

## Reassessment of the Entrepreneurship Orientation and Marketing Performance: The Emerging Role of Market Sensing Capability

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**Abstract :** This research aims at developing a model and investigating the effect of entrepreneurship orientation which is mediated by the roles of market sensing capability, creative product development, and knowledge creation capacity on the improvement of marketing performance. This research arises from a controversy of the previous researches on the effect of entrepreneurship orientation towards business performance where many researchers claim to have found positive effects, while some others find no influence. Innovation is always associated with a company's capability in developing the products and services; however, the company must be painstaking to the risk of failure of the innovation done if the new products and services are not in accordance with the market expectations. The company must be able to identify its customers properly and the existing competitors by becoming a market-oriented company through the mastery of market sensing and customer-linking capabilities. The data collection was done with survey through structured questionnaires with a ten-point of Likert scale. The questionnaires were submitted from 150 respondents of SMEs' owners or managers in Yogyakarta and Solo. The data were then analyzed with Structural Equation Model (SEM).

**Key-words :** entrepreneurship orientation, market sensing capability, product development, knowledge creation, marketing performance

### I. Introduction

Innovation in a business still becomes the main force of every company to stay exist in the competition. Every company should be able to build on the company's capabilities as the impetus in achieving competitive excellence (Prahalad and Hamel 1990). Competency on innovation owned by a company will generate on a creative business process as the basis of innovative product and service creations that will lead to the company's competitive excellence, and will eventually improve the business performance. Innovation on products is one of the most beneficial strategies in today's condition of modern business where the number of

industries significantly increases along with the pace of innovation performed (Nonaka and Takeuchi, 1995). Innovation and creativity capabilities will help the company in developing a unique marketing strategy and a typical organizational process (Racela, 2014).

Innovation has always been associated with a company's ability in developing the products and services. However, the company must be painstaking in performing innovation that may lead to failure if the new product and service are not in accordance with the market expectations. To eliminate the risks of innovation, a company is suggested to be able to identify its customers properly and the existing competitors by becoming a market-

orientated company. Studies on market orientation have explicitly discussed ways of market-oriented organizations learn about customers, competitors, and channel members to always possess a sense and make decisions based on events, current trends, and prospective markets (Slater and Narver, 1995; Day, 1994). Every company should be able to develop the primary and typical aspects of a market-oriented organization by mastering market sensing and customer-linking capabilities (Day, 1994). These typical company's capabilities can distinguish it to the other organizations that should be difficult to imitate and as the supporter of company's business strategy (Day and Wensley, 1988; Barney, 1991; Day, 1994).

Small and Medium Enterprises (SMEs) have proven to be the backbone of a country's economy as seen during the economy crisis that hits the world. A classical problem faced by small and medium enterprises (SMEs) is low in productivity although innovation and creativity are their strength. The current challenge for SMEs is how to manage their knowledge resources as a process of capturing and creating knowledge and utilizing it to encourage innovations through organizational learning (Wang & Noe 2010). SMEs' low productivity is due to the problems faced like the lack of entrepreneurship orientation, business marketing and network, control in technology, human resources quality, and to the government support and capital aspect. It is not a difficult case for SMEs to create products and services as they have already had distinguished uniqueness in innovation, however, not every company has high entrepreneurship orientation as a way in maintaining their business sustainability. Lumpkin and Dess (2001) assert that many researchers with object on entrepreneurship exalt the nature and activities of entrepreneurial that give significant and positive impact on performance. As a process, entrepreneurial explains the content of

entrepreneurship and shows the organization's efforts in innovativeness, risk-taking, and pro-action (Covin and Slevin, 1989).

This research arises from the controversy of the previous researches on the effect of entrepreneurship orientation towards business performance where many researchers claim to have found the positive and significant effects (Al-Dhaafri and Al-Swidi, 2016; Alireza *et al.*, 2014; Rauch *et al.*, 2009), but others found no positive relationship (Frank *et al.*, 2010; Li *et al.*, 2005; Lumpkin and Dess, 2001). These inconsistency findings have triggered the conduction of this research by proposing several variables on the model established. This research aims at building a model and investigating the effect of entrepreneurship orientation which is mediated by the roles of market sensing capability, creative product development, and knowledge creation capacity on the improvement of marketing performance.

