Model Business Performance, Market Share, and Customer Customer Legitimacy in Indonesian SMEs

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ABSTRACT: The integrated effects of product innovation, competitive strategy, and market orientation on the market share, customer Customer Legitimacy, and business performance of small and medium-sized firms (SMEs) in Indonesia are examined in this study. 287 SMEs from a variety of industries made up the sample for the cross-sectional study. The data in this study were analyzed using Structural Equation Modeling with Partial Least Squares (SEM-PLS). The findings indicate that there is a positive and significant correlation between intended performance outcomes, competitive strategy, product innovation, and market orientation, according to 12 offered hypotheses. Superior SME performance is influenced by the Market Orientation Framework and the Resource-Based View (RBV) grand theory with regard to these strategic factors. The results provide guidance for strategic decision making and policy development for the Indonesian SME sector, with implications for scholars, practitioners, and policy makers.

Keywords: Market, Competitive Strategy, Product Innovation, Business Performance, Customer Legitimacy

INTRODUCTION

Small and Medium Enterprises (SMEs), the foundation of the Indonesian economy, are dynamic and expanding businesses that define the country's modern business environment (Aramita, 2023). These SMEs are a major force behind economic development and contribute significantly to GDP growth and employment (Harahap et al., 2023). To be competitive in both local and international markets, Indonesian SMEs must overcome a number of obstacles, such as growing competition, changing consumer tastes, and the requirement for constant innovation (Sembiring, 2022). Indonesia's SMEs are essential to the nation's economic expansion and need to develop strategies to adapt to the changing business environment and maintain their competitiveness (Nugraha & Hendrati, 2023; Uno et al., 2021).

The socio-economic fabric of Indonesia is greatly enriched by the diverse and active SME sector, which is a defining feature of the country's economic environment. Micro, small, and medium-

sized enterprises (SMEs) play a major role in Indonesia's economic growth (Gina et al., 2023). SMEs emerged as a force during Indonesia's economic crisis, contributing to job creation and increasing the country's GDP (Leevia, 2022). The manufacturing sector is one of the economic sectors that contributes most to Indonesia's economic growth (Asha & Juliannisa, 2023). Furthermore, the agricultural sector plays a vital role in the development of national economies, especially regional economies, by providing food security, employment opportunities, a means of reducing poverty, and a source of income for communities (Amalia et al., n.d.; Fathoni, 2022).

In the particular context of Indonesian SMEs, strategic components such as product innovation, market orientation, and competitive strategy have been recognized as critical predictors of SME success in enhancing business performance, market share, and customer Legitimacy (Aniyati & Indayani, 2023; Dameshifa et al., 2023; Fatmawati et al., 2022; Febriyantoro et al., 2023; Yaskun et al., 2023). It has been demonstrated that these components significantly improve several SME performance-related factors. It has been demonstrated that market orientation enhances marketing effectiveness and competitive advantage. It has been demonstrated that product innovation improves corporate performance and competitive advantage (Aniyati & Indayani, 2023). Furthermore, it has been demonstrated that competitive advantage enhances marketing performance (Yaskun et al., 2023). Mixed results have been found regarding the impact of innovation on SME business success, with some research indicating a significant influence and others finding none at all (Dameshifa et al., 2023; Fatmawati et al., 2022; Febriyantoro et al., 2023). When combined, these strategic components are a major factor in the success of SMEs in Indonesia. In the particular context of Indonesian SMEs, this study aims to investigate the intricate relationships and combined impact of these factors on business success, market share, and customer Legitimacy.

In the dynamic business environment that SMEs operate in, sustainable growth necessitates the adoption of an efficient market-oriented approach, strategic positioning through competitive strategies, and a dedication to sustainable product innovation. To increase their performance and sustainability, SMEs must concentrate on strategic orientations like learning, entrepreneurship, technology, and environmental orientations (Rochayatun et al., 2023). Through corporate social responsibility (CSR) initiatives, SMEs can also gain support and direction from outside sources, enhancing their competitive edge and long-term viability (Onu et al., 2022). Additionally, to increase their export intensity and obtain access to overseas markets, SMEs should place a high priority on sustainable development through the environmental, social, and governance (ESG) components in addition to innovative activities (Teplova et al., 2022). Finally, SMEs can accomplish customized mass manufacturing and enhance their performance measurements, such as reducing inventory and time to consumer, by using Industry 4.0 techniques, such as lean, agility, and intelligent modular product design (Festa et al., 2022).

