect on Innovation Capability; Learning Capability has a positive and significant effect on Leading Innovation Capability; Intellectual Capital has a positive and significant effect on MSME Performance; Learning Capability has a positive and significant effect on SME Performance; Entrepreneurial Marketing has a positive and significant effect on Leading Innovation Capability and MSME Performance; Innovation Capability positively and significantly mediates the relationship between Intellectual Capital and MSME Performance; Learning Capability with MSME Performance; Entrepreneurial Marketing with MSME Performance.

**Keywords:** Leading innovation capability, msme performance

### Introduction

MSMEs play a vital and strategic role in increasing Indonesia's economic growth. In 2021, MSMEs generated 60.51 percent of Indonesia's total GDP, or IDR 9,580 trillion. Furthermore, MSME's able to reduce unemployment in Indonesia due to they absorb a large amount of labor. Looking at the vitality of MSMEs is not surprising if the government wants to enhance MSME's performance (Masduki, T & Rully, 2020) [23].

The vital existence of MSMEs is due to, first the large number of industries found in every economic sector, the number of MSMEs was recorded at 843,834 units or 1,31 percent of the total business units. Second, it has a large potential to absorb labor. The MSME sector absorbs 9.6 million workers or 7.97 percent of the total workforce. Third, the contribution of MSMEs to the Gross Domestic Product (GDP) is quite significant IDR 9,580 trillion (Masduki, T & Rully, 2020) [23].

Most MSMEs in Indonesia have several problems such as 1) a lack of good business management among MSME entrepreneurs; 2) a shortage of creativity and innovativeness among MSME entrepreneurs and their employees; 3) MSMEs in Indonesia face difficulties in distributing products; 4) a failure to utilize the role of digital marketing; 5) MSMEs are still not aware of the importance of branding (Masduki, T & Rully, 2020) [23].

Research conducted Kajalo, (2015) [16] shows that the market orientation variable does not have a significant effect on business performance. Based on the results of this research, the relationship between MO and performance can be mediated by marketing capabilities. It could be argued that MO requires complementary marketing capabilities if improvements in business performance are to be realized

(Douglas W. Vorhies, 2005; Kamboj *et al.*, 2015) [9, 17]. Therefore the auditor gets a novelty variable, leading to innovation capability. The rationale is that market orientation with its indicators of proactiveness, risk-taking, and innovativeness is part of the entrepreneurial marketing indicators which is one of the independent variables in this research.

While the research conducted by Amin, (2016) [11] is not in line with research conducted by Kajalo, (2015) [16]. Amin's research states the market orientation variable has a significant effect on SMEs' performance. Previous research has also identified the influence of MO on business performance Friesen, (2013) [11] explaining that companies with strong MO can generate higher profit margins than companies with weak MO.

Previous research found inconsistencies in the findings on market orientation variables and their impact on business performance. Some studies state that there is no influence of market orientation on business performance, while others assert that market orientation significantly affects business performance.

These inconsistencies may arise from various contextual factors that affect research outcomes, such as industry type, business size, competitive environment, and marketing strategies employed. For instance, in highly competitive industries, market orientation may be more critical as businesses need to be more responsive to customer needs and preferences to stay ahead. Conversely, in less competitive industries, market orientation might not significantly impact business performance.

Additionally, different research methods and measurement variables can also influence the findings. Studies using quantitative approaches with large samples might yield

different results compared to qualitative research that is more in-depth but with smaller samples.

This study aims to address these inconsistencies by empirically analyzing how market orientation affects the performance of MSMEs in Medan City, considering intervening variables such as Entrepreneurial Marketing, Intellectual Capital, Learning Capability, and Leading Innovation Capability. This approach is expected to provide a more comprehensive and contextual understanding of the influence of market orientation on business performance, particularly in the context of MSMEs in Indonesia. The study also aims to offer new insights into how MSMEs can enhance their performance and competitiveness through effective and innovative market orientation strategies.

### **Resource Advantage Theory of Competition (R-A Theory)**

According to (Hunt, S. & Morgan, 1996) <sup>[14]</sup> Resource Advantage Theory of Competition (R-A Theory) is a general competition theory that explains that the fundamental goal of resource-based strategy is to achieve a comparative advantage based on resources that can produce positional advantages in several market segments to obtain superior company performance.

R-A Theory is built on the following thoughts: a) heterogeneity of demand in industry; b) information received by customers incomplete and expensive; c) human motivation in meeting their needs ; d) the organization's goal is to expect maximum profits; e) the information held by the organization is incomplete and expensive; f) the resources owned by the organization are tangible and intangible; g) resource are heterogeneous and move unstable; h) the managerial role in creating, selecting, implementing, and structuring current strategies; i) dynamic competition requires innovation in organizations (Hunt, S. & Morgan, 1996) <sup>[14]</sup>.

### **Sustainable Competitive Advantage**

Competitive advantage refers to firms' capability to achieve greater performance than their competitors (Porter, 1998) <sup>[26]</sup>. In highly dynamic environments, firms need experience-based adaptation to create a competitive advantage (Schilke, 2014) <sup>[30]</sup>. Sustainable competitive advantage refers to value creation in which a firm pursues high innovation by driving market competition (Kuncoro & Suriani, 2018) <sup>[19]</sup>. However, inter-organizational learning may fail from marketing orientation due to a lack of competitive differentiation, satisfaction with the status quo, and differences in information about customers (Jogaratnam, 2017) <sup>[15]</sup>.

