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Article

Driving marketing performance through market-based innovation capability: Resource advantage theory of competition

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Abstract: Using the Resource Advantage Theory approach, this research aims to examine the gap between entrepreneurial opportunities and marketing performance, with market-based innovation capability acting as a mediating variable. The data collection method used non-probability sampling with a purposive sampling technique. The data that was eligible to be processed were 250 respondents. Hypothesis testing was used using the AMOS application. The research results show that market-based innovation capability can improve marketing performance as a mediating variable. In addition, market penetration strength can also improve marketing performance. As a strategic variable, market-based innovation capability (MBIC) converts entrepreneurial opportunities into competitive advantages relevant to market needs. In addition, business actors become more adaptive and responsive to market dynamics, increasing competitiveness sustainably. MBIC, rooted in the Resource Advantage Theory of competition, contributes to developing market-based innovation strategies in the UMKM sector.

Keywords: entrepreneurial opportunity; market-based innovation capability; market penetration; marketing performance

1. Introduction

A dynamic business environment encourages small and medium enterprises to orchestrate resources to respond to market changes quickly and effectively. Resource orchestration enables SMEs to create products and services that are innovative and have added value relevant to market needs (Mazaheri et al., 2022; Xie et al., 2023). The ability of SMEs to proactively identify and mobilize resources contributes to the development of products that are in line with market trends, which in turn strengthens competitiveness and improves marketing performance (Fatonah et al., 2022). Resource orchestration is a significant strategy to achieve sustainable competitive advantage (Linde et al., 2021; Queiroz et al., 2017).

Consistent resources develop value-added products as competitive differentiators and maintain a strong position in the market (Taghvaee et al., 2023). A strategic focus on innovation addresses evolving consumer needs and ensures continued relevance in dynamic markets (Taghvaee et al., 2023). Empirical research supports the positive impact of opportunity exploration on marketing performance (Ge et al., 2016; Mason, 2018; Shan et al., 2019), but other studies suggest that entrepreneurial opportunity exploration does not always have a positive impact on marketing performance (Gaglio

et al., 2001; Goksel Yalcinkaya et al., 2007). This inconsistency highlights the complexity of linking opportunity exploration directly to performance and emphasizes the importance of market-based innovation capabilities as a mediating variable (Mathafena et al., 2023; Shen et al., 2020). Rooted in the Competitive Resource Advantage Theory, this capability transforms entrepreneurial opportunities into tangible marketing successes by leveraging a firm's resources to generate differentiated value (Peranginangin, 2015). Therefore, a deeper understanding of these interactions can guide strategic decisions that align with market needs and superior marketing performance (Banmairuroy et al., 2022; Rehman et al., 2022).

Market-based innovation capability (MBIC), rooted in the Resource Advantage Theory of Competition (RATOC), is a critical mediating variable that bridges entrepreneurial opportunities with marketing performance. MBIC encourages companies to convert entrepreneurial opportunities into superior market solutions, proactively absorb market information, understand customer needs and develop relevant products. This capability encourages MSMEs to respond to opportunities and create new value that is more aligned with market expectations. This strengthens the business value proposition, creates a sustainable competitive advantage, and improves marketing efficiency through strategic alignment between entrepreneurial opportunities and market demand. MBIC plays a central role in ensuring that entrepreneurial efforts can be translated into superior marketing performance, making companies more responsive and adaptive in a competitive environment. The capability approach and resource-based view enrich the theoretical foundation and offer new perspectives on the influence of MBIC in supporting sustainable competitiveness.

Exploring market opportunities has the potential to produce market-based products (Cho et al., 2020; Qu et al., 2022). The ability to continuously develop products with added value can be an essential differentiator in winning the competition and maintaining a solid position in the market (Knight et al., 2020). This study aims to test the variable of market-based innovation capability to address the research gap (Fatonah et al., 2022). Market-based innovation capability is a company's ability to develop products based on market demand and needs (Dogbe et al., 2020). The premise of this study is that the higher the ability of SMEs to explore market opportunities, the greater their ability to create market-based product innovations, thereby driving increased business performance (Didonet et al., 2020; Fatonah et al., 2022).

