

Jamaludin, Maun et al.

## Article

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## FINANCIAL ECONOMICS | RESEARCH ARTICLE

# Market orientation and SCM strategy on SME organizational performances: the mediating effect of market performance

Maun Jamaludin<sup>1\*</sup>, Hari Busthomi<sup>2</sup>, Soma Gantika<sup>2</sup>, Abdul Rosid<sup>1</sup>, Erry Sunarya<sup>3</sup> and Tuah Nur<sup>3</sup>

**Abstract:** This study aims to examine the effects of market orientation and SCM strategy on SME financial performance and operational performance by using market performance as the mediating variable. A simple random sampling technique was employed. A total of 150 SME managers and owners participated in this study. By using Structural Equation Model (SEM) with AMOS 20 software, the results found the positive effects of market orientation on market performance and on financial performance. A positive effect was also obtained in examining the relationship between SCM strategy on market and operational performances. Market performance is also empirically proven to have a significant influence on operational performance. However, the results found no significant influence of market orientation on market and financial performances. The mediating testing showed that market performance strengthens the effect of SCM strategy on operational and financial performances. The results practically highlight the need for SMEs to rely on aspects of supply chain sustainability and be oriented to existing consumer demand patterns to encourage increased and sustainable business performance. Theoretically, the findings reveal SMEs' emphasis on the strength of SCM strategy as a marketing focus and underscore the need to satisfy end customers and supply chain management members.

**Subjects:** Financial Management; Services Marketing; Marketing Management

**Keywords:** market orientation; SCM Strategy; Market Performance; Financial Performance; Operational Performance

## 1. Introduction

Small and medium-sized enterprises (SMEs) have become one of the backbones of the Indonesian economy and have historically proven capable of surviving the 1998 Asian crisis. SMEs are also able to provide broad employment opportunities and help reduce the number of unemployed, by absorbing non-skilled and relatively low-educated workers. As a business with low-entry barriers in terms of capital and educational background, more and more small businesses are growing (Lofstrom et al., 2014). The rapid growth of SMEs has increased the degree of business competition. This competition does not only occur between business actors but also between suppliers. With increasingly intense competition, SMEs are also competing for suppliers who are performing well and for consumers by creating quality products to encourage consumer loyalty. In this context, managing relationships with customers and suppliers is more likely to have a positive impact on creating satisfaction and loyalty.

In the era of technological advances with the main characteristics of online marketing, the level of competition will encourage a product to grow and develop to a point where these products will be difficult to distinguish from one another. To win the competition, in marketing current products, manufacturers do not only rely on product quality, but also rely on the strategies implemented by the company. Here, there are two strategies that are generally used by companies, namely market orientation strategy and SCM strategy (Green et al., 2006).

Although SCM efforts sometimes fail to achieve the desired results, but SCM is now a strategic tool to improve competitive position and a major concern for top-level managers (Tukamuhabwa, 2011). Specific articles on SCM began to appear in the late 1980s as the focus on opportunities for competitive advantage began to shift from within the manufacturing plant, to relationships with suppliers, and then to closer relationships with customers (Sezhiyan et al., 2011). In the mid 90's, manufacturers have used the philosophy and practice of SCM in an effort to achieve cost efficiency and time efficiency, elevating purchasing and logistics functions to manufacturing and marketing levels (Siddh et al., 2017). Companies now see the adoption of SCM philosophy and practice as a means of gaining competitive advantage. The competitive advantage of SCM comes mainly from cost reduction and revenue increase, so it has a strong role in improving organizational performance both in terms of market performance and financial performance.