### **MSMEs Performance**

MSME performance can be defined in various ways. Is it profitability, market share, or customer satisfaction? Financial and non-financial parameters are used as metrics to measure company performance. Financial performance parameters are sales, profitability, return on investment (ROI), and return on asset (ROA). Non-financial performance includes customer satisfaction, customer retention, and product/service quality (Hempenius, 2012) <sup>[13]</sup>.

### **Entrepreneurial Marketing**

Entrepreneurial marketing is defined as the proactive identification and exploration of opportunities to acquire

and retain profitable customers through innovative approaches to risk management, resource utilization, and value creation (Deku *et al*, 2023; Hacıoglu *et al.*, 2012) <sup>[8, 12]</sup>. Entrepreneurial marketing covers the relationship between entrepreneurship and marketing. This is a combined effect of entrepreneurial orientation and market orientation.

Entrepreneurial marketing is also defined as the effective or adaptation of marketing theory to the special needs of small businesses (Becherer *et al.*, 2012) <sup>[6]</sup>.

### **Intellectual Capital**

Intellectual capital is defined as a body of knowledge generated and used by companies to obtain an advantage over competitors (Arshad & Arshad, 2018) <sup>[2]</sup>. To develop innovation capabilities, companies must exploit knowledge resources embedded in their organization or company, which originate from human capital (employees), social capital (business networks), and organizational capital (codified knowledge). Meanwhile, human resources are defined as a set of skills, know-how, and knowledge that are integrated into company employees (Barkat & Beh, 2018) <sup>[3]</sup>.

### **Learning Capability**

Learning ability also known as organizational learning ability is defined as organizational and managerial characteristics that facilitate organizational learning processes or enable organizations to learn (Siahaan & Tan, 2020) <sup>[31]</sup>. It enables companies to be adaptive to environmental changes and market uncertainties, including demand customers, turbulent competition, or technological changes to produce new products or services. Companies need to develop learning capabilities to increase the generation, dissemination, and use of knowledge.

### **Leading Innovation Capability**

Companies from all industries are currently developing innovations to ensure their success in the market. Innovation capability can be conceptualized as the potential to create new and valuable products or valuable knowledge. In the context of small business, several studies divide innovation capability into: sensing capability, seizing capability, dan transforming capability (Saunila, 2020) <sup>[29]</sup>.

### **Sensing Capability**

Sensing capabilities are the capabilities that a company needs to identify opportunities for product innovation. (K. Lee & Yoo, 2019) <sup>[22]</sup>. If an organization does not have mechanisms to recognize changes in a dynamic environment, organizational survival may not be maintained. The scope of these cognitive activities should include potential demands: industry and market evolutionary structures and supplier and competitor responses as well as verification of internal research activities, customer needs, and technology.

### **Seizing Capability**

Seizing capability refers to the ability to seize perceived opportunities, select a business model to develop new products, allocate necessary resources, and commercialize the product. Important elements for seizing capabilities include market-oriented, product development strategies, vertical integration strategies, in the supply chain, clear

strategic objectives, and manager leadership and timely decision-making (Sulistyo & Siyamtinah, 2016) <sup>[34]</sup>.

### Transforming Capability

Companies need to change the resources that become the resource of their competitiveness to respond the environmental changes. Changeability is the ability to integrate, reconstruct, renovate, create, and in some cases, dispose of existing resources for product innovation (Teece, 2007) <sup>[35]</sup>

### Breakthrough Concept Capability

Putting forward the concept of Breakthrough Innovation Capability consists of three different building blocks. These blocks are discovery, incubation, and acceleration abbreviated as DNA. D is the creation, recognition, articulation, and elaboration of opportunities. N is the stage where the business will receive various kinds of mechanisms and methods of assistance as well as various materials needed. At this stage how to accelerate business

development (van de Wetering *et al*., 2021; Wang & Ahmed, 2007) <sup>[36, 37]</sup>.