2. Literature review and hypotheses development

2.1. Market-based innovation capability in resource advantage theory of competition

The dynamic business environment requires companies to adapt quickly and consistently manage the skills of their resources (Dirani et al., 2020). Resources with superior competencies play a crucial role in producing products that meet market demand and contribute to the company's competitive advantage (Chirico et al., 2024; Peretz-Andersson et al., 2024). The Resource Advantage Theory of Competition underlines the importance of resource competencies as a driver of sustainable added

value (Hunt et al., 1996; Hunt et al., 2012). The premise of this theory is that corporate managers have a central role in configuring strategies that leverage resource competencies to respond to competitive dynamics and market imbalances, which in turn drive innovation and corporate performance (Hunt et al., 2000; Hunt et al., 2012). To achieve a competitive advantage, companies need to continuously optimize and mobilize existing resources to produce innovative products that are relevant to market needs and anticipate changing trends and evolving demands (Banmairuroy et al., 2022; Varadarajan, 2020). Superior resource competencies not only serve as a basis for short-term success but also as a foundation (Foss et al., 2021; Mulang, 2021).

Developing sustainable corporate resources is essential to foster a deeper understanding of market changes and preferences and to create innovative solutions that meet market demands (Madhavan et al., 2022; Sabando-Vera et al., 2022). Innovative performance is a step to respond to market dynamics while mediating varying market-based innovation capabilities by adopting the theory of competitive resource advancement (Khanra et al., 2022; Saunila, 2020). Market-based innovation capabilities are strategic product development capabilities (Iqbal et al., 2021). Companies can strengthen their market position and significantly improve marketing performance. Innovation is a tool for creating value and maintaining a competitive advantage (Ghantous et al., 2020; Hiong et al., 2020). This proves that in-depth market-based innovation is a response to market changes and a strategic resource to drive corporate growth and sustainability (Bongini et al., 2021; Falahat et al., 2020).

2.2. Entrepreneurial opportunity and market-based innovation capability

Entrepreneurial opportunity positively affects Market-Based Innovation Capability (MBIC) (MBIC) (Salvato et al., 2020). This is based on the understanding that well-identified entrepreneurial opportunities allow innovation to be directed to market needs (Tang et al., 2023). As a growth strategy, entrepreneurial opportunity provides a driver to recognize and exploit untapped market trends and create relevant market-based innovation opportunities (Bapoo et al., 2022). Companies can develop innovation capabilities that are oriented towards technology or products and focus on creating market value through a deep understanding of consumer behaviour, market preferences, and competitive conditions (Wahyono et al., 2022).

The right entrepreneurial opportunities encourage companies to be responsive to market changes, strengthening the ability to design and implement innovations based on market needs (Kusa et al., 2021). Companies that can identify and exploit entrepreneurial opportunities will be better able to build market-based innovation capabilities that increase competitiveness and strengthen their position in competitive markets (Saunila, 2020). Companies that can identify and exploit entrepreneurial opportunities will be better able to build market-based innovation capabilities that increase competitiveness and strengthen their position in competitive markets (Ferreira et al., 2020; Hanaysha et al., 2022). The hypothesis that entrepreneurial opportunities positively affect MBIC has a strong basis in innovation management theory and practice (Hanaysha et al., 2022; Lam et al., 2021). Based on this, the following hypothesis was proposed:

H1: Entrepreneurial opportunity positively affects market-based innovation capability.

2.3. Market based innovation capability and marketing performance

The competitive environment encourages companies to focus on innovation and consistently develop new products (Morgan et al., 2020; Querbes et al., 2018). Reliable resources are needed to explore consumer market-based needs (Hutahayan, 2021; Ozkaya et al., 2015). The ability of resources to collect and process market information will encourage MSMEs to understand every change in market needs (Kim et al., 2010; Liu et al., 2018). Understanding consumer needs and preferences and exploring market opportunities impact the creation of new products. The market needs, and trends encourage business actors to develop new products that consistently suit market demand. Market-based product innovation will enable companies to achieve business performance (Hiong et al., 2020; Udriyah et al., 2019).