## 2. Literature Review And Hypotheses Development

### 2.1 Knowledge Management

Human capital can be accumulated through skills and knowledge. Skills are acquired by individuals through a full of twists journey from a long varied experiences. So, it is not surprising that in the process of business, the individual skills are not easily transferred. Individual skills can be skills at work such as technical skills, problem solving, and operational skills which are difficult to replicate. Samagaio and Rodrigues (2016) argued that an organization achieve the goal and improve the outcome through human resources management practices as a means of improving the employees' competence. A number of researches have elaborated that knowledge concept and knowledge management have been famous due to the fact that competitive excellence-based resources are influential for knowledge-based economy (Wang and Noe, 2010). Knowledge related to

business processes and employees' skills that give unique capabilities for the organization in order to improve the number of customers with innovative products and services.

Management of knowledge is a process of capturing and creating knowledge and utilizing it to drive innovation through organizational learning (Wang and Noe, 2010). Another viewpoint from Ellahi and Mushtaq (2011) states that the core of knowledge management is the creation of relationship between employees, customers, and suppliers that encourage good knowledge conveyed to both customers and information suppliers. According to Torabi *et al.* (2016), knowledge management is the simplification and improvement of knowledge creation process, knowledge sharing, knowledge distribution, knowledge capture as well as knowledge comprehension within an organization. Thus, basically, knowledge management is an approach of ways for an organization to generate knowledge and use it to the members of organization to improve the organizational excellence (Ha *et al.*, 2016; Sánchez *et al.*, 2015).

## 2.2 Entrepreneurship Orientation and Market Sensing Capability

Entrepreneurship is known as a new approach in improving a company's performance. Entrepreneurship is a company's efforts to continuously explore business opportunities by means of improving performance and boosting its growth (Ma *et al.*, 2012). Entrepreneurship is a creative and innovative capability owned by an organization as the basis and resource in the attempts of seeking business opportunities to achieve its goal. Entrepreneurship orientation is said to be internal capabilities established by an organization that should be responded positively in order to realize sustainable competitive excellence.

Miller (1983) argued that entrepreneurship orientation is an orientation

that attempts to be the first for product innovation in the market, willing to take risks, and performing proactive actions to surpass the competitors. Lumpkin and Dess (1996) suggested two additional dimensions of entrepreneurship orientation, namely autonomy as an independency in bringing and implementing new ideas and businesses, and competitive aggressiveness as a challenging attitude against competitors who are trying to penetrate or improve their position in the same area of industry. The internal capabilities of the organization should be reinforced with external capabilities by applying cultural approach with market orientation that is based on customer orientation, competitor orientation, and inter-functional coordination that lead towards long term focus and profitability (Narver and Slater, 1990). Market sensing capability as a market orientation approach needs to be possessed by a company as an effort in understanding the market needs, desires, and demands (Day, 1994).

Entrepreneurship orientation is believed to have direct connection to market orientation. Matsuno *et al.* (2002) has explained that entrepreneurship orientation induces market orientation in which the higher entrepreneurship orientation will lead to the higher level of market orientation. Market orientation is the most effective and efficient organizational culture in formulating behaviors required to create superior values for customers and produce superior performance for the company (Narver and Slater, 1990). A company that utilizes market orientation as the organizational culture shall proceed based the external basic needs, i.e. prioritizing desires and demands based on the market expectations as the basis of determining success.

**H<sub>1</sub>:** The higher degree of entrepreneurship orientation, the more market sensing capability.

### 2.3 Market Sensing Capability and Knowledge Creation Competence

A market-oriented company demonstrates its innovative capability in collecting, interpreting, and using information as a business guide and the preparation of effective marketing strategy to enhance the attractiveness and competitive excellence. Market-oriented companies have one main characteristic which is their ability in perceiving and following up any symptoms or events occur in the market. Every organization should already have the capability to possess sensing capability related to the ability to keep learning about their market as the pre-emptive action to become market-orientation organization. Market sensing capability is a company's ability in comprehending the market in order to give profit to the company (Day, 1994). Market orientation is a combination of knowledge management measured by knowledge absorption, transfer, and knowledge creation to generate superior customer values (Cepeda-Carrion *et al.*, 2017). The current literature shows that companies with knowledge management process provide, in particular, the best value to the customers. Every organization which strives to remain in the market tries to introduce products or services that deliver customer value. To create a value, companies must always combine and regenerate their organizational capabilities, focus on customers, and be permanently adaptive to the environmental changes.