Previous studies have extensively discussed the relationship between market orientation and performance, with inconclusive findings. Bamfo et al. (2019), Habib et al. (2020) found a positive and significant relationship between market orientation and performance. Similar findings were also confirmed by several other studies that examined the relationship between these two constructs (Buli, 2017; Iyer et al., 2019; Ozdemir et al., 2017). However, Ho et al. (2018), Haryanto et al. (2017), and Yadav et al. (2019) showed opposite results, stating that there is no significant influence of market orientation on performance. In addition, investigations regarding market orientation and its effect on business performance in previous studies tend to emphasize the characterization of firm innovation as an important basis for the proposed theoretical framework (Dekoulou et al., 2017; Grinstein, 2008; Wang et al., 2013; Song et al., 2015; Grinstein, 2008; Wang et al., 2013), and does not fully explore the extent to which market performance capabilities achieved by small and medium scale enterprises can strengthen business performance. This is bearing in mind that SMEs face more innovation barriers due to obsolete process and products and the costs of innovation (Madrid-Guijarro et al., 2009), and institution-based barriers such as limited access to financing, system support (Xie et al., 2010; Zhu et al., 2012), and policy support (Karyadi & Rizki, 2018). This consideration forms an important basis in our investigation to show how SMEs in developing countries, with limited innovativeness, use market performance to strengthen overall business performance.

The high level of competition also experienced by medium-sized companies such as the manufacturing SME industry in the city of Bandung, West Java. Changes that occur in the manufacturing industry include an increase in the level of industrial competition which results in declining market performance, an increase in raw material prices which results in declining financial and operational performance as well as declining exports to foreign countries. The level of competition that is getting tougher in the manufacturing industry occurs due to the reduced orientation of the domestic market, which requires companies in this industry to implement strategies that are relevant to the company's conditions and the constantly changing environment. In this context, this study aims to empirically examine the effects of market orientation and SCM strategy on SME financial performance and operational performance by using market performance as the mediating variable.

## **2. Theoretical basis and hypothesis development**

### **2.1. Market orientation and organizational performances**

Market orientation is something that is important for companies in line with increasing global competition and changes in customer needs where companies realize that they must always be

close to their markets. Slater and Narver (2000) defines market orientation as the most effective organizational culture in creating important behaviors for the creation of superior value for buyers as well as performance in business (Wibowo, 2021). Meanwhile Uncles (2000) defines market orientation as a process and activity related to customer creation and satisfaction by continuously assessing customer needs and desires. Slater and Narver (2000) states that market orientation consists of 3 behavioral components, namely customer orientation, competitor orientation and inter-functional coordination. Customer orientation is defined as an adequate understanding of the target customer's purchase with the aim of being able to create superior value for buyers on an ongoing basis. This effort can be achieved through the process of finding information about customers (Uncles, 2000). With this information, the seller company will understand who its potential customers are, both now and in the future and what they want now and in the future. Competitor orientation is a competitor-oriented company that is often seen as a company that has a strategy on how to share information about competitors, how to respond to competitors' actions and also how top management discusses competitor strategies (Slater & Narver, 2000). Orientation to competitors can be for example, that salespeople will try to collect information about competitors and share that information with other functions within the company, for example, to the research and product development division or discuss with company leaders how competitors' strengths and strategies are developed (Bakti & Harun, 2011). Meanwhile, inter-functional coordination is based on customer and competitor information and consists of coordinated business efforts.

Slater and Narver (2000) explains that companies that have made market orientation an organizational culture will focus on external market needs, market wants and demands as the basis for formulating strategies for each business unit in the organization, and determining the company's success. According to Osuagwu (2019), market orientation is a corporate culture that can lead to increased market performance. Slater and Narver (2000) defines market orientation as the most effective and efficient organizational culture to create the behaviors needed to create superior value for buyers and produce superior performance for the company, especially in a highly competitive environment. In a highly competitive environment, only companies with added value will be more likely to survive. Based on the descriptions, the following hypotheses were proposed:

*H1: Market orientation has a positive and significant effect on market performance*

*H2: Market orientation has a positive and significant effect on financial performance*

*H3: Market orientation has a positive and significant effect on operational performance*