Studies (Hou et al., 2019; Song et al., 2019) state that innovation is a company's strength in anticipating competitors and defending the market. Innovation comes from a company's ability to process information and respond to consumers (Ozkaya et al., 2015). In line with this, research (Yu et al., 2020) states that innovation aims to build business strength and is part of the company's response to market changes. Business actors always develop resource knowledge to develop innovation performance (Escrig-Tena et al., 2018; Zehir et al., 2015). Market-based innovation is the key to differentiating a company from its competitors and serves as a customer preference (Song et al., 2019). Research (Haryanto et al., 2016; Saunila et al., 2014; Tho et al., 2011) states that innovation contributes significantly to marketing performance. Based on this, the following hypothesis was proposed:

H2: Market-based innovation capability positively affects marketing performance.

2.4. Market based innovation capability and market penetration

Company performance is measured through its production of highly valued innovative products compared to its competitors with the support of reliable resources and strategies for entering the market (Bhawsar et al., 2015; Porter, 1990). The competitive power is derived from unique products or ones with distinct designs from any other products in consideration of comparative and competitive advantages (Blazeska et al., 2016; Gouws et al., 2011; Rytko, 2016). Resource competency explores market opportunities and will encourage the creation of market-based products (Rengkung, 2022). Market-based products influence the company's strength in reaching new segments and markets (Timsit et al., 2015).

Resources capable of developing market-based innovation performance are believed to boost competitors' markets (Hughes et al., 2008). The company's ability to penetrate, develop, and expand the market significantly impacts marketing performance (Ferdinand et al., 2015; Hiong et al., 2020). Market-based product innovation has a significant impact on a company's market penetration. In responding to market needs, companies can create more relevant and attractive consumer products (Song et al., 2019). Creating product differentiation will expand market share by

increasing the product's appeal to new consumer segments. Market-based product innovation allows companies to take advantage of opportunities, anticipate market trends, and meet consumer expectations (Canh et al., 2019). In this way, product innovation goes hand in hand with market needs, and companies can achieve higher penetration, strengthen their position in the market, and increase competitiveness (Udriyah et al., 2019). Several studies state that increasingly intensive resources spent developing a product-based market will positively affect increasing market coverage (Dogbe et al., 2020; Ferreras-Méndez et al., 2021). Based on this, the following hypothesis was proposed:

H3: Market-based innovation capability positively affects market penetration.

2.5. Market penetration and marketing performance

Market penetration strongly correlates with marketing performance due to the synergistic effect between market share expansion and strategy effectiveness. Increasing market penetration encourages SMEs to achieve a broader scale of operations and allows production costs to be reduced. This opens opportunities to offer products or services at more competitive prices and increase market attractiveness. Market penetration has an impact on a company's marketing performance. They have increased market share. Companies that successfully penetrate the market with their products or services can experience increased visibility and brand recognition, creating a solid foundation for further marketing strategies.

Market penetration strength refers to the ability of business actors to enter and capture existing market share. This shows the company's ability to present products that have an appeal that exceeds that of its competitors. Market penetration strength can be influenced by product differentiation. Product differentiation is a company's ability to develop products that offer unique features or benefits compared to competitors (Krush et al., 2016). The power of market penetration on marketing performance can be explained through several interrelated aspects: First, by increasing market share, companies can achieve better economies of scale. Second, Effective market penetration can also help companies gain profits when the value of products or services increases as the number of users or customers increases. Third, Market penetration strength also expands their market share and achieves sustainable growth. An effective market penetration strategy can improve company performance by increasing economies of scale, exploiting network effects, strengthening relationships with distribution channel partners, and expanding market share by accepting new customers. Based on this, the following hypothesis was proposed:

H4: Market penetration positively affects marketing performance.

3. Research method

3.1. Sample and data collection

The research sample consisted of 250 business owners or managers of the Jepara and Klaten Regencies furniture industry. Non-probability sampling techniques were used because the population size was unknown. The method used was purposive sampling, based on specific criteria in a population (Sekaran et al., 2019). Non-

probability sampling and purposive sampling techniques have strong justification in this study. First, purposive sampling allows researchers to target respondents who meet relevant criteria precisely, namely MSME owners or managers who have been operating in Central Java for at least five years. This criterion is essential because the operational experience of five years or more represents business stability and extinction, which is a necessary basis for accurately starting market-based innovation capabilities and marketing performance. Second, Central Java was chosen because of the characteristics of the MSME market, which is dynamic and relevant to the context of entrepreneurship. This approach ensures that the data obtained truly represents subjects with deep insight into strategic decisions in MSME businesses, thus producing more valid and applicable findings in the context. The number of 250 samples referred to in the study (Joseph et al., 2006), shows that 100–200 samples exceed the maximum likelihood estimate and are more than ten times the total number of indicators.