### Methods

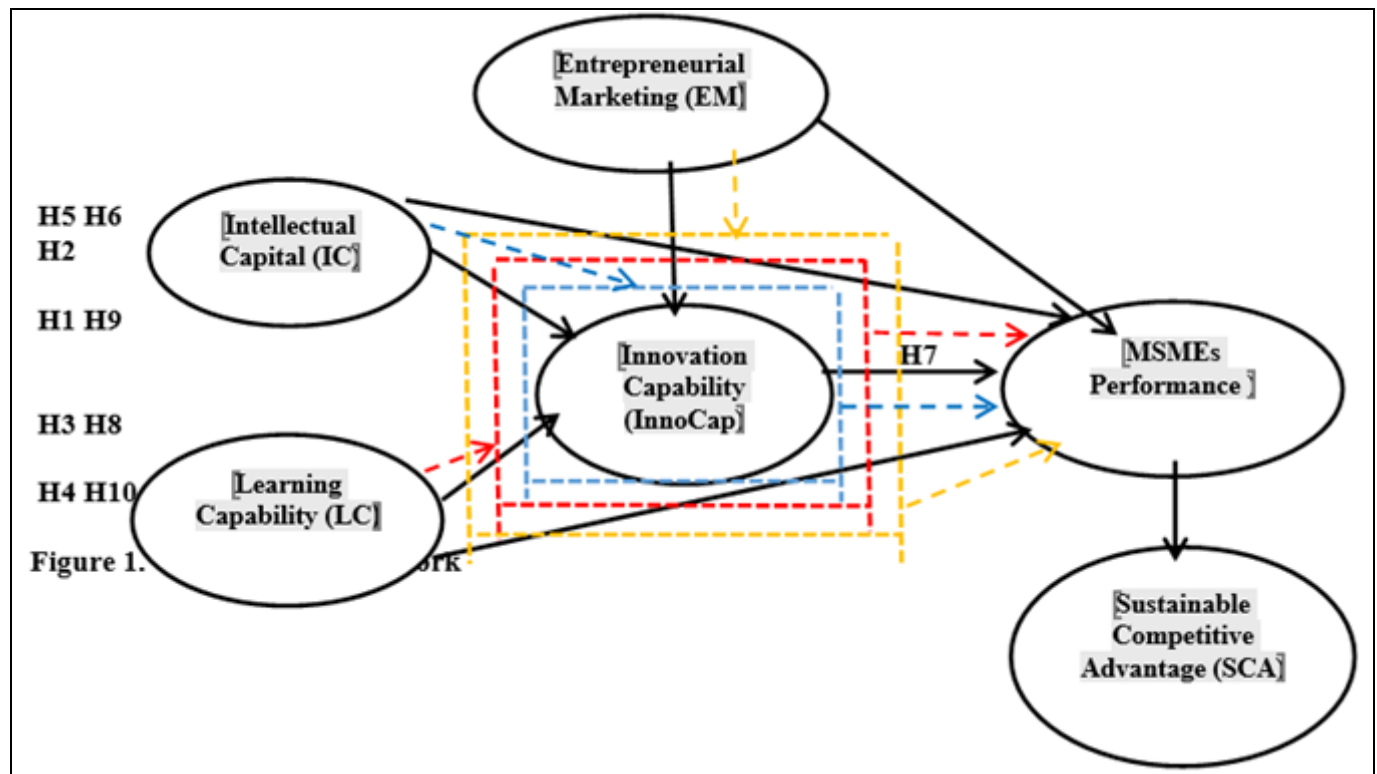
The population in this research were all MSMEs in Medan city, totaling 38,343 MSMEs. Determining the sample in this study used purposive sampling: a data source sampling technique with certain considerations (Sugiyono, 2010) <sup>[33]</sup>. The sample selection criteria are as follows: 1) Leading MSMEs in Medan City; 2) MSMEs that have the potential to digitalization and scale up; 3) MSMEs that have the potential to develop domestic and global markets; 4) MSMEs that can be directed to provide excellent service to customers. From the criteria, the number of samples is 120 Leading MSMEs in Medan City, Indonesia from eight leading MSME product categories such as Culinary, Handy craft, Fashion, Bakery, Restaurant, Coffee Shop, Agribusiness, and Services. Data analysis using Smart PLS. Respondents in this research are MSME owners or MSME managers.

**Table 1:** Research Variables, Dimensions, and Indicators

No	Variable	Dimensions	Indicators
1	Intellectual Capital	Human Capital	Employee values---competitive advantage---value to the organization
			Employee attitude---competitive advantage value to the organization
			Employee talent---competitive advantage---value to the organization
		Organizational Capital	Core Value UKM
			Organizational Structure
			Organizational Process
			Organizational Culture
		Relational Capital	Building relationships with customers
			Building relationships with supplier
			Building relationships with the government
			Building relationships with the creditor
2	Learning Capability		Experiment
			Interaction with External Environmental
			Propensity to Risk
			Dialogue
3	Entrepreneurial Marketing		Proactiveness
			Opportunity Focus
			Calculated Risk Taking
			Innovativeness
			Customer Intensity
			Resource Leveraging
			Value Creation
4	Innovation Capability	Sensing Capability	Identify opportunities for product innovation
			Recognize dynamic environmental changes
		Seizing Capability	Ability to capture opportunities, choose a business model
			Market-oriented product development
		Transforming Capability	Ability to change, integrate, reconstruct, renovate
			Transforming resources into a source of competitiveness
5	SMEs Performance	Breakthrough Concept Capability	Product diversity, replacing old products, improving product quality
			A new product that never existed before
		Financial Performance	Sales
			Sales Growth
			Profitability
			Payback Period
		Non-Financial Performance	Customer Satisfaction

6	Sustainable Competitive Advantage		Customer Retention
			Employee Satisfaction
			Price
			Quality
			Delivery Dependability
			Product Innovation
			Time to Market

### Conceptual Framework



**Fig 1:** Conceptual Framework

### Hypothesis

- H1: Intellectual Capital has a positive and significant effect on Innovation Capability  
H2: Intellectual Capital has a positive and significant effect on MSMEs Performance  
H3: Learning Capability has a positive and significant effect on Innovation Capability  
H4: Learning Capability has a positive and significant effect on MSMEs Performance  
H5: Entrepreneurial Marketing has a positive and significant effect on Innovation Cap  
H6: Entrepreneurial Marketing has a positive and significant effect on MSMEs Performance  
H7: Innovation Capability has a positive and significant effect on MSME's Performance  
H8: Intellectual Capital has a positive and significant effect on MSME's Performance through Innovation Capability  
H9: Learning Capability has a positive and significant effect on MSMEs Performance through Innovation Capability  
H10: Entrepreneurial Marketing has a positive and significant effect on MSME's Performance through Innovation Capability  
H11: MSMEs performance has a positive and significant effect on Sustainable Competitive Advantage

