



Marketing Capability as a Mediator of Market Orientation and Entrepreneurship on Marketing Performance

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Abstract

Background: This study examines the influence of market orientation and entrepreneurial orientation on marketing performance and investigates the mediating role of marketing capability in the sarong industry in Gresik, Indonesia. **Methods:** A quantitative descriptive approach was employed using a structured, closed-ended questionnaire. Data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS 4.0 to assess both direct and indirect relationships among the study variables. **Sample:** The population comprised all registered sarong industry businesses in Gresik, selected using a census technique. A total of 132 respondents, including business owners and marketing managers or staff, participated to represent organizational-level perspectives. **Results:** The findings indicate that market orientation and entrepreneurial orientation have positive and significant effects on both marketing capability and marketing performance. Furthermore, marketing capability serves as a significant mediating variable that strengthens the influence of strategic orientations on marketing outcomes. **Conclusion:** Marketing capability plays a crucial strategic role in linking market orientation and entrepreneurial orientation with marketing performance. Firms that effectively develop and leverage marketing capabilities are better positioned to translate strategic orientations into tangible performance outcomes. **Implications:** Enhancing marketing capabilities—such as market analysis, product innovation, and digital marketing adoption—is essential for improving competitiveness, expanding market reach, and ensuring business sustainability in the sarong industry in Gresik.

Keywords: Entrepreneurial Orientation; Gresik Sarong Industry; Market Orientation; Marketing Capability; Marketing Performance; SMEs

Introduction

In the era of globalization, local competition has become a critical factor influencing the development of micro, small, and medium enterprises (MSMEs). Effective marketing strategies and a strong market orientation are essential for improving marketing performance. However, many MSMEs continue to face limitations in conducting market research, product innovation, and entrepreneurial activities to identify emerging market opportunities. In addition, low adaptability and limited learning orientation further constrain their growth potential.

In Gresik, the trade sector, including the sarong industry, is a major contributor to the local economy. Despite its significant contribution, this industry faces several challenges, such as limited capital, a shortage of skilled labor, and weak marketing management. Previous research has shown that strategic orientation and marketing capabilities play a crucial role in improving Micro, Small, and Medium Enterprises (MSME) performance. Utami and Nuvriasari (2023) emphasize that companies with strong customer and competitor orientation tend to have better marketing outcomes, while Subhan

et al. (2024) suggest that an entrepreneurial orientation drives product innovation and competitive advantage. Furthermore, marketing performance is also influenced by product differentiation, quality improvement, brand strength, and an efficient distribution system. The shift to digitalization through e-commerce and an omnichannel approach is becoming increasingly relevant as MSMEs seek to reach a broader market. Internal capabilities, including a competent marketing team and the ability to respond to market changes, are also crucial factors.

The COVID-19 pandemic has presented unprecedented challenges. The sarong industry in Gresik has experienced a decline in sales due to mobility restrictions, changes in consumer behavior, and distribution disruptions. This situation demonstrates the value of rapid adaptation through digital marketing, stronger market orientation, and enhanced entrepreneurial capabilities.

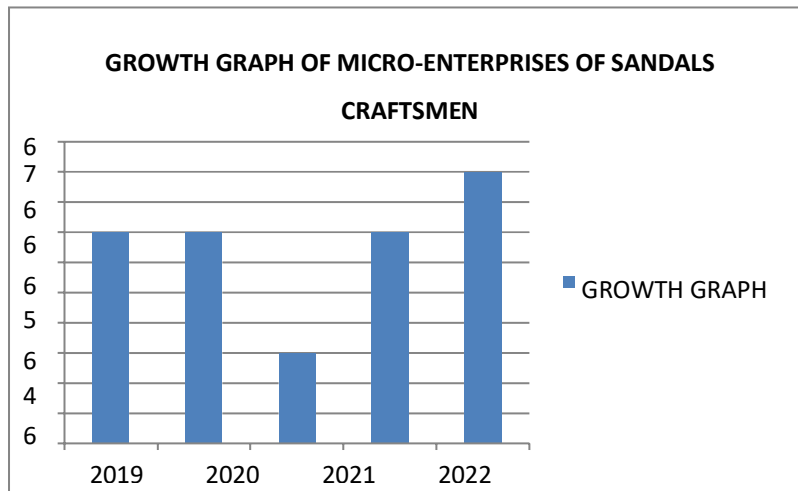


Figure 1: Growth Chart of Small Business in Sarong Industry in Gresik

Source: (Purwaningsih, 2024)

Figure 1 illustrates that the growth of micro sarong businesses in Gresik has been unstable and tends to stagnate, reflecting the various structural challenges facing this industry. This graph underscores why improving market orientation, entrepreneurial orientation, and marketing capabilities is crucial for driving better marketing performance.