3.2. Instrument validity and reliability measurement

Entrepreneurial Opportunity Exploration The items used to measure Entrepreneurial Opportunity Exploration were adopted and developed from the studies (Kuckertz et al., 2017; Short et al., 2010; Wang et al., 2013). Market-Based Innovation Capability: The items used to measure Market-Based Innovation Capability were adopted from Blazeska et al. (2016), Gouws et al. (2011), Rytko (2016). Market Penetration: The items used to measure Market Penetration were adopted from Hannu et al. (2013), Jacobs et al. (2011a), Jacobs et al. (2011b). Marketing Performance: The items used to measure Marketing Performance were adopted from Leiponen et al. (2010), Voss et al. (2000), Wu (2014). The conceptual model of this research is shown in **Figure 1**, consisting of four variables:

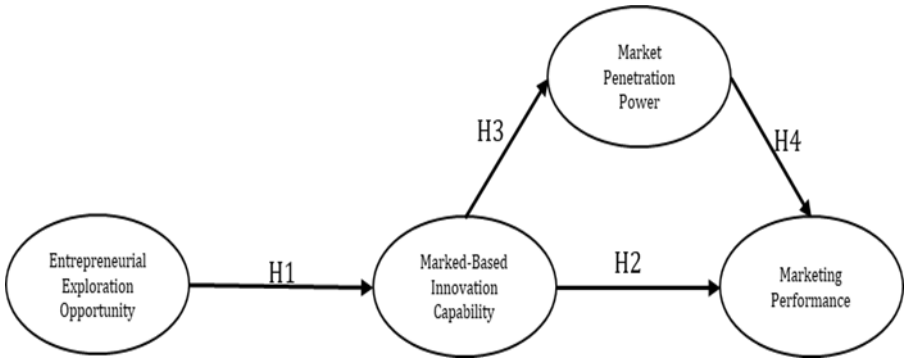

Figure 1. Research framework.

4. Analysis

4.1. Measure reliability and validity

Before the questionnaire was distributed to the respondents, a pilot study was carried out with 40 colleagues to ensure that all questions in the instrument were well understood. The test was carried out afterwards. The results show Corrected Item-Total ≥ 0.05 and Cronbach's Alpha ≥ 0.7. The questionnaire was then distributed, and a Reliability test was carried out to ensure the extent of consistency of the instrument

of a concept (Sekaran, 2003). The test results in loading factor ≥ 0.5, Cronbach's Alpha ≥ 0.7 (Joseph et al., 2010) and *CR* value ≥ 0.7. The test results in **Table 1** show that all results are valid and reliable since they meet the requirements and are feasible for further tests.

Table 1. Measurement validity and reliability.

Indicators	Items Scale	Reference	Standardized loadings	Cronbach's alpha	CRI	CV-AVE
Entrepreneurial Exploration Opportunity				0.787	0.838	0.576
EO1	We are exploring new business opportunities.	(Kuckertz et al., 2017; Short et al., 2010; Wang et al., 2013).	0.783			
EO2	Anticipating market changes into opportunities.		0.768			
EO3	Knowledge in the exploration of opportunities and competence to develop products.		0.725			
Market-Based Innovation Capability				0.714	0.823	0.615
MBIC1	exploring new business opportunities.	(Blazeska et al., 2016; Gouws et al., 2011; Rytko, 2016)	0.719			
MBIC2	Anticipating market changes into opportunities.		0.683			
MBIC3	Knowledge in exploration of opportunities competence to develop products.		0.751			
Market Penetration Power				0.776	0.828	0.537
MPP1	Extend our marketing area.	(Hannu et al., 2013; Jacobs et al., 2011a; Jacobs et al., 2011b)	0.722			
MPP2	Reach new market segment.		0.798			
MPP3	Add the number of products in the market.		0.672			
Marketing Performance				0.803	0.840	0.585
MP1	sales significantly increased	(Leiponen et al., 2010; Voss et al., 2000; Wu, 2014)	0.758			
MP2	profit significantly increased		0.821			
MP3	customers significantly increased		0.711			