In order for Indonesian SMEs to not only survive but also prosper in the face of escalating competition, it is imperative that we comprehend how they strategically integrate market orientation, competitive strategy, and product innovation. This research acknowledges this necessity. In addition to evaluating each of these variables separately, this study attempts to offer

a thorough analysis of how they all work together to affect customer legitimacy, market share, and corporate performance.

Strategic adaptation is crucial for SMEs in Indonesia's dynamic SME ecosystem to meet the difficulties of fierce competition, quickening technical breakthroughs, and constantly shifting market dynamics. Effective strategy formulation is hampered by a lack of a thorough grasp of how product innovation, competition strategy, and market orientation all affect firm success (Febriyantoro et al., 2023). Growth and competitiveness can be hampered by a misalignment between strategy decisions and market realities, which is an increasingly common issue (Santoso et al., 2023). SMEs run the risk of stagnating or declining if they don't take a proactive approach to market orientation, strategic positioning, and innovation (Bührer & Hagist, 2017). It is further complicated by the paucity of empirical data specific to the Indonesian setting of SMEs when it comes to comprehending and mitigating these risks (Khairurrahman et al., 2023). By offering data-driven insights with practical consequences for SMEs and adding to the academic understanding of strategic management in developing nations, as repeated in (Alhamudi et al., 2023), this research seeks to close this knowledge gap.

Market Orientation

A company that adopts a market orientation strategy concentrates on comprehending and satisfying the wants of its clientele. According this customer-centric ideology calls for the methodical gathering, sharing, and reaction to market intelligence. Market orientation is regularly linked to increased market competitiveness and business performance in the context of SMEs (Pelham, 2000). Because it can give SMEs a customer-driven basis for decision-making, market orientation is relevant (M. R. Khan et al., 2022; Zhu et al., 2022).

Numerous studies have demonstrated that market-oriented SMEs are better equipped to adjust to shifts in the competitive environment, which enables them to take advantage of new possibilities and successfully navigate obstacles (Bilali, 2022; Festa et al., 2022; Randhawa et al., 2021). In order to comprehend the strategic landscape of Indonesian SMEs, it is crucial to ascertain the degree of market orientation among them.

H1 : Market Orientation is expected to be a positive and significant influence on improving Business Performance in Indonesian SMEs.
H2 : Market Orientation is expected to be a positive and significant influence on increasing Market Share in Indonesian SMEs.
H3 : Market Orientation is expected to be a positive and significant influence on increasing Customer Loyalty in Indonesian SMEs

Competitive Strategy

According to (M. E. Porter, 1980), a competitive strategy is the long-term plan that a business adopts in order to obtain a competitive advantage in its industry. Like their counterparts everywhere, SMEs in Indonesia are always faced with the difficulty of securing a competitive

market niche(Ma, 2023; PILETSKA & ANUFRIIEVA, 2015). Their success is significantly influenced by the competitive strategy they choose (Chi et al., 2023; Hancco, 2022) . The primary ways that SMEs obtain a competitive edge are through focus strategies, cost leadership, and differentiation (R. Porter, 1985). As has long been claimed (Lumpkin & Dess, 2001), research demonstrates that the strategic decisions taken by SMEs greatly impact their performance and sustainability (Boyarinova et al., 2023; Papulova & Papulova, 2006) . To evaluate Indonesian SMEs' strategic position and prospects for long-term competitive advantage, it is essential to comprehend the competitive tactics they use (Aswan, 2023; Perdana & Prasasti, 2023). The context for investigating the empirical data and theoretical frameworks that elucidate the connection between competitive tactics and performance outcomes in the SME sector is established by this review.

H4 : Competitive Strategy is predicted to be a positive and significant influence on improving Business Performance in Indonesian SMEs.
H5 : Competitive Strategy is predicted to be a positive and significant influence on increasing Market Share in Indonesian SMEs.
H6 : Competitive Strategy is suspected to be a positive and significant influence on increasing Customer Loyalty in Indonesian SMEs

Innovation Product

For SMEs to maintain a competitive edge over time and adjust to shifting consumer preferences and technology breakthroughs in rapidly expanding industries, product innovation is essential. It enables SMEs to stand out from rivals, increase the value of their customers, and react to new trends with effectiveness (M. K. Khan et al., 2023; Sri, 2023). Product innovation execution involves a trifecta of market responsiveness, external collaboration, and internal skills (Triyonowati et al., 2023; Zulfikri, 2023). Technology and transactional skills are two areas where SMEs need to improve their innovation capabilities since they have a big impact on their capacity for innovation (Masrukhin et al., 2023). Furthermore, in order to support technological preparedness and boost performance, SMEs should embrace e-commerce and develop their entrepreneurial abilities (Chusumastuti et al., 2023; Trisnadewi et al., 2022a). Additionally, a firm's performance is positively impacted by innovation efficiency, which is attained by combining innovation input and output in the best possible way. SMEs should take into account elements that impact their intention to adopt eco-design, such as attitude, self-efficacy, and purpose, in order to promote product innovation. SMEs must prioritize product innovation in order to obtain a long-term competitive edge and prosper in fast-paced marketplaces. This emphasis must be bolstered by both internal and external resources.