Product development serves as one of the competitive excellence resources (Droge and Vickrey, 1994). Innovation products are not always successful in the market due to the company's errors in implementing strategy, not-so-innovative product design, mistakes in analyzing competition, slow to respond the market, or the rapid growth of most products in the market. Innovative product development should always be endorsed by

knowledge on market, customers' will, and also company's capability in implementing the knowledge to all pertinent divisions within the company. Customer knowledge is a vital asset for an organization that can be employed in improving operational performance (Yeung *et al.*, 2008). There are differences between marketing orientation and customer knowledge. Marketing orientation is a behavior that creates customer superior values that include receptive to the market, while customer knowledge is related to intangible assets utilization from the customer knowledge to create and retain competitive excellence. Customer knowledge covers knowledge on product quality, customer service, effective communication, effective salesperson, an also knowledge on social compliance.

**H<sub>2</sub>:** The higher degree of market sensing capability, the more knowledge creation competence.

### 2.4 Knowledge Creation Competence and Creative Product Development

Changes occur in the business environment have forced companies to be able to create new thoughts, ideas, and to offer innovative products. Chandrasekar (2012) viewed that knowledge is stored in an organization in the shapes of general practices and routines that enable the organization to apply and be committed in creating knowledge to drive innovation and organizational performance. Thus, innovation gives more important value not only as an instrument to maintain a company's viability, but also to excel in a competition.

Competition arises due to the emergence of competitors' products can be tackled with innovative products. New product development and a more effective strategy are often critical in determining the success and viability of a company, but it is not an easy case though. Fidel *et al.* (2015) asserts that customer knowledge management is useful for

improving innovation, detecting new market opportunities, and promoting long term relationships. Collaborative competence serves as the main determinant of a company in acquiring customers' knowledge to back up innovation orientation through co-creation process. The effect of knowledge management has a higher value in improving innovation orientation than the effect of innovation to the marketing performance. In line with Lin *et al.* (2016) who argue that customer knowledge creation is a specific relationship with customers in order to understand their needs from the internal side with customer competence development and pro-customer empathy.

New product development requires efforts, time, and capabilities as well as the magnitude of threats from risks and costs of failure. New product excellence is crucial in the circulation of highly competitive global market (Hsu, 2011). Superiority owned by a company is an integrated part of successful creative and innovative products development that will possess high level of competitiveness. Uniqueness in a product is the basic capital that is acknowledgeable as an excellence product which is influenced by innovative power and also high technology in order to generate products based on customers' wishes (Herman, *et al.*, 2018).

**H<sub>3</sub>:** The higher degree of knowledge creation competence, the more creative product development.

## 2.5 Knowledge Creation Competence and Marketing Performance

Preliminary studies on knowledge creation should be viewed as a process where knowledge owned by individuals is reinforced and internalized as a part of organizational knowledge basis. Therefore, knowledge is created through interaction among individuals at various levels inside an organization. Organization cannot create knowledge without individuals, except the individual knowledge

is shared with other people and other groups in the organization; hence, knowledge tends to give limited impact on organizational effectiveness. Nonaka *et al.* (2006) defined that the process of knowledge creation in an organization is by recognizing the importance of individuals within.

Although many previous studies have raised topic on why knowledge management is crucial for an organization, only few have explained how the process of identifying, capturing, sharing, and creating knowledge in the organization. Knowledge is available at various levels of an organization. According to David and Fahey (2000), knowledge is divided into three levels that comprise individual, group, and organizational knowledge. Ipe (2003) tends to focus on knowledge at individual level. Although only at individual level, individual knowledge is important in knowledge creation at all levels of an organization. Hamzah *et al.* (2016) states that customer knowledge management will enhance the organizational profit and performance. However, in many organizations, the fundamental aspect of employee-customer individual interactions is often overlooked. Employees' knowledge in serving customers should be seen as individual competences that must be grasped by every employee at sales and not only depend on the managerial role. Employee knowledge competence in understanding customers' needs and preferences is the fundamental competence to be mastered to support organizational performance.