### Result

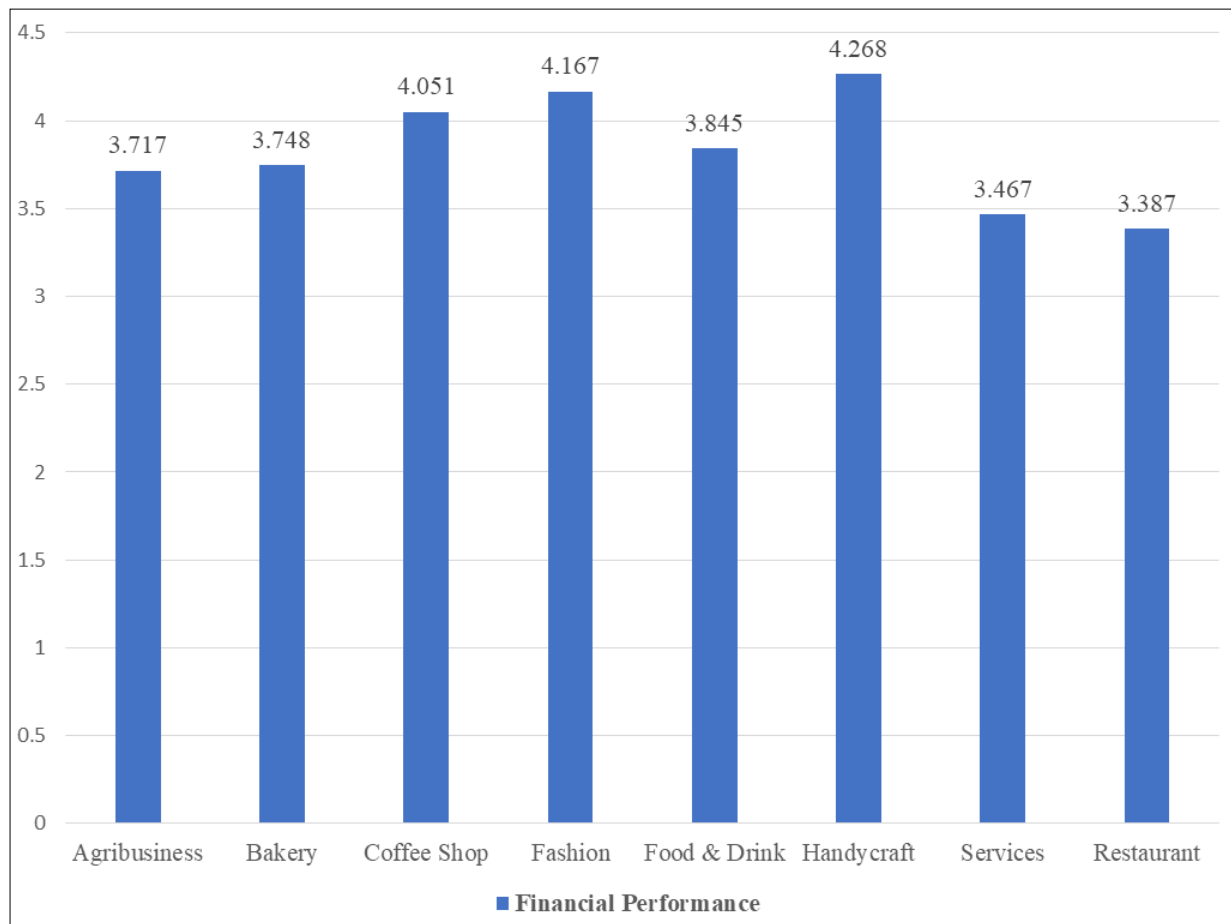
#### Relationship between product categories and leading MSME Performance

The relationship between product categories and leading MSME Performance is given in Table 1 and Figures 2 and 2.