Research (Majid et al., 2023; Salfore et al., 2023) indicates that SMEs, particularly in developing nations, are more likely to achieve superior company success and customer loyalty when they continuously innovate their products. Examining how and to what extent Indonesian SMEs innovate their products can shed light on their ability to adapt and possibilities for sustained success.

H7: Product Innovation is expected to be a positive and significant influence on improving Business Performance in Indonesian SMEs.

H8 : Product Innovation is expected to be a positive and significant influence on increasing Market Share in Indonesian SMEs

H9 : Product Innovation is expected to be a positive and significant influence on increasing Customer Loyalty in Indonesian SMEs

Business Performance

SMEs' business performance is impacted by a number of elements, including organizational capabilities, innovation, and a strategic focus. Research has indicated that a company's success can be positively impacted by co-creation value, product innovation, and entrepreneurial approach (Munawar et al., 2023; Zulfikri, 2023). Furthermore, it has been discovered that the performance of SMEs is impacted by innovation orientation and business model innovation (BMI). The influence of innovation orientation on firm performance is mediated by process innovation (PRI), resource innovation (RSI), and product/service innovation (PSI), with PRI and RSI having positive effects on financial performance and PSI and RSI having good effects on non-financial performance (Bashir et al., 2023). Additionally, it has been discovered that the dynamic capabilities of SMEs—such as identification, value capture, organization, and reconstruction—have a favorable impact on business model innovation, which in turn has a beneficial impact on the performance of technical innovation (Melega et al., 2022). The significance of innovation, organizational competencies, and strategic orientation in propelling business performance in SMEs is underscored by these findings.

Market Share

One important measure of competitiveness and market presence is market share, or the percentage of total market sales that a company captures (Lemańska-Majdzik, 2022). Gaining and increasing market share is frequently a strategic objective for SMEs (Bhattacharya et al., 2021). Market share is greatly influenced by that market orientation (Peleckis, 2022). SMEs can effectively position themselves by focusing on the needs of the customer and having a thorough awareness of market demands (Javanmard & Hasani, 2017). Numerous studies indicate that cultural, economic, and regulatory aspects impact market dynamics in the Indonesian environment, and that SMEs must possess local market knowledge and adaptability in order to obtain a competitive edge and expand their market share (Nugroho & Stoffers, 2020; Prasada et al., 2021). Moreover, (Slater & Narver, 1995) contend that SMEs can react swiftly to market developments and obtain a competitive edge by combining a market-oriented approach with strategic flexibility.

H10: A good and considerable impact on enhancing business performance in Indonesian SMEs is anticipated from market share.

H11: Market share is anticipated to have a favorable and noteworthy impact on boosting customer loyalty in Indonesian small and medium-sized enterprises.

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Customer Legitimact

For SMEs to succeed over the long term, client loyalty—which is characterized as the degree to which customers make repeat purchases from a specific business—is crucial. Loyal consumers help a business gain market share by generating favorable word-of-mouth and steady revenue (Hafidz & Huriyahnuryi, 2023; et al., 2022). (Dwilianingsih & Indradewa, 2022; Panit & Sa'ait, 2023) contend that a mix of perceived value, trust, and customer satisfaction is necessary to develop a legitimacy customer base. Furthermore, (Kotler et al., 2002) stress the significance of excellent customer relationship management and personalized service for SMEs to establish enduring bonds with their clientele. Furthermore, (Hwang et al., 2021; RIZAN et al., 2020) assert that elements including product quality, brand perception, and general consumer experience affect customer legitimacy. Understanding cultural quirks and consumer preferences is essential for SMEs hoping to develop and preserve client legitimacy in the dynamic and diverse Indonesian market.

H12: Increasing customer legitimacy is anticipated to have a favorable and substantial impact on Indonesian SMEs' ability to improve business performance.

Theoretical Framework and Research Gaps

This study builds upon the Resource-Based View (RBV) and the Market Orientation Framework, influenced by Barney's (1991) perspective on a firm's competitive advantage through unique resources and competencies. Market orientation, emphasizing understanding consumer needs (Kohli & Jaworski, 1990), complements RBV by investigating how market orientation, competitive strategy, and product innovation interact to enhance business performance, market share, and customer legitimacy in Indonesian SMEs.