Researchers believe that when customers use services or products, they receive a lot of knowledge and experiences. Knowledge serves an important resource for an organization that brings competitive excellence to the organization. As for customers, knowledge is required to perform a purchase by choosing the best goods or services provided by the company. Customer knowledge management involves a process

related to identification and acquisition of customer information as well as the process of customer knowledge creation. Mehdibeigi and Deghani (2016) assert that customer knowledge management influences the organization's agility and effectiveness. From the view of external knowledge, customer knowledge is seen as an important resource to support new product development, market opportunity sensing, and to improve long term relationships with customers.

**H<sub>4</sub>:** The higher degree of knowledge creation competence, the more marketing performance.

## 2.6 Market Sensing Capability and Marketing Performance

Market orientation can be understood as a market intelligent effort involving market target and also competitors. Market orientation is a part of organizational culture that effectively and efficiently works in creating superior values and business sustainability on business performance (Narver and Slater, 1994; Sin *et al.*, 2005). Market orientation is also a collection of behaviors that affects on the implementation of strategies on how people interact with the environment and adapt to the changes (Dobni, 2010). Sensing capability is a unique capability of an organization in sensing the market by scanning and searching through exploration of technology and market to develop new products (Dentoni *et al.*, 2014; Osakwe *et al.*, 2016). Furthermore, market sensing capability is the company's ability in responding the market situation which is designed to maintain customers, improve distribution channel quality, or surpassing competitors. A company's ability in sensing the market is based on the existence of continuous market sensing activities may give responses in increasing profit and growth for the company's performance (Lindblom *et al.*, 2008).

Marketing performance is seen as a concept used to measure the extent of which

market achievement has been achieved by a product produced by a company. Several indicators used to assess marketing performance include sales turnover, sales return, marketing coverage area, and marketing improvement (Carbonell and Escudero, 2010; Cater and Pucko, 2005). Marketing sensing capability is a way to put together the company's potentials to always be alert in encountering the rapid business environmental changes, especially in developing new products which are in accordance to the market expectations. Market sensing capability positively and significantly influences a unique product development (Akman and Yilmaz, 2008), that further affects on business performance improvement (Amin *et al.*, 2016; Boso *et al.*, 2013; Bradshaw *et al.*, 2008).

**H<sub>5</sub>:** The higher degree of market sensing capability, the more marketing performance.

## 2.7 Creative Product Development and Marketing Performance

Product development is a marketing strategy that requires marketable new product creation, the process of application changes for new technology into the marketable products. Product development is a series of activities which begins from market perception and opportunity analyses and ends at the stages of production, sales, and product delivery (Ulrich and Eppinger, 2011). A market-oriented company demonstrates excellences in comprehending the customers, market, and competitors. Companies which are able to design their products based on the customers' expectations will be able to survive amid the competition because the products are still attractive for the customers. The similar finding is also discovered by Bharadwaj *et al.* (1993); Carbonell and Escudero (2010) that a company's capability to always innovate the products will preserve the products to keep in accordance to the needs and expectations of the customers.

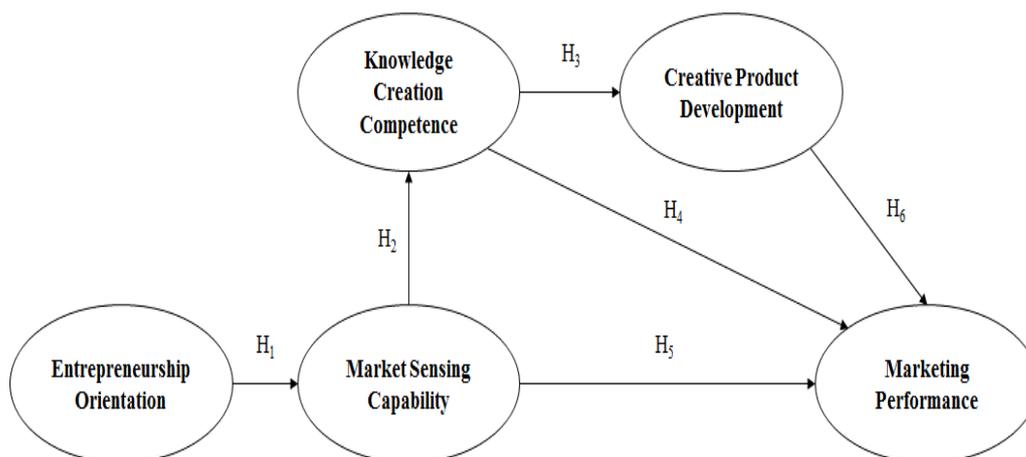
Innovation product is basically to meet the market demands, thus, product innovation is one of the elements that can be used as the competitive excellence for a company (Soltani *et al.*, 2014; Zuckerman, 2005). Several indicators used in assessing innovation are creativity force, technical innovation, design changes, distribution system changes, and payment administration system. Technical innovation is the innovation on the company's process in producing products (Hsu, 2011). Design changes are the company's abilities in producing products based on the customers' demands. Creativity efforts are the company's abilities in creating or developing novel ideas.