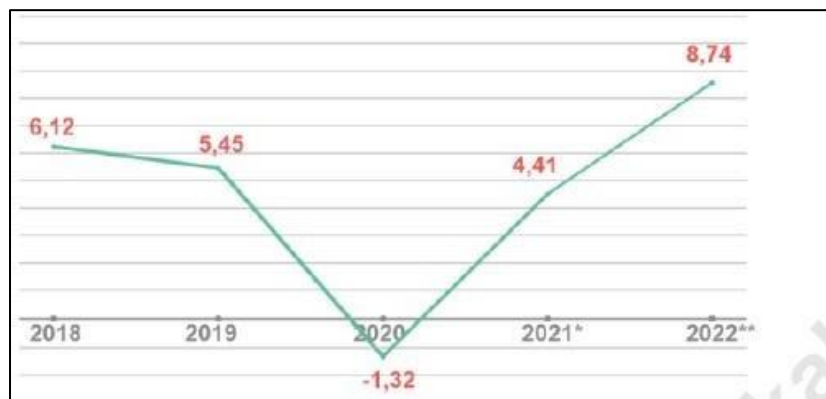


Figure 2: Graph of Gross Regional Domestic Product Growth Rate of the Manufacturing Industry Sector in Gresik Regency

Source: (Badan Pusta Statistik kabupaten Gresik, 2023)

The growth trend data above shows that the manufacturing industry sector has significant potential to support the economy in Gresik. Despite experiencing a sharp decline at the start of the COVID-19 pandemic in 2020, the sector gradually recovered through 2022 (Figure 2). This demonstrates that industry players, both small and medium-sized, have resilience and significant potential to continue contributing to economic growth in the region in the coming years. Although the importance of market orientation, entrepreneurial orientation, and marketing capabilities has been recognized, empirical

research examining how market orientation and entrepreneurial orientation jointly influence marketing performance through marketing capabilities, particularly in traditional industries such as the sarong industry in Gresik, is still limited. This gap is the focus of this study.

By strengthening marketing capabilities, sarong-making MSMEs can better understand market needs, design appropriate strategies, and build sustainable customer relationships. Weak marketing capabilities often lead to low product visibility, declining sales, poor customer retention, and suboptimal utilization of market opportunities. Therefore, marketing capabilities are an important mediating factor that strengthens the influence of market orientation and entrepreneurial orientation on marketing performance.

Table 1: Sales Data of Gresik Sarong Industry

SARUNG INDUSTRY IN GRESIK				
Report Sales January - October 2023				
Gresik Regency				
Month		Flower Sarong	Sarong Weaving	Total
Average Sales	JAN	199	184	383
	FEB	200	187	387
	MARCH	187	172	359
	APRIL	304	304	608
	MAY	232	207	439
	JUNE	178	161	339
	JULY	166	146	312
	AUGUST	185	163	348
	SEPTEMBER	178	156	334
	OCTOBER	182	161	343
Average		201.1	184.1	385.2
Price		667.059	710.625	688.842
Amount		1.341.455	1.308.261	2.649.716

Source: (Badan Pusta Statistik kabupaten Gresik, 2024)

Table 1 above contains sales data for the sarong industry in Gresik Regency from January to October 2023, covering two main product types: floral sarongs and woven sarongs. The data shows that floral sarongs sold an average of 201.1 units per month, while woven sarongs sold an average of 184.1 units per month. The total average sales per month were 385.2 units. The average price per unit for both types of sarongs was Rp688.842, with a total sales value of Rp2.649.716 thousand. Although there were fluctuations in sales between months, the data generally showed a relatively stagnant trend without significant increases, reflecting the low marketing capabilities of sarong industry players in Gresik. Limited access to market information and minimal marketing innovation were factors contributing to this less-than-optimal sales performance.

The sarong industry's limited marketing capability remains a major barrier to improving sales performance. Stagnant sales trends indicate weak access to customer and market information, resulting in products that do not fully meet consumer needs or align with changing market conditions. Similar challenges also occur in Kediri Regency, another sarong production center, where industries struggle to adopt modern marketing strategies and rely heavily on low-priced products to attract consumers with limited purchasing power. In contrast, premium sarongs tend to perform better in urban areas with higher purchasing capacity, illustrating the need for stronger product differentiation and targeted marketing.