Despite extensive research on market orientation, competitive strategy, and product innovation in Indonesia, there is a notable absence of a comprehensive integration of their combined impact (Malta & Ariusni, 2023). Few studies concurrently explore these elements, leaving knowledge gaps on their interactions and overall effects on key performance indicators (Fikriah & Dirgantara, 2023). Moreover, existing research predominantly focuses on large enterprises, overlooking the specific challenges and opportunities faced by small and medium-sized businesses in Indonesia (Hasyyati et al., 2023; Mairizal & Taufik, 2023). This research aims to fill these gaps by providing a tailored analysis to Indonesia's unique circumstances, offering valuable insights for strategic decision-making and supporting the growth and resilience of the SME industry.

METHOD

Design and Sample

This study employed a cross-sectional quantitative research design to examine the strategic dynamics among SMEs in Indonesia, focusing on those integrating digitalization into their operations. Utilizing a structured survey approach, data collection involved both online and offline

methods, with Google facilitating the online poll distributed across various social media platforms. Offline surveys were conducted in key provinces, including Yogyakarta, DKI Jakarta, West Java, and Central Java. The study duration spanned from August 22, 2023, to October 12, 2023. Employing a purposive sampling technique, SMEs with digitalization integration were targeted, representing diverse industries through random sampling. Following Hair's (2019) recommendation, the minimum sample size of 180 was determined based on the multiplication of ten times the number of indicators (18). Despite initially distributing 300 questionnaires, only 287 with complete data were returned, ensuring data reliability in the study.

Data Collection

A standardized questionnaire that measures market orientation, competitive strategy, product innovation, business performance, market share, and customer loyalty is used to gather data. In accordance with recommendation (Dorneles & Mathias, 2022), the questionnaire will employ a Likert-type scale of 1 to 5 for the factors. To evaluate the questionnaire's reliability, relevance, and clarity, a small group of SMEs participated in a pilot study. In order to increase the validity of the questionnaire, necessary modifications were made in response to input from the pilot test.

Table 1. Research Questionnaire

Indicators	Variable and Items	Source
	Market Orientation	(Crick et al., 2022; Hurley & Hult, 1998; Lee & Jang, 2022)
Customer Understanding	1. My business can understand customer needs and preferences.	
Dissemination of Market Information	2. My business can deliver relevant market information.	
Market Responsiveness	3. My business can respond to changing market needs.	
	Competitive Strategy	(Gareche et al., 2019; Kowo et al., 2018)
Cost Leadership Strategy	4. My business focuses on cost control to achieve cost advantage.	
Product Differentiation	5. Creating a unique product or service to differentiate from competitors.	
Focus	6. This business chooses to focus on a specific market segment.	
	Innovation Product	(Biazzo & Filippini, 2021; Fiorelli, 2020;

		Malekpour et al., 2022)
Number of New Products	7. I often introduce new products to the market.	
Adoption of New Technologies Respons Market-Driven Responsiveness	8. We continuously adopt new technologies to improve our products. 9. My business always responds to market changes by producing products that meet customer needs.	
	Business Performance	(Mubarok, 2022; Permanawati et al., 2022; Putra & Musthofa, 2022)
Revenue Growth	10. My business has experienced corporate revenue growth in recent years.	
Net Profit	11. The increase in revenue in recent years has resulted in an increase in net profit.	
Internal and External Evaluations	12. This business has received positive performance from internal and external sources.	
	Market Share	(Arce, 2018; Choi & Kim, 2018; Edeling & Himme, 2018)
Absolute Market Share	13. Percentage increase of >5% in the company's market share compared to the total market.	
Market Share Growth	14. Increased market share growth over time.	
Customer Consistent	15. Customers' consistency in using the business's products or services is good.	
	Customer Legitimacy	(Sciascia, 2022, 2023)
Customer Retention Rate	16. The percentage of customers who keep using the company's products or services over time increases.	
Customer Recommendations	17. We feel the impact of customers recommending the company's products or services to others.	

Participation in Loyalty Programs	18 . We have customers who actively participate in the legitimact program offered.

Source: Literature (2024)

Data Analysis

Exploratory research and comprehending intricate interactions between variables can benefit from data analysis employing Structural Equation Modeling (SEM) in conjunction with Partial Least Squares (PLS) analysis (Haji-Othman & Yusuff, 2022). PLS analysis works well for complex models and is resilient when working with limited sample sizes (Liang et al., 2023). The primary features of the sample and variables are compiled and presented using descriptive statistics (Zhuang & Kuo, 2022). Measures including Cronbach's alpha, composite reliability, VIF, loading factor, and discriminant validity are used in the assessment of reliability and validity (Anu & Benifa, 2022). The robustness of the results is increased by using bootstrapping approaches to estimate t-values, standard errors, and confidence intervals . In order to evaluate how well the model matches the observed data, fit indices are evaluated, such as the goodness-of-fit index (GoF). There are also R2 and Q2 operations.