**Table 2:** Relationship between product categories and MSMEs Performance

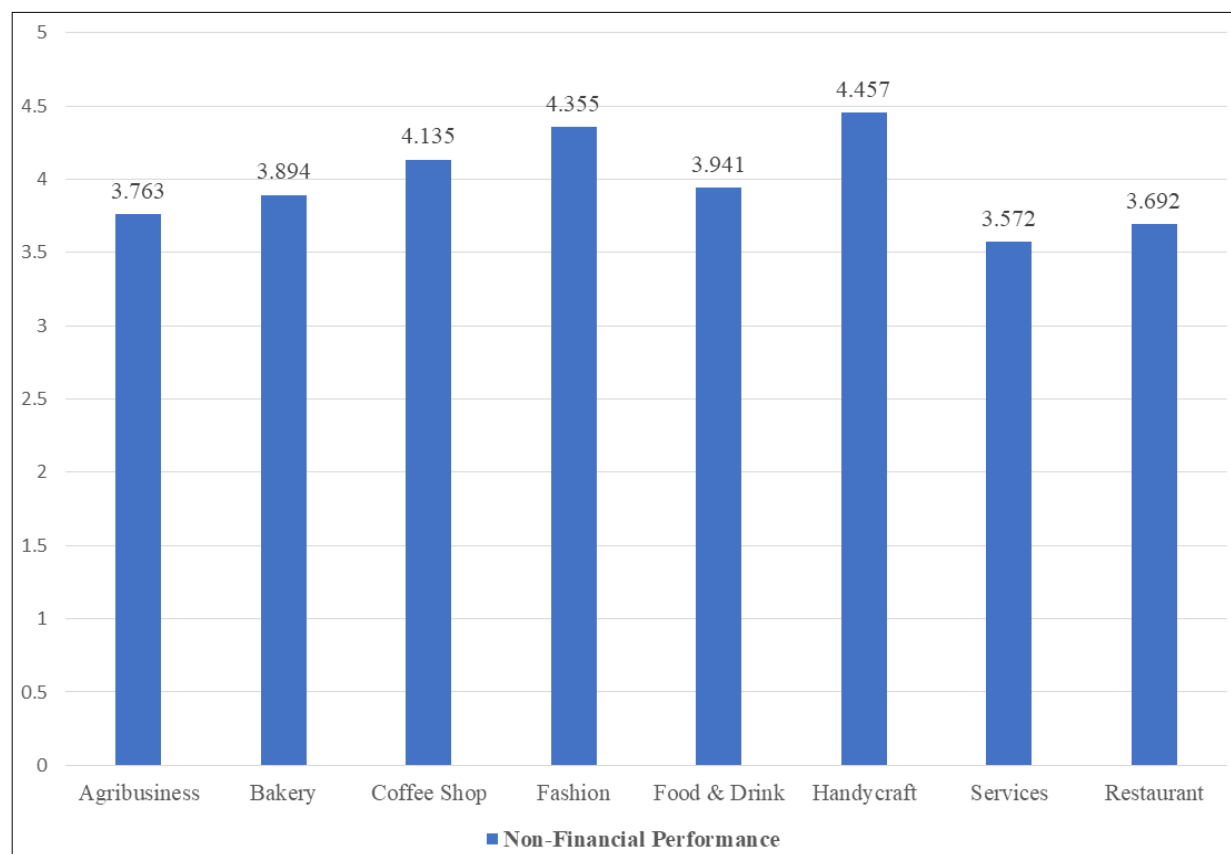
MSME Product Category	Financial Performance	Non-Financial Performance	MSMEs Performance
Agribusiness	3.717	3.763	3.740
Bakery	3.748	3.894	3.821
Coffee Shop	4.051	4.135	4.093
Fashion	4.167	4.355	4.261
Food & Drink	3.845	3.941	3.893
Handy craft	4.268	4.457	4.363
Services	3.467	3.572	3.519
Restaurants	3.387	3.692	3.539
Average	3.781	3.976	3.903

Source: Research result (2023)



Source: Research result (2023)

**Fig 2: Financial Performance**



Source: Research result (2023)

**Fig 3: Non-Financial Performance**

From Table 2 and Figures 2 and 3 it can be seen that in terms of financial performance, handy craft products have an average score (4.268).

Meanwhile in terms of non-financial performance handy craft products have an average score (4.457), Then followed by fashion products, financial performance (4.167), and non-financial performance (4.355). Next, the coffee shop

has financial performance (4.051), and non-financial performance (4.135).

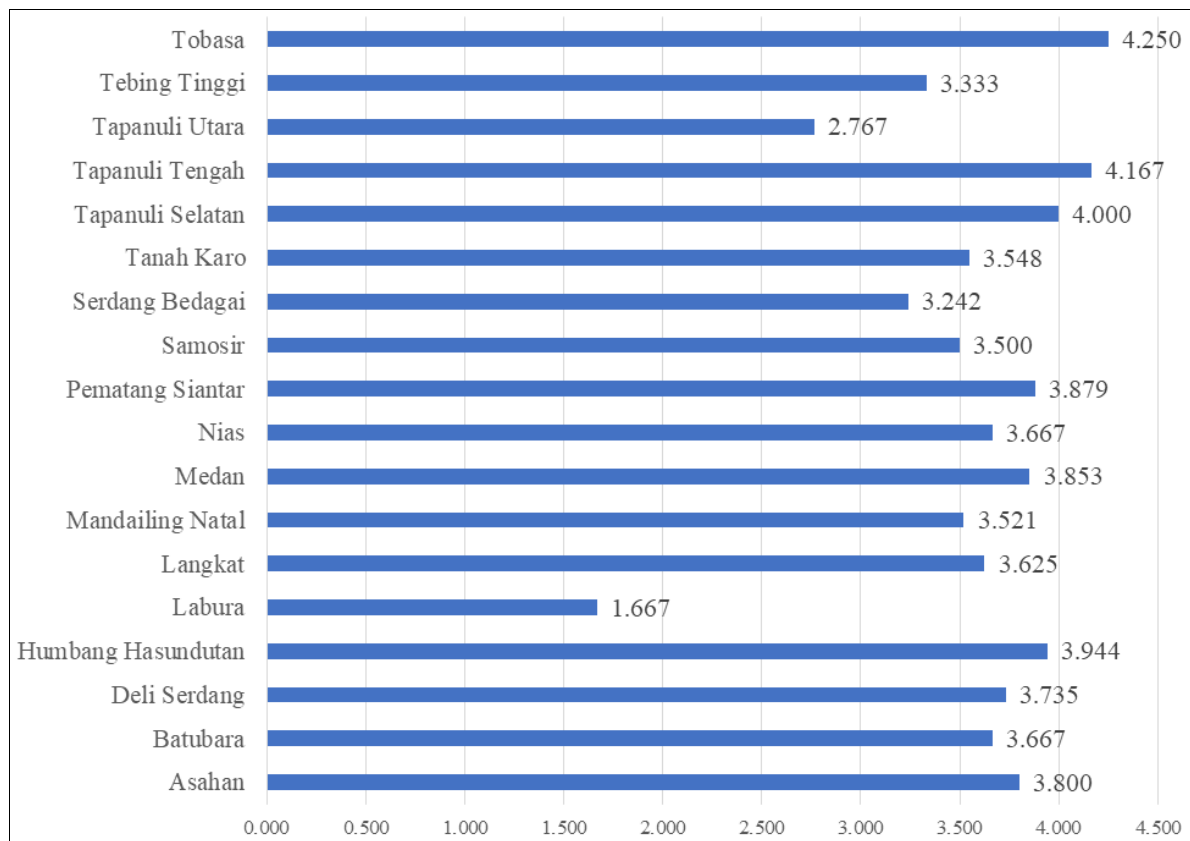
#### Relationship between domicile and leading MSMEs performance

The relationship between domicile and performance of leading MSMEs is presented in Table 2 and Figures 4 and 5.