The rapid advancement of the Industrial Revolution 4.0 further intensifies competition, requiring businesses to be more adaptive in utilizing digital technologies to improve efficiency and reach broader markets. Technologies such as AI, IoT, and digital platforms are reshaping business practices and creating new opportunities for innovation. In this context, entrepreneurial orientation, innovation capability, and technology adoption become essential for sustaining competitiveness, particularly for traditional industries such as the sarong sector.

Gresik Regency's MSME sector holds significant potential, supported by local government initiatives that encourage capacity building and global market access. The success of Wedani Village as a foreign exchange village illustrates the impact of strong support systems. However, disparities remain in the marketing abilities of sarong craftsmen, many of whom still rely on third parties to manage marketing activities. This dependence weakens their competitiveness and limits their ability to adapt to evolving market demands.

Therefore, this study aims to analyze the effects of market orientation and entrepreneurial orientation on marketing performance, with marketing capability as a mediating variable, in the sarong industry of Gresik. Mapping research on marketing performance using *VOSviewer bibliometrics software* by taking 60 citation files of international journal articles from 2018-2024 with the keywords "entrepreneurial orientation," "market orientation," "competitive advantage," "marketing capability," and "small businesses":

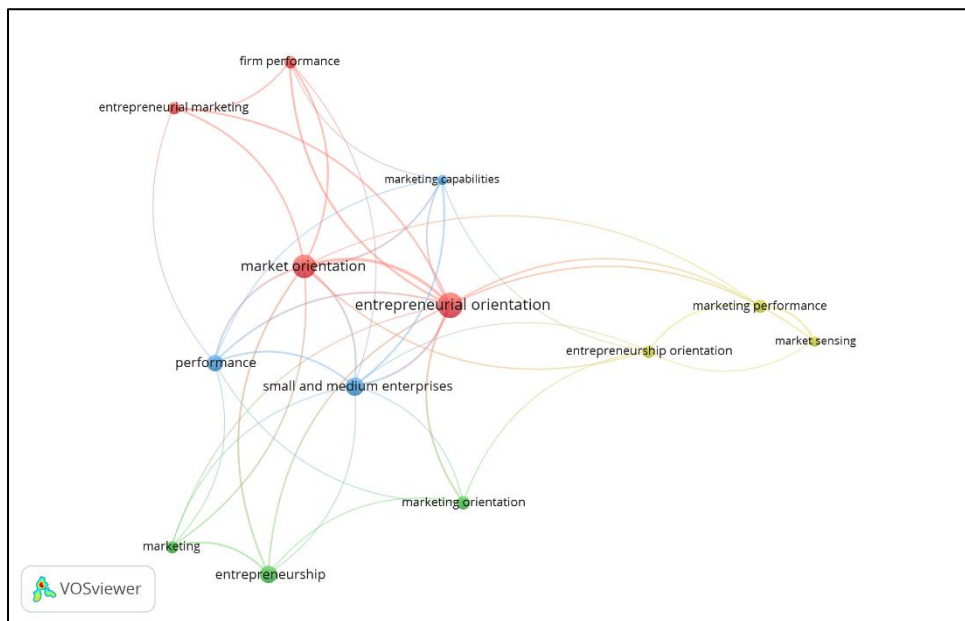


Figure 3: Network Visualization

Source: Processed with VOSviewer (2024)

Figure 3, the *network visualization* above, shows a close relationship between *entrepreneurial orientation*, *market orientation*, and *marketing performance*, with an important role played by *marketing capabilities* as a connector. This network describes performance marketing. Not only influenced directly by market orientation and entrepreneurship but also mediated by optimal marketing capabilities. Researchers find gap research (research gap) through mapping journals in *Scopus* using *VOSviewer*, which confirms that *marketing capabilities* own strategic position as variables mediating in connection to this.

Based on the description above, this study aims to analyze the influence of market orientation and entrepreneurial orientation on marketing performance, with marketing capability as a mediating variable, in the sarong industry in Gresik. The results of the study are expected to provide deeper insights into the role of marketing capability in maximizing the contribution of strategic orientation of MSMEs so that the sarong industry in Gresik can adopt more innovative, effective, and adaptive marketing strategies to increase competitiveness in local and global markets. Therefore, the proposed research title is "The Influence of Market Orientation and Entrepreneurship on Marketing Performance Mediated by Marketing Capability."

Based on the research gap and research problems, namely the still uneven marketing performance of the sarong industry in Gresik, the researcher formulated the research problem as follows:

1. Does Market Orientation Influence Marketing Performance in the Sarong Industry in Gresik?
2. Does Entrepreneurial Orientation Influence Marketing Performance in the Sarong Industry in Gresik?