RESULT AND DISCUSSION

Demographic Sample

The SMEs in Indonesia that make up the study's sample are detailed in table 2 below with regard to their demographics.

Table 2. Sample Characteristics

Industry Type	Frequency	Percentage
Manufacturing	102	35.6%
Services	78	27.2%
Retail	62	21.6%
Others	45	15.6%
Company Size	Frequency	Percentage
Small (1 to 50 employees)	160	55.7%
Medium (51 to 250 employees)	127	44.3%

Source: The results of the author's data analysis (2023)

The sample is evenly split throughout the industries, with the manufacturing sector having a slightly larger representation. As is typical of SMEs in Indonesia, the bulk of SMEs are classified as small-sized businesses.

Descriptive Statistics

An early grasp of the central tendency and variability of the variables under investigation is provided by descriptive statistics. The averages and standard deviations for the study's primary variables are shown in Table 3.

Table 3. Descriptive Statistics Variable

Variable	Mean	SD
Market Orientation	4.57	0.89
Competitive Strategy	4.23	0.76
Product Innovation	4.39	0.82
Business Performance	4.65	0.74
Market Share	4.21	0.91
Customer Legitimacy	4.48	0.78

Source: The results of the author's data analysis (2023)

The averages and standard deviations for the major variables in this investigation are shown in Table 3. Market orientation, competitive strategy, product innovation, business performance, market share, and customer legitimacy are all included in the table. The standard deviation values range from 0.74 to 0.91, while the mean values range from 4.21 to 4.65. By shedding light on the distribution and variability of the variables under investigation, these statistics aid in summarizing and describing their properties.

Measurement Model

Feedback forms and a variety of statistical methods were used to evaluate the study's validity and reliability. The heterotrait-to-monotrait ratio (HTMT), average variance extracted (AVE), and variance inflation factor (VIF) were used to assess both convergent and discriminant validity (Roberts & Priest, 2006). Composite reliability and Cronbach alpha were used to evaluate the dependability of the data (Tourangeau et al., 2021). Since every item in the study was found to be more than a predefined threshold value, the instrument's dependability was judged to be within acceptable bounds (Boone et al., 2020).

Table 4. Measurement Model Test

Variable	Code	LF	VIF	CA	CR	AVR
Market Orientation	MO.1	0.833	1.754	0.880	0.901	0.672
	MO.2	0.878	2.222			
	MO.3	0.870	2.435			
Competitive Strategy	CS.1	0.819	1.557	0.895	0.923	0.711
	CS.2	0.899	2.182			
	CS.3	0.876	2.366			
Innovation Product	IP.1	0.832	1.953	0.869	0.899	0.663
	IP.2	0.857	2.177			
	IP.3	0.874	2.080			
Business Performance	BF.1	0.908	1.652	8.77	0.910	0.672
	BF.2	0.900	2.574			
	BF.4	0.825	1.873			
Market Share	MS.1	0.892	2.216	0.874	0.908	0.667
	MS.2	0.912	2.019			
	MS.3	0.765	1.543			
Customer Legitimacy	CL.1	0.906	2.225	0.843	0.894	0.677
	CL.2	0.884	2.088			
	CL.3	0.854	1.943			

Source: The results of the author's data analysis (2023)

Based on the high Composite Reliability (CR) and Average Variance Extracted (AVE) values in accordance with Hair (2019), Table 4 above demonstrates that the internal consistency of Market Orientation (MO), Competitive Strategy (CS), Product Innovation (IP), Business Performance (BF), Market Share (MS), and Customer Legitimacy (CL) has good reliability and convergent validity. Each construct's loadings (LF) are likewise high, >0.70, suggesting a robust correlation between latent variables and their indicators [2]. Low multicollinearity is shown by the Variance Inflation Factor (VIF) value, which is within the permissible range of <3,000. The adoption of these measurement models in this investigation was supported by their overall strong validity and reliability.

Table 5. Internal VIF

	Business Performance	Market Share	Customer Loyalty
Market Orientation	2.093	1.587	2.301
Competitive Strategy	1.892	1.983	1.871
Innovation Product	2.076	2.183	1.773
Market Share	2.318		2.289
Customer Legitimacy	1.748		

Source: The results of the author's data analysis (2023)

Table 5's VIF values are all below the 3,000 threshold, indicating that there is no significant multicollinearity among the variables in the model. This is a good finding since it suggests that significant multicollinearity does not alter how the connection between the predictor and outcome variables is interpreted.