## **2.2. SCM strategy on organizational performance**

Supply chain is a series of activities from suppliers that assist in the process of operating and distributing goods and services to the final consumer. Supply chain management is an activity of managing activities in order to obtain raw materials, transforming these raw materials into goods in process and finished goods, and sending these products to consumers through the distribution system (Render & Heizer, 2014). This means that the implementation of supply chain depends on its management or processing properly. In other words, the role of management is very important for supply chain activities which will later form a sustainable value chain strategy where the processing will indirectly impact on the final goal each, namely reaping high profits or pre-planned performance. Supply chain can also be interpreted as a series of relationships between companies or activities that carry out the distribution of supplies of goods or services from the place of origin to the customer (Wahyuni & Praninta, 2021). The supply chain involves continuous relationships regarding goods, money and information (Jamaludin et al., 2021). Goods generally flow from upstream to downstream, money flows from upstream to downstream, while information flows both from upstream to downstream and from downstream to upstream (Jamaludin

et al., 2020; Quyen, 2020). SCM strategy is a collection of strategic activities and actions along the supply chain path that creates a relationship between what consumers need and the capabilities of the existing resources in the SCM (Rachbini, 2016). The SCM strategy according to Render and Heizer (2014) includes the strategy of many suppliers, few suppliers, vertical integration, joint ventures, keiretsu networks and virtual companies.

The concept of supply chain management is able to integrate the management of various management functions in a relationship between organizations to form an integrated and mutually supportive system (Mutakin & Hubeis, 2011). Supply Chain Management (SCM) is a set of approaches applied to efficiently integrate suppliers, entrepreneurs, warehouses and other storage places. The resulting product can be distributed with the right quantity, place and time to minimize costs and satisfy consumers. SCM aims to make the entire system efficient and effective, minimizing transportation costs, distribution to inventory of raw materials, materials in process and finished goods. There are several main players who have an interest in SCM, namely suppliers, manufacturers, distributors, retailers and customers (Indrajit & Djokopranoto, 2005). SCM strategy was structured following each supply chain member organization that is the focus of the organization through organizational design, human resources (HR), information technology (IT), and organizational performance (Esper et al., 2010). SCM that runs effectively in the end its activities will be in accordance with the management philosophy (Malindretos & Moschuris, 2008). The activities among the members in question include integrated behavior, information sharing, risk and reward sharing, cooperation, common goals and focus on customers, process integration and long-term relationship partners. In the relationship between SCM practices and organizational performance, previous studies (Islami & Topuzovska Latkovikj, 2022; Islami, 2021) have demonstrated a significant effect. This means that the sustainable SCM practices will be more capable of increasing business performance as a whole, including financial and operational performances. Kitchot et al. (2020), Islami (2022) also revealed that sustainable SCM practices can be used as a strategic tool to advancing SME' organizational performance. Thus, the following hypotheses were proposed:

*H4: SCM strategy has a positive and significant effect on market performance*

*H5: SCM strategy has a positive and significant effect on financial performance*

*H6: SCM strategy has a positive and significant effect on operational performance*

### **2.3. Market performance and organizational performance**

Overall market performance will be affected when the market finds out information about the company's operations that is not included in the results of financial performance (Richard et al., 2009). These market performance indicators include: the rate of return to shareholders, market value added and annual profits (Richard et al., 2009). Meanwhile, according to Escuer and Campo (2005) market performance is a description of the level of achievement of the implementation of tasks within an organization, in an effort to realize the goals, objectives, mission, and vision of the organization. Performance is the ability to work shown by the work. The company's market performance is something that the company produces within a certain period by referring to predetermined standards. This market performance refers to how much the company is market-oriented and profit goals (Hatane, 2015).

*H7: Market performance has a positive and significant effect on financial performance*

*H8: Market performance has a positive and significant effect on operational performance*

#### **2.4. The role of financial performance**

The increasing use of the balanced scorecard concept shows that operational performance is also an important aspect in measuring operational performance (Hwang et al., 2020). Operational performance is also known as non-financial performance where its aspects are able to measure performance when available information related to opportunities already exists, but has not been realized financially (Goshu et al., 2017). This operational performance can be measured using measurements such as market share, new product launches, quality, marketing effectiveness, and customer satisfaction (Al-Hayaly & Alnajjar, 2016).