**H<sub>6</sub>:** The higher degree of creative product development, the more marketing performance.

**2.8 Research Framework**

Based on the review of literature, we propose a research model that indicates the influence of entrepreneurship orientation in improving marketing performance which is mediated by market sensing capability. The hypotheses are summarized into the research model as seen in Figure 1:

**Figure 3.1. Development Model of Market Sensing Capability**



**3. Research Method**

**3.1. Population and Sampling**

This research was conducted with the population of owners or managers of SMEs Batik products in a community of batik craftsmen village in The City of Yogyakarta and Solo. This research was done with survey through questionnaires distributed to 150 respondents who are represented by direct owners or managers of SMEs. The sampling technique used was non-probability, in which the samples are selected based on appraisals or opinions according to the research purpose and objective study. The samples involved

150 respondents where the number has met the minimum criteria of minimum sampling standard on a study employing Structural Equation Modeling (SEM) tool of analysis (Hair *et al.*, 2010).

**3.2. Research Instruments and Measurement**

The method of survey in this research used questionnaires as the research instrument by including open and closed questions which consist of items that represent independent and dependent variables. The questionnaire items used were adapted from the previous research that then developed by the researcher. The list of questions contains in the

questionnaire was 6 items of questions representing respondent's identity, 16 items of statements representing dependent variables, and 4 remaining items on independent variables. The questionnaires were designed using a ten-point of Likert scale with 1 = strongly disagree up to 10 = strongly agree.

Validity and reliability tests performed in this research attempted to test the research instrument. The validity test was done by employing construct validity with Confirmatory Factor Analysis (CFA) assisted by SPSS 16.0 software. Prior to factor analysis test, Kaiser Meyer Olkin (KMO) and Bartlett tests were done first to test the relationship among each variable. The limitation of validity measurement is the score of KMO-MSA should be above 0.5 with significance level <0.05 that the variables can be predicted and analyzed further (Hair *et al.*, 2010). The result of the validity test showed the score of

KMO-MSA was at 0.801 with significance level 0.000. Therefore, all variables used here could be further analyzed. Besides, the research instrument validity is also determined by the amount of loading factor value. According to (Hair *et al.*, 2010), the practical rule of acceptance of loading factor  $\geq 0.40$ . The validity test showed that all of the instruments used had more than 0.40 of loading factor.

Reliability test is performed to calculate dependability and consistency of a research instrument. The reliability of this research was assessed with Cronbach Alpha coefficient 0.60 to 0.80 which indicates the acceptable level of reliability (Sekaran, 2003). The reliability test indicated that all the instruments used here had more than 0.7 of Cronbach Alpha score. The validity and reliability testing scores of all items used are presented in the following Table 1.

**Table 1. Validity and Reliability Testing Results**

Variables		Indicators	Factor Loading	Cronbach's alpha
Entrepreneurship Orientation	EO1	The ability to innovate continuously	0.736	0.785
	EO2	Risk-taking	0.607	
	EO3	Proactiveness	0.701	
	EO4	Competitive aggressiveness	0.729	
Market Sensing Capability	MSC1	Able to sensing the products fit market needs	0.911	0.934
	MSC2	Understand the effective promotion strategy	0.914	
	MSC3	Know the information of competitors' products	0.914	
	MSC4	Scanning an effective distribution channel	0.859	
Knowledge Creation Competence	KCC1	Market information socialization	0.898	0.956
	KCC2	Externalization the tacit to be explicit market knowledge	0.949	
	KCC3	Combination the explicit knowledge	0.932	
	KCC4	Internalization the explicit knowledge to tacit	0.904	
Creative Product Development	CPD1	Offering the new product design	0.893	0.934