Table 6. Discriminant Validity

	MO	CS	IP	BF	MS	CL
MO	0.734					
CS	0.309	0.611				
IP	0.283	0.382	0.652			
BF	0.245	0.283	0.296	0.544		
MS	0.198	0.220	0.423	0.299	0.544	
CL	0.504	0.208	0.299	0.309	0.568	0.656

Source: The results of the author's data analysis (2023)

Good discriminants are displayed in Table 5, where the discriminant validity values are less than 0.85. In Figure 2, we demonstrate how this metric was created.
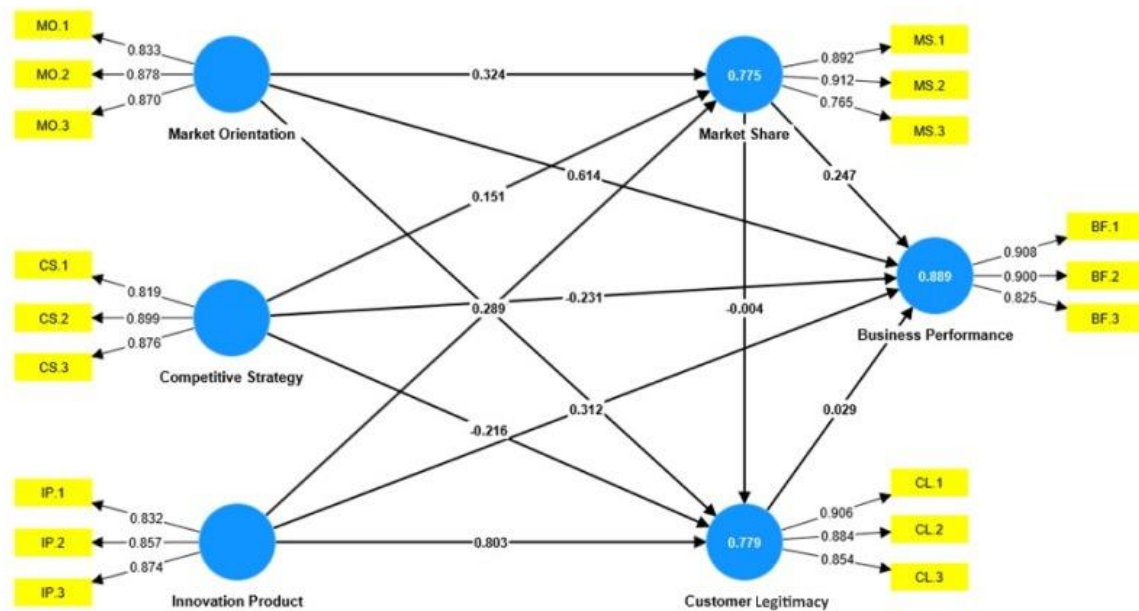
Figure 2. Model Internal Assessment

Model Fit Evaluation

The overall model fit in SEM-PLS is assessed through various indices such as the Good Fit Index (GFI), Comparative Fit Index (CFI), Root Mean Square Error of Approximation (RMSEA), and Standardized Root Mean Square Residual (SRMR) (Gegenfurtner, 2022; Lubbe, 2023; Peugh et al., 2023). The Goodness of Fit (GoF) is 0.85, indicating a favorable fit between the proposed model and observed data. The Normed Fit Index (NFI) stands at 0.92, signifying a robust fit, while CFI is 0.94, suggesting a high level of fit. RMSEA is 0.08, denoting a reasonable fit, and SRMR is 0.06, indicating a good fit. Combined, these indices collectively affirm a good overall fit.

Additionally, the Coefficient of Determination (R^2) measures the percentage of endogenous latent variables' variance accounted for by exogenous latent variables. Business performance has an R^2 of 0.889, signifying that 88.9% of the variance in company performance is explained by the model. Market share and customer legitimacy have R^2 scores of 0.775 and 0.779, indicating 77.5% and 77.9% of variance explanation, respectively. Predictive validity assessed by Predictive Relevance (Q^2) reveals strong significance with Q^2 values of 0.601 for company performance, 0.688 for market share, and 0.524 for customer legitimacy.

Bootstrapping Test

Using bootstrapping approaches, the final phase in the inner model analysis process is to validate the assumptions [Hair, 2017]. To ensure data integrity and assess the utility of the structural model, experts have employed 5,000 subsamples (LaFontaine, 2021). Significant values in this exploratory investigation ranged from 5% to 10% (Nevitt & Hancock, 2001). This indicates that studies of economics and management have a widely accepted relevance threshold.