**Table 2:** Relationship between domicile and leading MSMEs performance

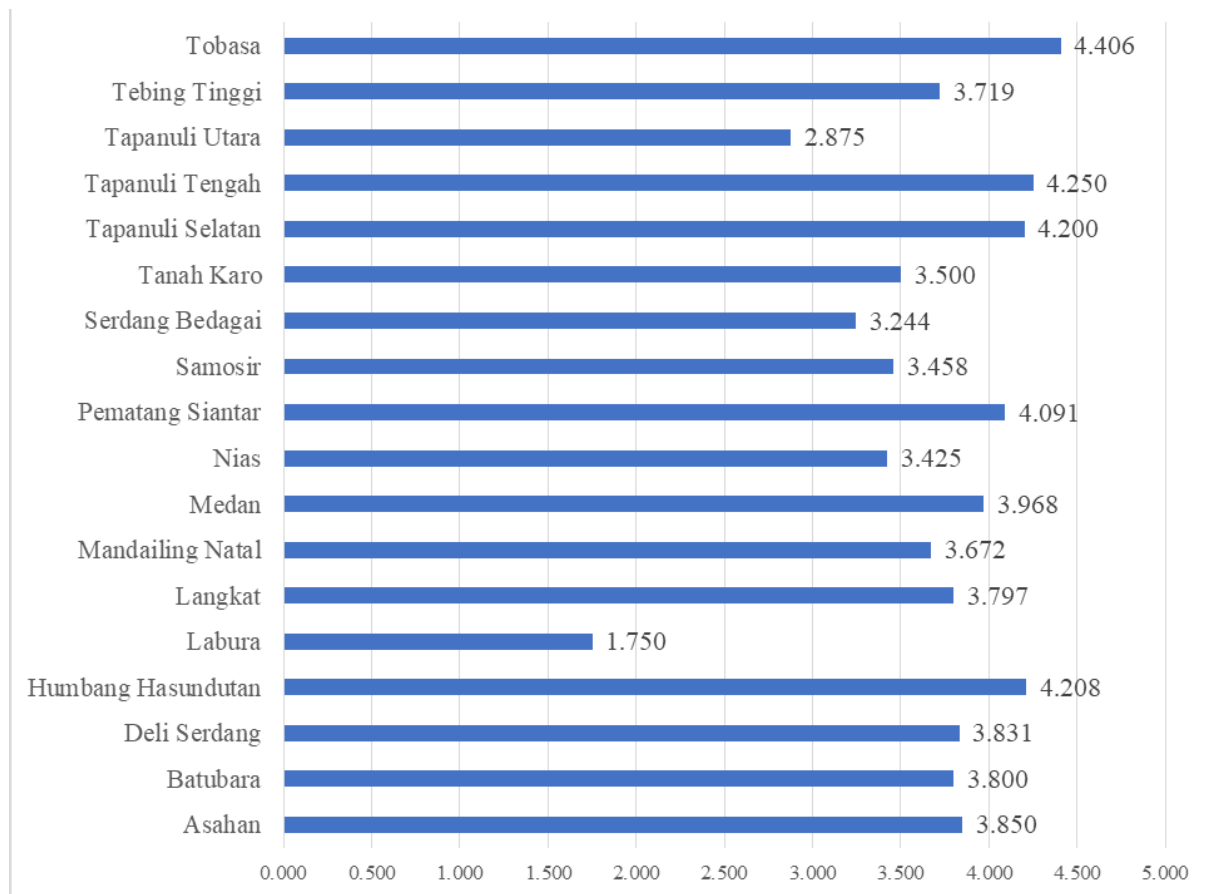
Area	Financial Performance	Non-Financial Performance	MSMEs Performance
Asahan	3.800	3.850	3.829
Batubara	3.667	3.800	3.743
Deli Serdang	3.735	3.831	3.790
Humbang Hasundutan	3.944	4.208	4.095
Labura	1.667	1.750	1.714
Langkat	3.625	3.797	3.723
Mandailing Natal	3.521	3.672	3.607
Medan	3.853	3.968	3.919
Nias	3.667	3.425	3.529
Pematang Siantar	3.879	4.091	4.000
Samosir	3.500	3.458	3.476
Serdang Bedagai	3.242	3.244	3.243
Tanah Karo	3.548	3.500	3.520
Tapanuli Selatan	4.000	4.200	4.114
Tapanuli Tengah	4.167	4.250	4.214
Tapanuli Utara	2.767	2.875	2.829
Tebing Tinggi	3.333	3.719	3.554
Tobasa	4.250	4.406	4.339
Rata-Rata	3.718	3.823	3.778

Source: Research result (2023)



**Fig 4:** Financial Performance





**Fig 5: Non-Financial Performance**

From Table 2 and Figures 4 and 5 it can be seen that in terms of financial performance, Tobasa has an average score (4.250). In terms of non-financial performance, Tobasa has an average score (4.406). Then followed by Central Tapanuli financial performance (4.167), and non-financial performance (4.250). Furthermore South Tapanuli's

financial performance (4.000), and non-financial performance (4.200).