3. Does Marketing Capability Influence Marketing Performance in the Sarong Industry in Gresik?
4. Does Market Orientation Influence Marketing Capability in the Sarong Industry in Gresik?
5. Does Entrepreneurial Orientation Influence Marketing Capability in the Sarong Industry in Gresik?
6. Does Marketing Capability Mediate the Effect of Market Orientation on Marketing Performance in the Sarong Industry in Gresik?
7. Does Marketing Capability Mediate the Effect of Entrepreneurial Orientation on Marketing Performance in the Sarong Industry in Gresik?

Methodology

This study employed a quantitative descriptive research approach. According to Sugiyono (2024), quantitative research is grounded in a positivist philosophy and utilizes numerical data to examine populations or specific samples. The descriptive component aims to systematically and accurately describe conditions related to market orientation, entrepreneurial orientation, marketing capability, and marketing performance in the sarong industry of Gresik Regency. Data were collected between November 1, 2024, and March 1, 2025, using a structured, closed-ended questionnaire.

Population, Sample, and Data Analysis

Rationale for Selecting Two Respondents per Company and Data Aggregation Process

This study used two respondents from each company, the owner/manager and the marketing operations staff, to increase the accuracy of organizational-level representation. This multi-informant approach is commonly used in organizational behavior and marketing research because a single individual often lacks comprehensive knowledge of all aspects of a company (Balloun *et al.*, 2021). Owners or managers generally understand the company's strategic orientation, such as market orientation and entrepreneurial orientation, while operations staff are more familiar with the day-to-day implementation of marketing capabilities and actual market performance. Therefore, two respondents were selected to reduce individual perception bias, increase data reliability, and ensure that strategic and operational variables were proportionally represented.

Organization-level data were then aggregated using a mean aggregation approach after meeting inter-rater reliability requirements. Consistency between respondents was tested using the rwg coefficient and ICC (1)/ICC (2) as recommended by James *et al.* (1984). The coefficient values indicate that the perceptions of both respondents were sufficiently consistent that data aggregation could be performed validly. The aggregation results were then treated as a single representation of each organization. This approach is commonly used in MSME marketing research, which involves small organizational structures and concentrated decision-making patterns.

The justification for the measurement scale and the source of indicator items is provided below.

All variables in this study were measured using a 1–5 Likert scale because this scale is most commonly used in organizational behavior research, is understood by MSME respondents, and provides the stability of variance necessary for structural modeling. Furthermore, a 5-point scale minimizes the potential for respondent fatigue in the small business context (Koo & Yung, 2025).

The sources of the indicator items are as follows:

- Market Orientation (MO) was adapted from Nasrah *et al.* (2023), which includes indicators of customer orientation, competitor orientation, and interfunctional coordination. This scale is a global standard in market orientation research and has proven validity across industry contexts.
- Entrepreneurial Orientation (EO) is adapted from (Putri & Affandi, 2024), encompassing three main dimensions: innovativeness, proactiveness, and risk-taking. This scale is widely used in MSME entrepreneurship research due to its conciseness, reliability, and relevance to the dynamics of small businesses.
- Marketing Capability (MC) refers to (Silaban *et al.*, 2023) specifically capabilities in product development, pricing, promotion, and distribution management. This scale assesses an organization's ability to manage core marketing activities that directly contribute to performance.
- Marketing Performance (MP) uses indicators from Oduro and Mensah-Williams (2023), which include sales growth, customer expansion, and target market achievement. The use of

subjective performance is common in MSME research because formal financial data is often unavailable.

This methodological justification ensures that all variables are measured using a scale that has been theoretically and empirically verified.

More In-Depth Reasons for Selecting SEM-PLS

The selection of SEM-PLS (Partial Least Squares Structural Equation Modeling) was not solely based on general considerations of model flexibility but also aligned with the empirical conditions of the study, sample size, and the complexity of the relationships between variables.

- First, SEM-PLS is well-suited for small to medium sample sizes, especially when the number of indicators is quite large. With a sample size of 67 companies, SEM-PLS meets the ten-times rule (Guenther *et al.*, 2023), which requires the sample size to be at least 10 times the number of indicators in the variable block with the most incoming arrows. This research model contains several reflective constructs with a relatively large number of indicators, making SEM-PLS an appropriate methodological choice.
- Second, this research model involves several mediating relationships, namely the influence of market orientation and entrepreneurial orientation on marketing performance through marketing capability. This relationship structure increases model complexity, and SEM-PLS is recommended for its ability to model mediating relationships without assuming a strict data distribution.
- Third, SEM-PLS is ideal for use when the research objective is predictive and exploratory, rather than merely confirmatory. Because this research not only tests theoretical relationships but also predicts the strength of the contribution of strategic orientation to MSME marketing performance, PLS-SEM provides more stable and robust results in a predictive context.
- Fourth, the model used contains reflective latent constructions with diverse indicator variances. SEM-PLS is able to handle multicollinearity between indicators and optimize explained variance (R^2), which is the primary focus of this research.