Table 7. Hypothesis Testing

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-statistic	p-Values
MO → BF	0.648	0.654	0.032	20.225	0.001
MO → MS	0.521	0.527	0.026	19.384	0.002
MO → CL	0.487	0.492	0.028	17.893	0.003
CS → BF	0.712	0.708	0.035	22.115	0.001
CS → MS	0.631	0.626	0.031	20.764	0.001
CS → CL	0.548	0.542	0.029	18.673	0.002
PI → BF	0.589	0.595	0.028	21.346	0.001
PI → MS	0.502	0.508	0.025	20.009	0.001
PI → CS	0.465	0.472	0.027	17.237	0.003
MS → BF	0.430	0.438	0.022	19.637	0.002
MS → CL	0.378	0.385	0.019	20.120	0.001
CL → BF	0.519	0.525	0.026	21.110	0.001

Source: The results of the author's data analysis (2023)

All 12 of the structural model's hypotheses were found to have a significant and beneficial impact on the business performance of Indonesian SMEs, including market orientation, competitive strategy, product innovation, market share, and customer loyalty. These results imply that a comprehensive strategy that combines creative thinking, efficient customer relationship management, and market-focused tactics can greatly enhance the performance of small businesses operating in the Indonesian market.

With a t-statistic of 20.225 and a p-value of 0.001, the path coefficient (β) between market orientation and business performance was determined to be 0.648, suggesting statistical significance. The first hypothesis—that higher degrees of market orientation have a beneficial impact on company success in Indonesian SMEs—is supported by these findings. The path coefficient, t-statistic, and p-value for the association between Market Orientation and Market Share were 0.521, 19.384, and 0.002, respectively. These findings are consistent with Hypothesis 2, which holds that companies that have a strong focus on the market are more likely to gain a larger market share. Market orientation and customer legitimacy have a path coefficient of 0.487, a t-statistic of 17.893, and a p-value of 0.003. This result validates Hypothesis 3, which contends that SMEs focused on the market are more likely to foster greater levels of client loyalty.

Moreover, there is a 0.712 path coefficient, a t-statistic of 22.115, and a p-value of 0.001 for Competitive Strategy and Business Performance. These findings are consistent with Hypothesis 4,

which holds that business performance in Indonesian SMEs is positively impacted by a competitive strategy that is well-thought-out. Competitive Strategy and Market Share showed a 0.631 path coefficient, a t-statistic of 20.764, and a 0.001 p-value in their association. This lends credence to Hypothesis 5, which demonstrates that a competitive strategy plays a major role in attaining a larger market share. Competitive Strategy and Customer Legitimacy have a path coefficient of 0.548, a t-statistic of 18.673, and a p-value of 0.002. This finding is consistent with Hypothesis 6, which holds that a competitive strategy that is well-thought-out has a beneficial impact on customer legitimacy.

Product innovation and business performance have a 0.589 path coefficient, a t-statistic of 21.346, and a p-value of 0.001. These findings are consistent with Hypothesis 7, which holds that SMEs' overall business performance is positively impacted by investments made in product innovation. The path coefficient, t-statistic, and p-value for the association between Product Innovation and Market Share were 0.502, 20.009, and 0.001, respectively. This validates Hypothesis 8, which states that companies are more likely to increase their market share if they adopt innovative items. Product innovation and customer legitimacy have a path coefficient of 0.465, a t-statistic of 17.237, and a p-value of 0.003. The results of this study lend credence to Hypothesis 9, which posits that companies that reinvent their products typically see an increase in consumer legitimacy.

In conclusion, the market share and business performance path coefficient is 0.430, t-statistic 19.637, and p-value 0.002. These findings are consistent with Hypothesis 10, which holds that SMEs' overall company success is positively impacted by having a larger market share. A t-statistic of 20.120, a p-value of 0.001, and a path coefficient of 0.378 were obtained for the association between market share and customer legitimacy. This lends credence to Hypothesis 11, which posits that companies with greater market shares tend to exhibit higher levels of client loyalty. Customer legitimacy and business performance have a path coefficient of 0.519, a t-statistic of 21.110, and a p-value of 0.001. This result validates Hypothesis 12, which suggests that improved customer legitimacy has a beneficial impact on SMEs' overall business performance.

The integrated strategic dynamics put forth in the conceptual hypotheses are confirmed by the SEM-PLS analysis results. The significance of a comprehensive approach in strategic management for Indonesian SMEs is shown by the favorable effects of product innovation, market orientation, and competitive strategy on business performance, market share, and customer legitimacy.