Financial performance is usually assessed using measurements based on accounting data or financial data. The drawback of all accounting data-based measurements is their focus on past performance (Goshu et al., 2017). Very little data from previous years can show the future potential of a company. Thus, company performance cannot be measured only based on accounting data-based measurements (Tayeh et al., 2015). Financial performance indicators include return on sales, profitability, sales growth, improvement in work productivity, and improvement in production costs to measure financial performance (Pekuri et al., 2011).

*H9: Financial performance has a positive and significant effect on operational performance*

#### **2.5. Exploring the mediating effect of market performance**

SCM strategy affects market performance and SCM strategy has a positive and significant effect on operational performance mediated by market performance. Referring to a theoretical study Tayeh et al. (2015) where they propose that market orientation will improve market performance and financial performance. The results of research by Pekuri et al. (2011), and Shehu and Mahmood (2014) support that market orientation will improve financial performance. Meanwhile Vejzagic and Zarafat (2013) where they found that market performance as measured by returns to shareholders, market value added and annual profits had a positive effect on financial performance in the form of investment returns. Based on this, the researcher separates market performance and financial performance, and argues that market performance has a positive effect on financial performance. In particular, the researcher suspects that market orientation will lead to improved market performance so that it will lead to improved financial performance.

Green et al. (2006) explains that the success of market orientation in improving market performance in manufacturing companies is strongly supported by strategies in supply chain management. Green et al. (2006) further indicate that the performance of the partner mediates the significant relationship between the SCM strategy and the company's operational performance. Increasing efficiency, one of which can be done by integrating the company's supply chain activities, so that there are no difficulties in the supply chain operational planning process. Thus, the proposed research hypotheses are as follows:

*H10: Market performance mediates the relationship between market orientation and financial performance.*

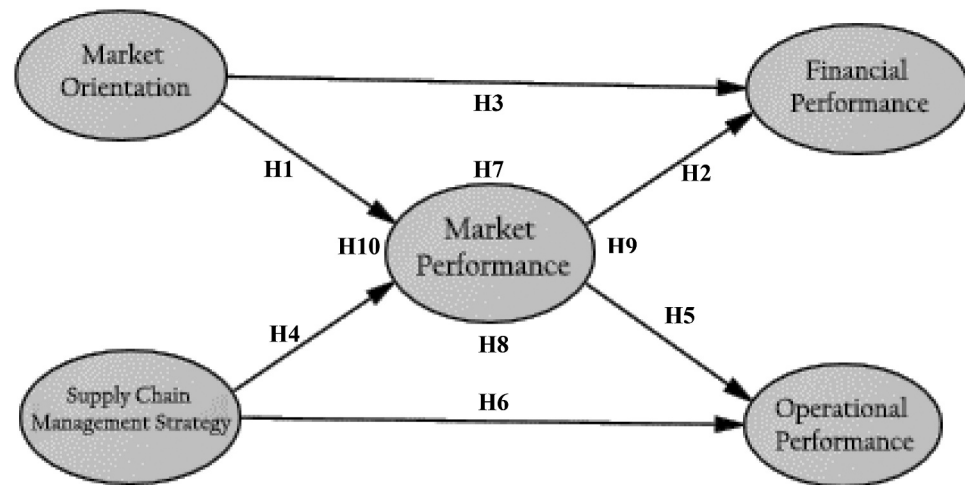
*H11: Market performance strengthens the effect of market orientation on operational performance*

*H12: Market performance mediates the relationship between SCM strategy and financial performance*

*H13: Market performance strengthens the effect of SCM strategy and operational performance*



**Figure 1. Research model.**



Based on the theoretical basis and literature review, a hypothetical model can be drawn up in this study. There are 13 hypotheses formulated for the relationship between market orientation, SCM strategy, marketing orientation, market performance, financial performance and operational performance. Generally, the tested model proposes that market orientation has a positive and significant effect on market performance and financial performance. Based on the theoretical basis and review of the literature, a hypothetical model can be developed in this study as presented in Figure 1. Overall, thirteen hypotheses are formulated for the relationship between market orientation, SCM strategy, marketing orientation, market performance, financial performance and operational performance. In general, the model tested suggests that market orientation has a positive and significant effect on market performance and financial performance. The developed model framework conceptualizes the importance of a combination of market orientation and SCM strategy for SMEs, which empirically has a positive effect on market performance. Some theoretical literature has mixed results regarding the relationship between market orientation and business performance, so this study positions market performance as a mediating variable in strengthening the relationship between these constructs. Furthermore, market performance is hypothesized to have an effect on business performance which consists of financial and operational performance (Figure 1).