#### Direct Effect

The results of the Smart PLS algorithm in assessing the path coefficient directly are given in Table 3.

**Table 3: Direct Effect**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
Intellectual_Capital -> Innovation_Capability	1.002	1.005	0.083	12.037	0.000
Intellectual_Capital -> MSMEs_Performance	1.179	1.177	0.167	7.065	0.000
Learning_Capability -> Innovation_Capability	0.169	0.169	0.050	3.385	0.000
Learning_Capability -> MSMEs_Performance	0.687	0.687	0.062	11.052	0.000
Entrepreneurial_Marketing -> Innovation_Capability	0.173	0.176	0.078	2.222	0.013
Entrepreneurial_Marketing -> MSMEs_Performance	0.337	0.343	0.120	2.813	0.002
Innovation_Capability -> MSMEs_Performance	0.535	0.525	0.127	4.198	0.000
MSMEs_Performance -> Sustainable Comp Advantage	0.973	0.973	0.005	196.118	0.000

The following is a discussion of each hypothesis test based on the results of the test carried out:

1. The influence of Intellectual Orientation on Innovation Capability ( $p = 0,000 < 0,05$ ) then  $H_0$  is rejected  $H_1$  is received, meaning that there is a positive and significant influence between Intellectual Capital and Innovation Capability.
2. The influence of Intellectual Capital on MSMEs Performance ( $p = 0,000 < 0,05$ ) then  $H_0$  is rejected  $H_1$  is received, meaning that there is a positive and significant influence between Intellectual Capital and MSMEs Performance.
3. The influence of Learning Capability on Innovation Capability ( $p = 0,000 < 0,05$ ) then  $H_0$  is rejected  $H_1$  is received, meaning that there is a positive and significant influence between Learning Capability and Innovation Capability.
4. The influence of Learning Capability on MSMEs Performance ( $p = 0,000 < 0,05$ ) then  $H_0$  is rejected  $H_1$  is received, meaning that there is a positive and significant influence between Learning Capability and MSMEs Performance.
5. The influence of Entrepreneurial Marketing on Innovation Capability ( $p = 0,013 < 0,05$ ) then  $H_0$  is rejected  $H_1$  is received, meaning that there is a positive

- and significant influence between Entrepreneurial Marketing and Innovation Capability.
- The influence of Entrepreneurial Marketing on MSMEs Performance ( $p = 0,002 < 0,05$ ) then  $H_0$  is rejected  $H_1$  is received, meaning that there is a positive and significant influence between Entrepreneurial Marketing and MSMEs Performance.
  - The influence of Innovation Capability on MSMEs Performance ( $p = 0,000 < 0,05$ ) then  $H_0$  is rejected  $H_1$  is received, meaning that there is a positive and significant influence between Innovation Capability and MSMEs Performance.

- The influence of MSMEs Performance on Sustainable Competitive Advantage ( $p = 0,000 < 0,05$ ) then  $H_0$  is rejected  $H_1$  is received, meaning that there is a positive and significant influence between SMEs Performance and Sustainable Competitive Advantage.

### Indirect Effect

Indirect influence is the magnitude of influence through mediating variables. The magnitude of the indirect influence of the independent variables on the dependent variables can be summarized in Table 4.

**Table 4:** Indirect Effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Intellectual_Capital -> Innovation_Capability -> MSMEs_Performance	0.536	0.533	0.153	3.508	0.000
Learning_Capability -> Innovation_Capability -> MSMEs_Performance	0.091	0.089	0.034	2.633	0.004
Entrepreneurial_Marketing -> Innovation_Capability -> MSMEs_Performance	0.092	0.097	0.056	1.652	0.049

Based on Table 4, the research results to answer the research hypothesis are as follows:

- There is an indirect effect from Intellectual Capital on MSME's Performance through Innovation Capability which is 0.0536 with a p-value of  $0.000 < 0.05$ . So Intellectual Capital indirectly has a significant influence on MSMEs' Performance through Innovation Capability.
- There is an indirect effect of Learning Capability on MSMEs' Performance through Innovation Capability which is 0.091, with a p-value of  $0.004 < 0.05$ . So Learning Capability indirectly has a significant effect on MSME's Performance through Innovation Capability.
- There is an indirect influence from Entrepreneurial Marketing on MSME's Performance through Innovation Capability which is 0.092 with a p-value of  $0.049 < 0.05$ . So Entrepreneurial Marketing indirectly has a significant effect on MSME's Performance through Innovation Capability.

### Discussion

Based on results and hypothesis testing, it can be concluded that the research results answer hypothesis 1 Intellectual Capital has a positive and significant effect on Innovation Capability. There is an unidirectional relationship between Intellectual Capital and Innovation Capability. These results are consistent with previous research (Siahaan & Tan, 2020) [31]. To innovate, this company needs knowledge that comes from intellectual capital assets. Knowledge gained from employees, networks, and embedded in an organization's structure or culture used to advance marketing programs, technology skills, and customer-focused strategies, can improve the quality of products or services compared to competitors. Innovation capability acts as a transformer separating organizational assets into much stronger capabilities enabling companies to handle hyper-competition, uncertainty, ambiguity, and short product life cycles. To develop innovation capabilities, companies must

utilize knowledge resources embedded in their organization or company, which originate from human capital (employees), social capital (business networks), and organizational capital (codified knowledge) (Barkat & Beh, 2018) [3].