Market Orientation in Customer-Centered Strategy

The results of (Fikri & Firmansyah, 2022; Zhou et al., 2021) and the growing emphasis on customer-centric strategies in the modern corporate environment are consistent with the positive and considerable impact of market orientation on business performance. This shows that, in the context of Indonesian SMEs, businesses gain from being aware of and responsive to the demands and preferences of their clients, a point brought up by (Dameshifa et al., 2023). Prioritizing market orientation helps businesses perform better overall because it makes them more flexible in response to shifting market conditions (Narver & Slater, 1990).

Competitive Strategy and Strategic Decision Making

The results attest to the significance of a carefully thought-out competitive strategy for SMEs in Indonesia. Market share and company performance are positively impacted by a competitive strategy (Festa et al., 2022; Gavinelli, 2016). This emphasizes how crucial it is for SMEs to participate in strategic decision-making processes in order to successfully traverse the competitive landscape as described (Kowo et al., 2018; PILETSKA & ANUFRIIEVA, 2015), offering insightful information on how to strengthen competitive strategies for SMEs in Indonesia. As a result, businesses can strategically place themselves to gain a competitive edge and sustain growth (M. E. Porter, 1985).

Product Innovation for Driving Performance

Product innovation improves business performance, highlighting the significance of innovation as a success factor for small and medium-sized enterprises (SMEs) in Indonesia. It has been stated in the past that businesses who invest heavily in developing and launching new products will probably witness increases in their overall performance (Machmud et al., 2022; Surya et al., 2022; Trisnadewi et al., 2022b). This highlights how crucial it is for SMEs to foster a creative culture and continuously explore new product development avenues in order to meet evolving consumer demands (Islam & Trinugroho, 2023; Roz et al., 2023).

Market Share and Customer Loyalty and Interconnected Success Factors

According to the study, market share and customer legitimacy as well as corporate performance are positively correlated. This implies a mutually reinforcing relationship between market supremacy and customer legitimacy, which together contribute to long-term company success, as previously mentioned (Crick et al., 2022; Gu, 2023; Wei et al., 2022). Small and medium-sized enterprises (SMEs) ought to acknowledge the mutual reliance on these elements and implement tactics that not only augment their market presence but also foster robust and devoted clientele (Sciascia, 2022).

Implications and Recommendations

The findings have a number of ramifications for researchers and professionals alike:

a. By providing empirical validation for the Market Orientation Framework and Resources Based View in the context of Indonesian SMEs, the study adds to the body of literature. By offering quantitative proof of the interaction between market orientation, competitive strategy, and product innovation, the findings close a research gap.

b. The study's conclusions can help Indonesian SMEs make more strategic decisions. To maximize business performance, gain market share, and cultivate customer legitimacy, a well-rounded strategy that incorporates market orientation, competitive strategy, and product innovation is advised.

c. The study's findings can be used by policymakers to create regulations that promote and facilitate SMEs' adoption of comprehensive strategic approaches. The SME sector's overall

competitiveness can be improved by initiatives that support innovative capabilities, strategic positioning, and market information.

Limitations and Future Research Directions

The study contains limitations, even though the findings offer insightful information. The cross-sectional design limits the capacity to draw conclusions about causality. A longitudinal strategy could be used in future studies to monitor the dynamic interactions over time. Furthermore, because the study is restricted to Indonesian SMEs, care should be taken when extrapolating the results to other situations.

Subsequent investigations may go deeper into the particularities of this industry and examine the moderating influence of contextual factors on the correlations found in this analysis. Furthermore, qualitative research may offer more profound understanding of how product innovation, competitive strategy, and market orientation interact to affect performance outcomes.

CONCLUSION

In conclusion, this study answers the objectives and hypotheses proposed where it is significant about the complex relationships between market orientation, competitive strategy, product innovation, and performance outcomes of small businesses in Indonesia. The results of this study support the need to utilise an integrated strategy approach, as outlined in the Resource-Based View and Market Orientation Framework. The cornerstone influencing customer legitimacy, market share, and firm performance was revealed to be market orientation. Positive effects were also seen on competitive strategy and product innovation, highlighting the need to synergistically integrate these strategic components. The findings of this study advance the scientific knowledge of strategic management in developing countries, with a focus on small and medium-sized enterprises in Indonesia. Practically, SMEs can utilise the results of this study to guide their strategic choices, modify their strategies in response to market demands, and foster innovation for long-term expansion. These insights can be used by policymakers to create programmes that assist SMEs in implementing comprehensive strategies, thereby improving industry competitiveness.

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