### 3. Research methods

This research is a systematic investigation to increase the amount of knowledge, it is also a systematic and organized effort to investigate certain problems that require answers (Sugiyono, 2019). Survey research is research conducted on large or small populations, but the data studied are data from samples taken from that population, so that relative occurrences, distributions, and relationships between variables are found. In this study, the research was carried out by surveying through distributing questionnaires to managers or owners of manufacturing SMEs via Google Forms in Bandung City, West Java, Indonesia. The research was conducted on SMEs in the city of Bandung which is an SME engaged in manufacturing that produces from raw materials to finished goods products.

The population in this study were all manufacturing SMEs in the city of Bandung which were divided into 30 sub-districts and 151 urban villages. The sampling technique used is simple random sampling with the sample criteria being managers or SME owners who work at manufacturing SMEs in Bandung for at least 1 year. With time constraints and the difficulty of finding companies that are willing to become the object of this research, in this study the number of samples taken was 150 SMEs. This is based on the opinion Render and Heizer (2014) which states that the minimum sample for AMOS analysis is 100.



**Table 1. Operational definition of variables**

No.	Variables	Reference	Indicator
1	Market Orientation	Slater and Narver (2000); Green et al. (2006)	Customer orientation; competitor orientation; inter-functional coordination
	Supply Chain Management Strategy	Render and Heizer (2014)	Number of suppliers; vertical integration; joint venture; keiretsu network; virtual company
3.	Market Performance	Steers (1977); Green et al. (2006)	Rate of return to shareholders; market value added; annual profit
4.	Financial performance	Pekuri et al. (2011)	Rate of return on sales; profitability; sales growth; improved work productivity; production cost improvement
5.	Operational Performance	Al-Hayaly and Alnajjar (2016); Green et al. (2006)	Market share; new product launching; quality; marketing effectiveness; customer satisfaction

In this study, researchers used five research variables, namely two independent variables (market orientation and SCM strategy), and a mediating variable (market performance) and two dependent-endogenous variables of financial performance and operational performance. The operational definitions of variables are shown in Table 1.

The data used in this research is primary data. Primary data is data obtained directly from the field by using a questionnaire/questionnaire via google form. In this case, the primary data is the result of questionnaire perception about the influence of market orientation and supply chain management strategy on market performance, financial performance and operational performance with market performance as mediation by the owner and manager.

The data analysis technique in this study uses the Structural Equation Model (SEM) with AMOS 20 software. The data that has been collected based on the questionnaire is then analyzed to process the data so that the results can be analyzed according to needs and according to the problems that have been determined. The analytical tool in question is Structural Equation Modeling (SEM). Structural Equation Modeling is the second generation of multivariate analysis technique that allows researchers to examine the relationship between complex variables, both recursive and non-recursive to obtain a comprehensive picture of the entire model (Ghozali, 2013).

#### 4. Results

##### 4.1. Demographic characteristics of respondents

The demographic analysis as shown in Table 2 revealed that generally, the respondents operate the company less than 5 years (23.3%), followed by companies operating between 5–10 years (36.7%). The analysis also shows that the most respondents have the number of suppliers between 5–10 (44%) and 11–15 suppliers (36.7%). In terms of the number of distributors, majority of respondents have 6–10 distributors (40.7%), and followed by 11–15 (31.3%), and have the number of retailers 6–10 retailers (37.3%), and 11–15 retailers (27.3%). Lastly, most of respondents have 11–20 employees in their enterprises (43.3%), followed by those who have 1–10 (31.3%).