Variables		Indicators	Factor Loading	Cronbach's alpha
	CPD2	Offering the new product features	0.804	
	CPD3	Offering the new values of product-base local wisdom	0.903	
	CPD4	Offering the creative product-base customer desire	0.931	
Marketing Performance	MP1	Number of unit selling	0.871	
	MP2	Sales growth	0.930	0.935
	MP3	Market share	0.923	
	MP4	Profitability	0.803	

#### 4. Empirical Analysis And Results

##### 4.1. Respondents Profile

The total respondents of this research were 150 respondents, consisting of 137 male (91.33%) and 13 females respondents (8.67). In terms of age, 7 respondents (4.67%) were 20-30 years old; 47 respondents (31.33%) were 31-40; 69 respondents (46%) were 41-50; and 27 (18%) respondents were above 50 years of age. In relation of business ownership status, 143 respondents (95.33%) were the owners and 7 (4.67%) were managers. We

also listed the period of business where 13 respondents (8.67%) run the business for 0 – 3 years; 79 respondents (52.67%) had 3.1 – 5 years of business period; and 58 (38.67%) had the business for more than 5 years. Next is the category of assets owned where 69 respondents (46%) had up to 100 million of assets and 81 (54%) had 101 million to 1 billion rupiahs of assets. Meanwhile, no respondent has above 1 billion rupiahs of assets. The following Table 2 depicts the profile of each respondent.

**Table 2. Respondents Profile**

Item	Description	Frequency N=150	Percentage (%)
<b>Gender</b>	Male	137	91.33
	Female	13	8.67
<b>Age</b>	20 – 30 years old	7	4.67
	31 – 40 years old	47	31.33
	41 – 50 years old	69	46.00
	> 50 years old	27	18.00
<b>Status</b>	Owner	143	95.33
	Manager	7	4.67
<b>Period of Business</b>	0 – 3 years	13	8.67
	3.1 – 5 years	79	52.67
	> 5 years	58	38.67
<b>Asset</b>	0 – 100 million IDR	69	46.00
	101 – 1000 million IDR	81	54.00
	>1000 million IDR	0	0

##### 4.2. Data Normality

Structural equation model was used as a stage in performing data analysis. One of the requirements in structural equation model is that the data should be normally distributed. Data normality is determined with critical ratio (CR) scores ranged between -2.58 until

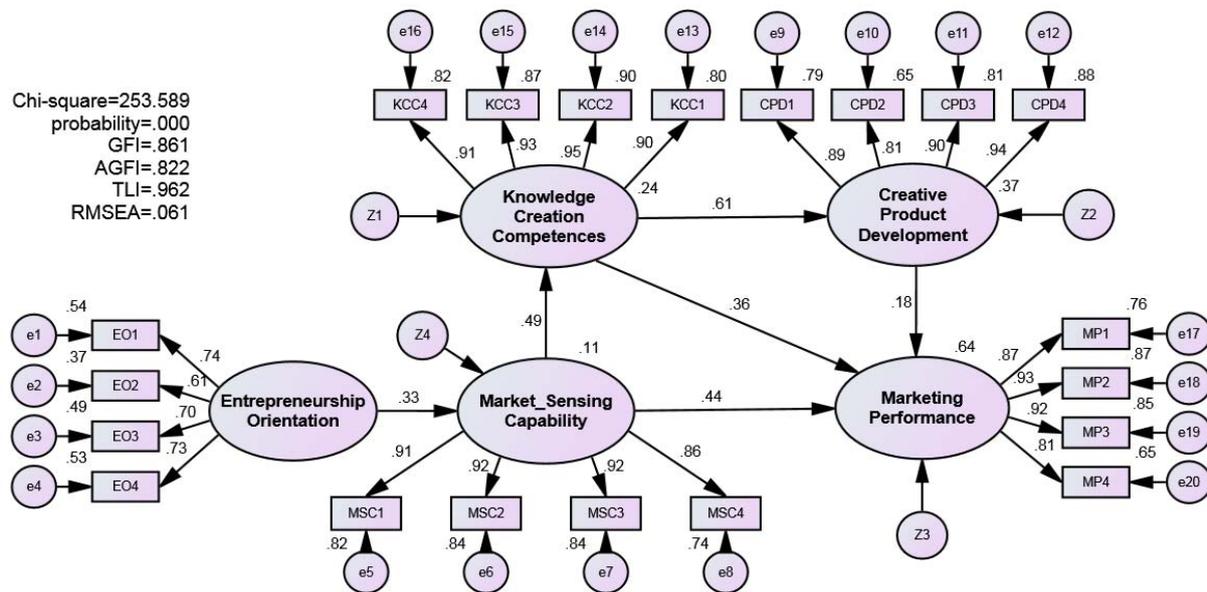
2.58 (Ferdinand, 2013). Based on the normality testing done to the data used shows no normal distribution, hence, the next step taken was by removing extreme values of respondents' answers.