4.2. Statistical analysis and result

The research data were analyzed using the statistic software Structural Equation Modeling (SEM) AMOS 24.0 to identify the measurement model and analyze the causal relationship and the regression for a good model fit (Arbuckle, 2016). **Figure 1** shows the conceptual model, which may be used as the base to test the four hypotheses in the research. From the modelling results, as presented in **Figure 2**, it is found that three hypotheses support this idea, and one does not. The research findings show that orientation exploration opportunity significantly positively affects market-based innovation capability, market penetration power, and Market innovation affects marketing performance. However, market penetration power does not significantly affect marketing performance.

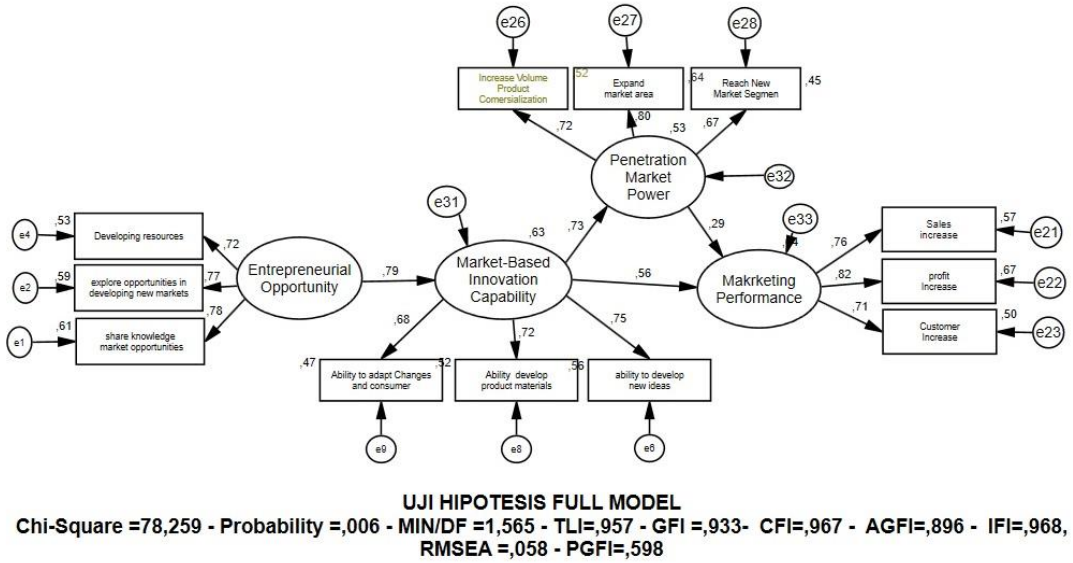

Figure 2. Full structural equation model.

Table 2. Results of hypotheses testing.

Hypothesis			**Standardized estimate**	**Critical ratio**	***P*-Value**	**Result**
H1: Market Based Innovation Capability	←	Entrepreneurial Opportunity	736	7558	***	Support
H2: Marketing Performance	←	Market Based Innovation Capability	517	4110	***	Support
Market Based Innovation Capability mediates the Influence Entrepreneurial Opportunity and Marketing Performance						
Step 1: Entrepreneurial Opportunity → marketing performance			482	5890	***	Support
Step 2: Entrepreneurial Opportunity → Market Based Innovation Capability			547	6835	***	Support
Step 3: Market Based Innovation Capability → Marketing Performance			398	4596	***	Support
Step 4: Entrepreneurial Opportunity → marketing performance						
H3: Market Based Innovation Capability	←	Market Penetration	592	6623	***	Support
H4: Market penetration	←	Marketing Performance	325	2198	0.028	Support
Goodness of Fit Parameter				Cut Off Value	Testing Results	Conclusion
Probability				≥ 0.05	0.006	Fit
CMIN/DF				≤ 2.00	1.565	Fit
GFI				≥ 0.90	0.933	Fit
AGFI				≥ 0.90	0.898	Fit
TLI				≥ 0.95	0.957	Fit
CFI				≥ 0.95	0.967	Fit
RMSEA				≥ 200	0.058	Non Fit