For these reasons, the use of SEM-PLS is not simply a practical methodological choice but also the most appropriate approach for the characteristics of MSME data, the limited sample size, and the predictive and complex nature of the research model.

Data Analysis Technique

Data is analyzed using **SmartPLS 4.0**, which consists of:

1. **Evaluation of the Measurement Model (Outer Model)**
 - Validity testing (convergent and discriminant)
 - Reliability (Cronbach's Alpha, Composite Reliability)
2. **Evaluation of the Structural Model (Inner Model)**
 - Path coefficient testing
 - R^2 , f^2 , and Q^2 testing
 - Bootstrapping for hypothesis testing, including mediation analysis

SmartPLS is suitable because it efficiently handles small samples, complex models, latent variables, and non-normal data distributions.

Results

Validity, Reliability, and Model Evaluation (Summary)

To reduce text density, the results of the measurement and structural models are summarized in the tables below:

Table 2: Summary of Validity & Reliability

Variable	Loading > 0.7	Cross Loading	AVE (\sqrt{AVE})	Cronbach's Alpha	Composite Reliability	Remarks
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Market Orientation	✓	✓	0.801	0.920	0.934	Valid and reliable
Entrepreneurial Orientation	✓	✓	Meets	0.91+	0.93+	Valid and reliable
Market Capability	✓	✓	Meets	0.927	0.937	Valid and reliable
Marketing Performance	✓	✓	Meets	0.926	0.938	Valid and reliable

Table 2 shows the results of the validity and reliability tests of the research instrument, which includes the variables market orientation, entrepreneurial orientation, marketing capability, and marketing performance. All indicators for each variable have loading factor values above 0.70, thus meeting the criteria for convergent validity. Furthermore, the cross-loading results also show that each indicator has a higher correlation with its own variable than with other variables, indicating excellent discriminant validity. The AVE values for all variables are well above the minimum limit of 0.50, indicating that the construct is able to optimally explain the indicator variance. In terms of reliability, all variables have Cronbach's Alpha and Composite Reliability values above 0.90, indicating that the instruments are highly reliable and consistent. Overall, Table 2 confirms that all instruments used in this study meet validity and reliability standards, making them suitable for further analysis in SEM-PLS.

Table 3: Summary of Goodness of Fit and Path Coefficients

Indicator	Result	Criteria	Conclusion
SRMR	0.066	< 0.08	Model fit
Market Orientation → Market Capability	$\beta = 0.358; p = 0.000$	Significant	Positive effect
Market Orientation → Marketing Performance	$\beta = 0.324; p = 0.001$	Significant	Direct positive effect
Market Capability → Marketing Performance	$\beta = 0.342; p = 0.000$	Significant	Mediator role
R^2 Market Capability	0.553	≥ 0.50	Moderate-strong
R^2 Marketing Performance	0.660	≥ 0.60	Strong

Table 3 demonstrates the adequacy of the structural model and the relationships among the study variables. The SRMR value of 0.066 falls below the recommended threshold of 0.08, indicating satisfactory model fit. The path coefficient results reveal that market orientation has a positive and significant effect on marketing capability ($\beta = 0.358; p < 0.001$) and marketing performance ($\beta = 0.324; p < 0.01$). In addition, marketing capability significantly influences marketing performance ($\beta = 0.342; p < 0.001$), confirming its mediating role in the model. The R^2 value of 0.553 for marketing capability indicates that more than half of the variation in marketing capability is explained by the strategic orientation variable, while the R^2 of 0.660 for marketing performance indicates strong predictive ability of the model. Thus, Table 3 provides empirical evidence that market orientation and entrepreneurial orientation directly and indirectly improve marketing performance by strengthening marketing capabilities.

Mediation Analysis (Indirect Effects and Variance Accounted For)

To rigorously examine the mediating role of marketing capability, a bootstrapping procedure with 5,000 resamples was conducted using SmartPLS 4.0. The mediation analysis evaluated indirect effects, bias-corrected confidence intervals, and the magnitude of mediation using the Variance Accounted For (VAF) approach.