### 4.3. Data Analysis Results by SEM

The data collected in this research were then analyzed used Structural Equation Model

(SEM) assisted with AMOS 21 software. The analysis result of full structural equation model is presented in Figure 2.

**Figure 2. Full Structural Equation Model**



This research used several indices of goodness to evaluate the goodness of model thoroughly. The Goodness of fit of model analyses used were GFI index (GFI) = 0.861; the adjusted GFI index (AGFI) = 0.822; Tucker-Lewis Index (TLI) = 0.962; and root mean square of approximation (RMSEA) = 0.061. These indices of goodness of fit of

model indicate the good fit for confirmatory measurement model than leads to a conclusion that each indicator or dimension measuring each latent variable provides good results, i.e. critical ratio (CR) above 2.58. The results of hypotheses testing, in which all of the hypotheses proposed are supported, are presented in Table 3.

**Table 3. Hypotheses Testing Results**

		Estimate	S.E.	C.R.	Hyphoteses Test
H1 : Market_Sensing_Capability	<--- Entrepreneurship_Orientation	.454	.133	3.406	Supported
H2 : Knowledge_Creation_Compentences	<--- Market_Sensing_Capability	.523	.089	5.890	Supported
H3 : Creative_Product_Development	<--- Knowledge_Creation_Compentences	.643	.082	7.836	Supported
H4 : Marketing_Performance	<--- Market_Sensing_Capability	.474	.078	6.076	Supported
H5 : Marketing_Performance	<--- Creative_Product_Development	.170	.071	2.409	Supported
H6 : Marketing_Performance	<--- Knowledge_Creation_Compentences	.365	.078	4.645	Supported

## 5. Discussion

The main purpose of this research is to empirically assess the influence of entrepreneurship orientation in improving marketing performance mediated by market sensing capability which is supported by knowledge creation capability and creative product development. In general, this research assesses 6 research hypotheses empirically and found several interesting results. Hypothesis 1 (H<sub>1</sub>) argued that the higher entrepreneurship orientation, the higher market sensing capability, and this hypothesis is supported here. This research affirms that SMEs with high entrepreneurship orientation will possess high market sensing capability in searching for information on market target, customers tastes, superior products, level of competition. This result is supported by the previous researches which found that SMEs with high entrepreneurship orientation will continuously seek for business opportunities in order to improve their performance and boost their growth (Ma *et al.*, 2012). Every company with market orientation should actually have market sensing capability as an ability to keep learning the market. Matsuno *et al.* (2002) asserts that entrepreneurship orientation leads towards market orientation where the higher level of entrepreneurship orientation, the higher level of market orientation. An interesting fact found in this research in which SMEs in Indonesia have yet high entrepreneurship orientation and are still weak in risk-taking bravery.

Hypothesis 2 (H<sub>2</sub>) claimed that the higher market sensing capability, the higher knowledge creation competence, and it is supported here. This research confirms that SMEs with capability in developing market sensing capability will increase their superior marketing performance. This finding clarifies the previous research in which market sensing capability is a market-oriented approach that needs to be possessed by a company in order to understand the needs, desires, and demands

of market (Day, 1994). Market sensing capability is a part of market orientation which is a combination of knowledge management measured by the knowledge absorption, transfer, and knowledge creation in generating superior customer value creation (Cepeda-Carrion *et al.*, 2017).

Hypothesis 3 (H<sub>3</sub>) proposed that the higher knowledge creation competence, the better creation of creative product development, and this hypothesis is supported. This research revealed that the implementation of knowledge creation competence culture in SMEs will encourage the creation of new knowledge realized through creative products based on the market tastes and expectations. This result is confirmed by the previous research which emphasized that organizational knowledge creation is the key of business innovation process that will further affect on company's performance (Nonaka and Takeuchi, 1995). To create superior values, a company needs to always combine and regenerate the organizational capabilities, focus on customers, and permanently adapt with the environmental changes (Cepeda-Carrion *et al.*, 2017).