**Table 2. Demographic statistics of respondent**

Characteristics	Classification	Freq.	Percentage
Company Age (years)	< 5	23	23.3
	5–10	55	36.7
	11–15	43	28.7
	16–20	17	11.3
Number of suppliers	5–10	66	44
	11–15	55	36.7
	16–20	29	19.3
Number of distributors	1–5	42	28
	6–10	61	40.7
	11–15	47	31.3
Number of retailers	1–5	18	12
	6–10	56	37.3
	10–1	41	27.3
	>15	35	23.4
Number of employees	1–10	47	31.3
	11–20	65	43.3
	>20	38	25.4

#### 4.2. Validity and reliability test

Validity test is used to determine the feasibility of items in a list of statements in defining a variable. Validity test was carried out on each question item. If it turns out that all scores of all items arranged based on concept dimensions are correlated with the total score, it can be concluded that the measuring instrument has construct validity using the product moment technique (Walker, 2017). An item is said to be valid if it has a correlation coefficient (r-stat.) greater than the table correlation (r-table; Ghozali, 2013). The results of the validity test is shown in Table 3.

Table 3 shows that all indicators used to measure variables in this study have a value of Corrected Item-Total Correlation 0.3 which shows all variables are declared valid. Testing the level of reliability is using a computer tool SPSS 20 program which provides facilities for reliability with the statistical test Cronbach's Alpha ( $\alpha$ ). An instrument is declared reliable if it has a Cronbach's Alpha coefficient  $> 0.6$  (Ghozali, 2013). The results of reliability testing can be shown in Table 3. The results showed that the Cronbach Alpha coefficient value for all variables is greater than 0.6, then all questions in the research variables are reliable, and all questions in this study can be used for further testing.

#### 4.3. Quantitative analysis

In the model suitability step, it is evaluated through a study of various goodness of fit criteria. For this reason, the first action taken is to evaluate whether the data used can meet the assumptions of SEM, namely independent observation, random sampling of respondents and linearity of all relationships. Measurement of goodness of fit can be divided into three, namely: absolute fit measures, increment fit measures and parsimonious fit measures (Render & Heizer, 2014). In summary, the indices that can be used to test the feasibility of a model are presented in Table 4 and Figure 2.

Based on an analysis of the Goodness of Fit, GFI reflects the overall level of fit of the model. GFI recommended acceptance rate  $> 0.90$ . The results show the GFI value of  $0.929 > 0.9$ , so the model has a good fit. The results showed that the AGFI value was 0.877, which is less than the

**Table 3. Validity test results**

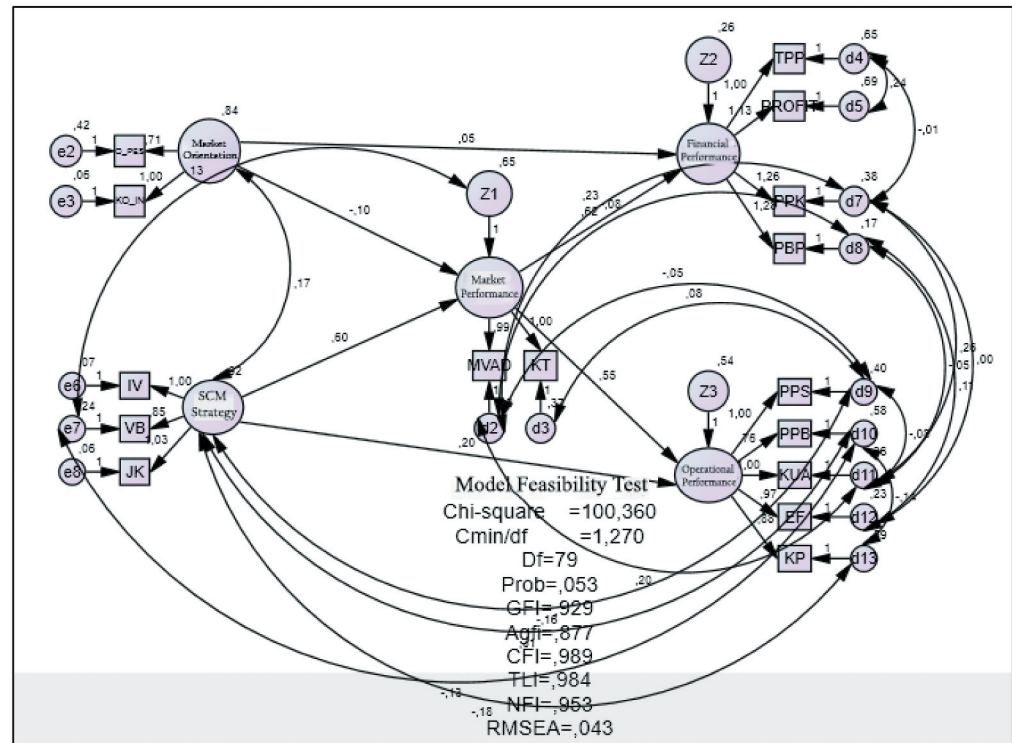
Variable	Items	r-stat.	Cronbach's Alpha
MO	MO1	0.757	0.871
	MO2	0.759	
	MO3	0.744	
SCM	SCM1	0.722	0.915
	SCM2	0.732	
	SCM3	0.810	
	SCM4	0.810	
	SCM5	0.793	
	SCM6	0.696	
MP	MP1	0.752	0.868
	MP2	0.787	
	MP3	0.843	
FP	FP1	0.702	0.902
	FP2	0.743	
	FP3	0.710	
	FP4	0.791	
	FP5	0.839	
OP	OP1	0.765	0.899
	OP2	0.711	
	OP3	0.779	
	OP4	0.852	
	OP5	0.650	