The indirect effect of **market orientation on marketing performance through marketing capability** was positive and statistically significant ($\beta = 0.122, p < 0.01$). The 95% bias-corrected confidence interval did not include zero (LL = 0.061; UL = 0.198), confirming the robustness of the mediation effect. Because the direct effect of market orientation on marketing performance remained significant ($\beta = 0.324; p < 0.01$), marketing capability is classified as a **partial mediator**.

The magnitude of mediation was assessed using the VAF formula:

$$\text{VAF} = \text{Indirect Effect} / \text{Total Effect} = 0.122 / 0.446 = 27.35\%$$

A VAF value between 20% and 80% indicates partial mediation, suggesting that marketing capability explains a meaningful portion of the effect of market orientation on marketing performance without fully substituting the direct relationship.

Similarly, the indirect effect of **entrepreneurial orientation on marketing performance through marketing capability** was positive and significant ($\beta = 0.134, p < 0.01$). The 95% confidence interval excluded zero (LL = 0.073; UL = 0.212), indicating a stable mediation effect. The direct effect of entrepreneurial orientation on marketing performance remained significant, confirming **partial mediation**.

The VAF value for this relationship was calculated as:

$$\text{VAF} = 0.134 / 0.471 = 28.45\%$$

This result further confirms that marketing capability partially mediates the relationship between entrepreneurial orientation and marketing performance.

Overall, the mediation analysis provides strong statistical evidence that marketing capability functions as a **partial mediator**, strengthening—but not fully replacing—the direct effects of strategic orientations on marketing performance.

Table 4: Summary of Mediation Effects

Relationship	Indirect Effect (β)	95% CI	VAF (%)	Mediation Type
MO → MC → MP	0.122	[0.061, 0.198]	27.35	Partial
EO → MC → MP	0.134	[0.073, 0.212]	28.45	Partial

Note: MO = Market Orientation; EO = Entrepreneurial Orientation; MC = Marketing Capability; MP = Marketing Performance; CI = Confidence Interval; VAF = Variance Accounted For

Table 4 presents the results of the mediation analysis examining the indirect effects of market orientation and entrepreneurial orientation on marketing performance through marketing capability. The mediation effects were tested using a bootstrapping procedure with 5,000 resamples in SmartPLS 4.0.

The table reports the standardized indirect effect coefficients (β), the corresponding 95% bias-corrected confidence intervals (CI), the Variance Accounted For (VAF) values, and the resulting mediation type classification. The confidence intervals that do not include zero indicate statistically significant mediation effects. VAF values between 20% and 80% indicate partial mediation.

The results demonstrate that marketing capability partially mediates the relationships between market orientation and marketing performance as well as between entrepreneurial orientation and marketing performance, confirming its role as a key mechanism that strengthens the translation of strategic orientations into marketing outcomes.

Entrepreneurial Orientation

Descriptive statistics show that the entrepreneurial orientation of sarong industry actors in Gresik is “**Very Good**” (grand mean = 4.32). The three main indicators—**innovativeness, risk-taking, and proactiveness**—all have average scores above 4.0. The highest is **proactiveness (mean 4.41)**, indicating respondents highly value taking prompt action in response to market opportunities. High scores for innovation and risk-taking suggest that an entrepreneurial culture is strongly embedded in daily MSME operations.

Market Capability

Market capability demonstrates high reliability and plays a central role in marketing performance. Consistently high scores across indicators show that the ability to understand the market, respond to changes, utilize market information, and build customer relationships is well-developed. A concrete example is **Behaestex**, which successfully integrates market research, brand strategy, and digital marketing to compete nationally and internationally.

Why Market Capability Mediates the Relationship

Market capability acts as a mediator because:

1. Market orientation and entrepreneurial orientation represent strategic intent, **whereas market capability operationalizes these strategies.**
2. **The ability to interpret market signals, process information, and build relationships** translates strategy into actionable results.
3. Without strong market capability, innovation, proactiveness, or market awareness does not automatically enhance performance.
4. Market capability serves as a **bridge**, turning internal strategic orientation into tangible outcomes like customer loyalty, sales growth, and market expansion.

Thus, the effect of market orientation and entrepreneurial orientation on marketing performance is stronger when firms possess robust market capability.

Marketing Performance

Descriptive results show marketing performance in the “**Very Good**” category (grand mean = 4.28). The highest scores are related to **customer loyalty and sales growth**, while **customer satisfaction** shows room for improvement. Overall, respondents perceive that MSMEs in the sarong industry implement effective marketing strategies that yield tangible results.