The research results also answer hypothesis 2 Intellectual Capital has a positive and significant effect on MSME's Performance. There is an unidirectional between Intellectual Capital and MSME's Performance. The higher Intellectual Capital causes the higher MSMEs Performance. These results are in line with the previous research when intellectual capital is increased it will increase stakeholder confidence in the company's survival which can influence the company's stock return (Rehman, Bresciani, Ashfaq, 2021) [27].

The research results answer hypothesis 3 Learning Capability has a positive and significant effect on Innovation Capability. Companies to develop learning capabilities to improve the dissemination and use of knowledge. Through this process, learning abilities can better increase employee creativity and knowledge through collecting, distributing, and using employee knowledge. Ideas generated through interaction between employees enable the creation of an atmosphere that triggers company innovation (Farzaneh *et al*., 2022) [10]; (Muhammad Rizwan Sabir *et al*., 2020; Saunila, 2020; Sulisty & Siyamtinah, 2016; Teece, 2007) [28, 29, 34, 35].

The research results in answer hypothesis 4 Learning Capability has a positive and significant effect on MSME's Performance. The results of this research are in line with what was said by (Sok *et al*, 2013) [32] made a significant contribution to RBV Theory. Resource-based Theory that a firm's ability to develop and deploy various internal capabilities (e.g. marketing innovation, learning capabilities) is important for sustainable growth and profitability. These findings highlight that some MSMEs perform better than other MSMEs that do not rely entirely on developing and deploying learning capabilities. Mbengue & Sane, (2013) [24] emphasizes that organizational learning



is a collection of management techniques that facilitate the learning process or a collection of processes that strengthen the organization's capacity to maintain and improve performance.

The research results answer hypothesis 5 Entrepreneurial Marketing has a positive and significant effect on Innovation Capability. Morris *et al.*, (2002) <sup>[25]</sup> emphasized Entrepreneurial Marketing covers the relationship between entrepreneurship and marketing. This is the combined effect of entrepreneurial orientation and market orientation. Entrepreneurial Marketing is also defined as a theory of effective marketing or adaptation to the special needs of small businesses.

The research results from J.-S. Lee & Hsieh, (2010) <sup>[21]</sup> shows that entrepreneurship has a significant effect on innovation capability. The higher the entrepreneurial spirit possessed by each organization: product innovation, the ability to have initiative, the ability to take risks, and always be active in membership activities, the more likely it will be to encourage the growth of innovation capabilities in product innovation, process innovation, management, and marketing. The research results from Battor & Battor, (2010) <sup>[5]</sup> shows that marketing capabilities have a significant effect on innovation capabilities. Better marketing capabilities in terms of customer relationship management, market analysis, product differentiation, and customer service will further encourage innovation and business performance.

The research results also answer hypothesis 6. Entrepreneurial Marketing has a positive and significant effect on MSME's Performance. The research results from J.-S. Lee & Hsieh, (2010) <sup>[21]</sup> also shows that better entrepreneurship will be more encouraging business performance both financial performance and marketing performance. The research results from (Battor & Battor, 2010) <sup>[5]</sup> shows that customer relationship management has a significant effect on innovation. Meanwhile, innovation has a significant effect on company performance. Previous research has found that Entrepreneurial Marketing leads to increased marketing performance and innovative performance (Hacioglu *et al.*, 2012) <sup>[12]</sup>.

The research results show that hypothesis 7 can be accepted. Innovation Capability has a positive and significant effect on MSME's Performance. The higher the innovation capability in the form of new products, process innovation, management innovation, and marketing innovation, the greater the financial performance. The results of this study consistent with previous research (Battor & Battor, 2010; Calantone *et al.*, 2002; Langerak, 2004; Keskin, 2006) <sup>[5, 7, 18, 20]</sup>.

The research results also answer hypothesis 8. MSME performance has a positive and significant effect on Sustainable Competitive Advantage. The higher innovation capability will produce greater MSME performance. Better MSME performance is going to produce a better sustainable competitive advantage.

## Conclusion

Intellectual Capital has a positive and significant on Innovation Capability and also on MSME's Performance. There is a unidirectional relationship between Intellectual and Innovation Capability as well as MSME performance. The three dimensions of Intellectual Capital: human capital,

organizational capital, dan relational capital must be the focus and attention of business owners.

Learning Capability has a positive and significant effect on Innovation Capability, MSMEs Performance, and also to Sustainable Competitive Advantage. There is a unidirectional relationship between Learning Capability and Innovation Capability, MSME performance, and also to Sustainable Competitive Advantage. The higher learning capability causes the higher innovation capability, likewise, the better learning capability causes the better MSME performance. Companies need to develop learning capabilities to improve the dissemination and use of knowledge.

Entrepreneurial Marketing has a positive and significant effect on Innovation Capability and also on MSME performance. There is a unidirectional relationship between Entrepreneurial Marketing and Innovation Capability and also MSME performance. calculated risk-taking, customer intensity, and value creation. Entrepreneurial Marketing is the proactive identification and exploration of opportunities to acquire and retain profitable customers through an innovative approach to calculated risk-taking, customer intensity, and value creation.

Innovation Capability has a positive and significant effect on MSME's Performance. There is a straight-line relationship between innovation capability and MSMEs' performance. The stronger innovation capability causes the stronger MSMEs performance. From the indirect influence, Innovation Capability as an intervening variable can mediate the relationship between three antecedent variables: Intellectual Capital, Learning Capability, and Entrepreneurial Marketing have a positive and significant effect on MSME's Performance.

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