Hypothesis 4 (H<sub>4</sub>) suggested that the higher knowledge creation competence, the higher marketing performance, and the hypothesis is supported in this research. Customer knowledge is seen as an important resource in supporting new product development, market opportunity sensing, and improving the long term relationship with customers. An organization must have a good knowledge creation competence in order to improve its marketing performance. This finding underlined the argument of Mehdibeigi and Dehghani (2016) in which customer knowledge management affects on agility and effectiveness of an organization that will further increase the organization's profit and performance (Hamzah *et al.*, 2016).

Hypothesis 5 (H<sub>5</sub>) suggested that the higher market sensing capability, the higher

marketing performance, and this hypothesis is supported here. A company with market orientation obviously tries to gain market information in dealing with its main goal of improving performance. The higher market sensing capability possessed by the company, the more information acquired that certainly converts into the company's excellence in responding the information to become effective marketing strategy. This result strengthens the previous research which stated that suggested market orientation as a part of an organizational culture can be used as a path in creating superior values and business sustainability that eventually will influence the business performance (Narver and Slater, 1994; Sin *et al.*, 2005). Market sensing capability is designed to retain customers, improve the quality of distribution channel, or surpass the competitors that will lead to responses to increase profit and growth for the company's performance (Lindblom *et al.*, 2008).

Hypothesis 6 (H<sub>6</sub>) proposed that the higher creative product development, the higher marketing performance, and it is supported by this research. This result highlights the previous research finding which stated that the product development should be more creative and innovative for their huge effects on the improvement of marketing performance (Andrews and Smith, 1996), customers tend to prefer products with high creativity and unique (Varadarajan, 2015). Marketing performance is influenced by environmental, product innovation, and market orientation factors which give positive impact on performance improvement (Srivastava *et al.*, 1999).

## **6. Conclusions, Managerial Implications, Limitations, And Future Research**

### **6.1. Conclusions**

This research stems from the disparity exists on research of the effect of

entrepreneurship orientation towards marketing performance where most researchers found the significant influences while other found no effect. This research attempts to fill the research gap by proposing the role of market sensing capability as a medium in improving the marketing performance effect. The result of this research supports the initial expectation that the higher entrepreneurship orientation, the higher market sensing capability that eventually increases marketing performance. Another result of this research shows the availability of influence of entrepreneurship orientation in improving marketing performance as the medium role of market sensing capability. The next finding confirms that the higher market sensing capability, the higher knowledge creation competence to produce creative product development that will eventually increase marketing performance in Small and Medium Enterprises (UKM) in Indonesia.

Entrepreneurship orientation is still considered as an approach that is able to improve a company's performance. A company with entrepreneurship orientation as its organizational culture will tend to form an in-depth understanding of the needs to be proactive to market opportunities, highly dynamic changes of market, risk-taking courage, and flexibility against business environmental changes. However, entrepreneurship orientation as an internal resource had better to pass market orientation as an external competence development in order to figure out the market tastes, superior products, and information about competitors in attaining superior performance. This finding affirms the argument of Matsuno *et al.* (2002) that the mediating role of market sensing capability provides contribution on body of knowledge of marketing science.

### **6.2. Implications**

Based on the research findings, this research found some evidences of data

analysis. The output of the findings recommends several implications on policy as an input for entrepreneurs in SMEs. Some strategic alternative suggestions are elaborated as follows: First, not every small company has a good entrepreneurship orientation; consequently, many of those find difficulties to develop their business, even though they are highly characterized by the element of innovation. To maximize the embedded basic ability of innovation, the process of innovation should be backed up by market knowledge so that the innovation performed is in accordance to the market needs. Second, SMEs are suggested to possess a high market sensing capability in order to improve their performance. Third, SMEs are suggested to run their business process based on good knowledge resources, related to the utilization of technology, a good customer knowledge management, and also the implementation of learning orientation to produce creative product development as their competitive excellence.

### 6.3. Limitation and Future Research

This research does have some limitations. First, the samples used were limited to SMEs with similar business, i.e. batik. For the future research, the samples can be extended to SMEs in all sectors. Second, the variables were still restrictive in exploring the model of market sensing capability. For the similar future research, it is suggested for researchers to include variable of speed in penetrating market to excavate the correlation between entrepreneurship orientation and marketing performance.

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*Healthcare Financial Management* 59  
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