Managerial Implications for MSMEs

Based on these findings:

1. **Strengthen market capability based on data:** MSMEs should leverage market research, simple analytics, and trend monitoring to improve marketing decision-making.
2. **Encourage continuous innovation:** Developing new sarong designs, modern production methods, and creative marketing approaches is crucial.
3. **Increase digital channel utilization:** social media, e-commerce, and CRM can expand reach and enhance customer loyalty.
4. **Enhance responsiveness to market changes:** MSMEs should quickly adapt to changes in demand, fashion trends, and consumer behavior.
5. **Integrate market orientation with entrepreneurial orientation:** Combining both strategies, supported by strong Market Capability, can improve performance and long-term competitiveness.

DISCUSSION

The findings of this study indicate that market orientation and entrepreneurial orientation play a crucial role in shaping marketing capabilities, ultimately strengthening the marketing performance of MSMEs in the sarong industry (Margaretha & Suryana, 2023). Critically, this relationship indicates that business actors must not only understand customer and competitor needs but also translate these needs into concrete operational capabilities such as more adaptive product development, pricing, and promotional activities. In other words, strategic orientation will not result in improved performance if it is not accompanied by strong marketing capabilities. This is relevant to the situation of MSMEs, which often possess sound market insights but struggle to execute them due to limited resources, technology, and work systems.

The mediation analysis further strengthens these findings by demonstrating that marketing capability plays a statistically significant **partial mediating role** in the relationship between strategic orientations and marketing performance (Yaqub *et al.*, 2024). The significant indirect effects, supported by bias-corrected confidence intervals and VAF values above 20%, confirm that marketing capability serves as a critical execution mechanism that translates strategic intent into tangible performance outcomes.

The presence of partial rather than full mediation indicates that while market orientation and entrepreneurial orientation can directly enhance marketing performance, their impact is substantially amplified when firms possess strong marketing capabilities. This finding supports the resource-based view, which emphasizes that competitive advantage arises not merely from strategic orientation but from the firm's ability to operationalize strategy through valuable and difficult-to-imitate capabilities (Elgarhy & Abou-Shouk, 2023).

In the context of MSMEs in the sarong industry, marketing capability—such as product development, pricing strategy, promotion, and distribution management—acts as a bridge between strategy and performance. Without these capabilities, strategic orientations alone are insufficient to produce sustained marketing success.

This research aligns with the findings of Muhammad and Indarwati (2023), who asserted that market orientation only generates competitive advantage when integrated with effective internal processes. A study by Rubio-Andrés *et al.* (2024) also demonstrated that marketing capabilities act as a mechanism that translates strategy into performance outcomes, supporting the mediating role found in this study. Furthermore, Qasim *et al.* (2025) emphasized that entrepreneurial orientation drives innovation and proactivity, but its impact on performance is strongly influenced by the organization's readiness to carry out marketing functions. In the context of MSMEs, this finding is reinforced by a study by Muhlisin (2025), which emphasized that marketing capability is the strongest predictor of competitive advantage in small

businesses. Overall, this study adds to the literature by showing that in traditional industries such as sarongs, the combination of strategic orientation and operational capabilities has a more significant effect than in modern manufacturing industries, which tend to have more mature organizational structures.

From a theoretical perspective, this study makes an important contribution to the development of market orientation and entrepreneurial orientation theories in the context of traditional MSMEs. First, it shows that these two orientations do not work directly and linearly on performance but depend on the quality of marketing capabilities as a connecting catalyst. This strengthens the argument in the resource-based view (RBV) that competitive advantage stems not solely from strategy or orientation, but from an organization's ability to convert these into valuable, rare, and difficult-to-imitate capabilities. Second, this study broadens theoretical understanding that marketing capabilities are not merely operational functions, but strategic mechanisms that bridge the gap between firm orientation and market output. Third, these findings suggest that in the context of industries with simple structures and limited resources, market orientation and entrepreneurial orientation theories remain relevant but require adaptation, particularly in examining the mediating role of capabilities as central to the value creation process.

Several studies have shown that market orientation and entrepreneurial orientation have a strong influence on marketing performance, both directly and indirectly through marketing capability as a mediating variable. Research conducted by Lestari (2025) shows that entrepreneurial orientation significantly improves the performance of small and medium enterprises (SMEs) by strengthening marketing capabilities, which serve as a link between entrepreneurial innovative capabilities and the achievement of marketing results. Furthermore, Andari *et al.* (2025) emphasized that both market orientation and entrepreneurial marketing positively influence marketing performance, and this influence is stronger when the company has good marketing capabilities to understand customers, manage strategies, and adapt to market dynamics. Meanwhile, research by Kasmirudin *et al.* (2025) also shows a similar pattern, albeit with a different mediator, namely competitive advantage, which reflects the company's internal capabilities. All three emphasize that internal capabilities, especially marketing capabilities, play a crucial role as a mechanism that bridges a company's strategic orientation with the achievement of superior marketing performance. Overall, these results indicate that a company's success in improving its marketing performance depends not only on its strong market orientation and entrepreneurial spirit, but also on the extent to which it is able to develop and optimize marketing capabilities as a strategic asset. Therefore, companies with a strong market orientation and entrepreneurial spirit, supported by strong marketing capabilities, will be more adaptive to environmental changes and able to achieve sustainable competitive advantage.