The recommended values are *AGFI* ≥ 0.90 (Joseph et al., 2010), *GFI* > 0.90, *TLI* > 0.90 (Arbuckle, 1997), *CFI* > 0.95 (Hu et al., 1999), and RMSEA < 0.08 (Rigdon, 1996). The model fit test results are Probability value (0.006), *CMIN*/*DF* value (1.565), *GFI* value (0.933), *TLI* value (0.957), *CFI* value (0.967), and RMSEA value (0.058), as presented in **Table 2**. In a complete model in **Figure 2**, we may conclude the test

results that all of the construct parameters meet the defined criteria and the model meets the fairly good standard goodness of fit.

5. Research conclusions and implication

5.1. Research conclusion

The data processing results show that market-based innovation capabilities significantly contribute to the performance of SMEs (Hiong et al., 2020). SMEs' efforts to pay attention to market changes and explore opportunities in creative ways have become the main force that leverages SMEs' performance (Ambroise et al., 2020; Tabeau et al., 2017). SMEs consistently follow market trends and innovate in products and services that have the potential to expand market share (Božic et al., 2015; Pangestu, 2014). Creativity in identifying and exploiting business opportunities (Božic et al., 2015; Pangestu, 2014). Creativity in identifying and exploiting business opportunities encourages MSMEs to be competitive even amid competition (Koentjoro et al., 2020; Rengkung, 2022). Performance and strengthen market position (Badrinarayanan et al., 2019). The ability to create market-based products acts as the main driver of business growth and sustainability and ensures competition in a dynamic market (Andersén et al., 2021; Smals et al., 2020). Market-based innovation capabilities drive marketing performance in a dynamic business environment. The research results show that a company's ability to identify and explore market opportunities is central to increasing competitive advantage and business performance.

This capability helps companies to develop resources to produce innovative products and improve business performance. These findings provide a vital insight into the importance of leveraging resources. Regarding Resource Advantage Theory, SMEs can orchestrate resources by observing market trends and creatively exploring market opportunities (Peranginangin, 2015). This capability impacts the ability of resources to develop market-based innovation (Pelin et al., 2012). SMEs that integrate market-based innovation capabilities into their business strategy can improve overall performance, strengthening their position in the market and achieving sustainable growth (Kurniawan et al., 2021). Orkestrasi Resource orchestration creates added value that is difficult for competitors to imitate (Andersén et al., 2021; Asiaei et al., 2021).

5.2. Research implications

The market-based innovation capabilities of SMEs have implications for increasing competitiveness and business growth (Mazaheri et al., 2022). The better SMEs can observe market trends and adapt them to products and services, the more likely they will have a solid competitive advantage (Srivastava et al., 2001). MSEs who can orchestrate resources in creating market-based innovations improve business performance and expand market share (Tikas, 2023). as well as being a critical factor in the success and sustainability of MSMEs as well as developing and competing in a dynamic market (Linde et al., 2021; Liu et al., 2022; Xie et al., 2023; 2024). In line with this, resource orchestration becomes leverage in improving innovation performance (Benzidia et al., 2020).

The managerial implications of these findings provide a strategic basis for companies to optimize resources to improve innovation performance and business performance. A careful and creative exploration process allows SMEs to discover business potential they may have never considered. Companies must quickly respond to market changes by exploring every opportunity and taking risks (Ahuja et al., 2001). This courage is reflected in how the company develops its resources to create innovative products according to market demand (Lisboa et al., 2011). Exploration of market-based product development can improve business performance (Vorhies et al., 2011).

Market changes and competition encourage SMEs to explore opportunities to compete and maintain business performance (Morgan et al., 2009; Vorhies et al., 2011; Yalcinkaya et al., 2007). The Resource Advantage Theory states that the ability of SMEs to orchestrate resources has a significant impact on the company's innovation performance. The ability of firms to leverage market-based innovation is one of the bases for triggering market imbalances. Market-based innovation capabilities are developed to respond to dynamic market needs that can improve market performance (Hiong et al., 2020).

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