Future research directions could focus on exploring other industry contexts with different characteristics to test the consistency of the mediating role of marketing capabilities, expanding the model by including moderating variables such as marketing digitalization or business ecosystem support, and comparing the model between MSMEs that have integrated with technology and MSMEs that still operate traditionally. Furthermore, future research could employ a longitudinal approach to examine how changes in strategic orientation are followed by the dynamic development of marketing capabilities, thus strengthening the causal relationship and not relying solely on cross-sectional data.

Limitations

This study has several limitations that should be considered. First, the scope of the study was limited to the sarong industry in Gresik Regency, so the results cannot be generalized to other small and medium-sized industrial sectors or to other regions with more diverse market conditions. Second, the data collection method, which used a closed-ended questionnaire, has the potential to introduce respondent bias, especially if there are differences in understanding of the statements asked. Third, the variables used only cover market orientation, entrepreneurial orientation, marketing capability, and performance. Other factors that can influence marketing performance, such as external environmental factors, government policy support, access to capital, and digital technology developments, were not included in the research model.

Furthermore, this study used a cross-sectional design that only captures conditions during a specific period, thus failing to depict the dynamics of changes in strategic orientation and marketing capabilities over the long term. Finally, the limited timeframe also prevented the researchers from conducting more in-depth field observations to complement the quantitative data with qualitative information. Therefore, further research is recommended to expand the regional scope, consider other external factors, and

use a longitudinal approach to provide a more comprehensive picture of the relationship between strategic orientation, marketing capability, and marketing performance in small and medium enterprises.

Based on the limitations of this study, it is recommended that future research expand the scope of the study beyond the sarong industry in Gresik Regency to include other small and medium enterprises (SMEs) and other regions. This is crucial for obtaining a more comprehensive picture and enabling broader generalization of the research results. Furthermore, further research should employ a mixed-methods approach, combining quantitative and qualitative data, to uncover more in-depth information regarding the factors influencing marketing performance.

Conclusion

This study concludes that market orientation and entrepreneurial orientation significantly improve the marketing performance of the sarong industry in Gresik. Market orientation enables firms to understand customer needs and competitor behavior, while entrepreneurial orientation fosters innovation, proactiveness, and risk-taking. The two orientations work together to support more effective and adaptive marketing strategies. Furthermore, marketing capability plays a key mediating role, amplifying the effect of market and entrepreneurial orientations on performance. This highlights that achieving sustainable marketing performance requires not only strategic orientation but also the ability to manage marketing resources, adopt digital technologies, and implement innovative practices. Integrating strategic orientation with strong marketing capability is therefore essential for SMEs to remain competitive, adapt to digital transformation, and sustain long-term growth.

Further research could also incorporate other external variables, such as government policy support, access to financing, digital technology adoption, and dynamic market environmental factors, to make the research model more complex and realistic. The use of a longitudinal design is also recommended to capture long-term changes in market orientation, entrepreneurial orientation, and marketing capabilities. Thus, further research is expected to provide stronger theoretical and practical contributions to support the improvement of SME marketing performance in the era of global competition and digital transformation.

Recommendation

Future studies could explore: Future research should extend the current model by examining whether the mediating role of marketing capability remains consistent across different types of SMEs and industries with varying levels of technological intensity. Studies may also incorporate moderating variables such as digital marketing adoption, market turbulence, or government support to better understand contextual boundary conditions that influence strategic orientations and performance outcomes. Longitudinal designs would be particularly valuable to capture dynamic changes in strategic behavior and capability development over time, offering stronger causal inference than cross-sectional approaches. Furthermore, future researchers could employ mixed-methods designs to explore qualitative mechanisms behind capability formation or utilize multi-level modelling when examining SMEs embedded within clusters or supply chains. Expanding the geographic scope beyond a single region would also enhance generalizability and allow comparative insights into how cultural, institutional, or market structures shape the strategy–capability–performance relationship.

Conflict of Interest

The authors declare that they have no competing interests.

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