**Table 4. GOF model testing results**

GOF Index	Cut—off value	Model results	Information
Chi-square	Expected a small value	100.360	Good fit
Probability	> 0.05	0.053	Good fit
CMIN/DF	< 2	1.270	Good fit
GFI	> 0.90	0.929	Good fit
RMSEA	< 0.08	0.043	Good fit
AGFI	> 0.90	0.877	Marginal
TLI	> 0.90	0.984	Good fit
CFI	> 0.90	0.989	Good fit

recommended AGFI value > 0.9, indicating that this model has a marginal or poor fit. Tucker Lewis Index (TLI) is an alternative incremental fit index that compares the tested model with the baseline. The recommended value as a good level of conformity is > 0.90. The results showed that the TLI value was 0.984 so it could be stated that the level of conformity was in good criteria. Comparative Fit Index (CFI), is an incremental fit index that compares the tested model with the null model. CFI recommended value > 0.90. The test results are 0.989, indicating that the model is good. The minimum Sample Discrepancy Function (CMIN/DF) is a parsimonious suitability index that measures the relationship between the goodness of fit model and the number of estimated coefficients that are expected to achieve the level of conformity. The result of CMIN/DF is 1.270 which is smaller than the recommended value of CMIN/DF < 2.0 indicating a good fit model. The Root Mean Square Error of Approximation (RMSEA), the index used to compensate for Chi Square

**Figure 2. GoF indices.**



Statistics in a large sample. The RMSEA value indicates the goodness of fit that can be expected when the model is estimated in the population. The recommended acceptance value is  $< 0.80$  while the test results are 0.043, indicating that the model is good.

Moreover, the estimated results of the SEM analysis can be shown in Table 5, while hypothesis testing with SEM analysis obtained path results as shown in Figure 3.

The results of testing the first hypothesis obtained that the market orientation path coefficient on market performance is  $-0.100$  and the  $p$ -value is  $0.265 > 0.05$ . It means that there is no significant effect of market orientation on market performance. Thus, the first hypothesis which states that market orientation has a positive and significant effect on market performance is not supported.

The test results on the second hypothesis obtained the path coefficient between market performance and financial performance of  $0.617$  and  $p$ -value of  $0.000 < 0.05$ . Thus, the second hypothesis is accepted. It means that there is a positive and significant effect of market performance on financial performance. A positive coefficient of  $0.000$  indicates that the higher the market performance, the higher the financial performance. This means that the second hypothesis which states that market performance has a significant effect on financial performance is supported.

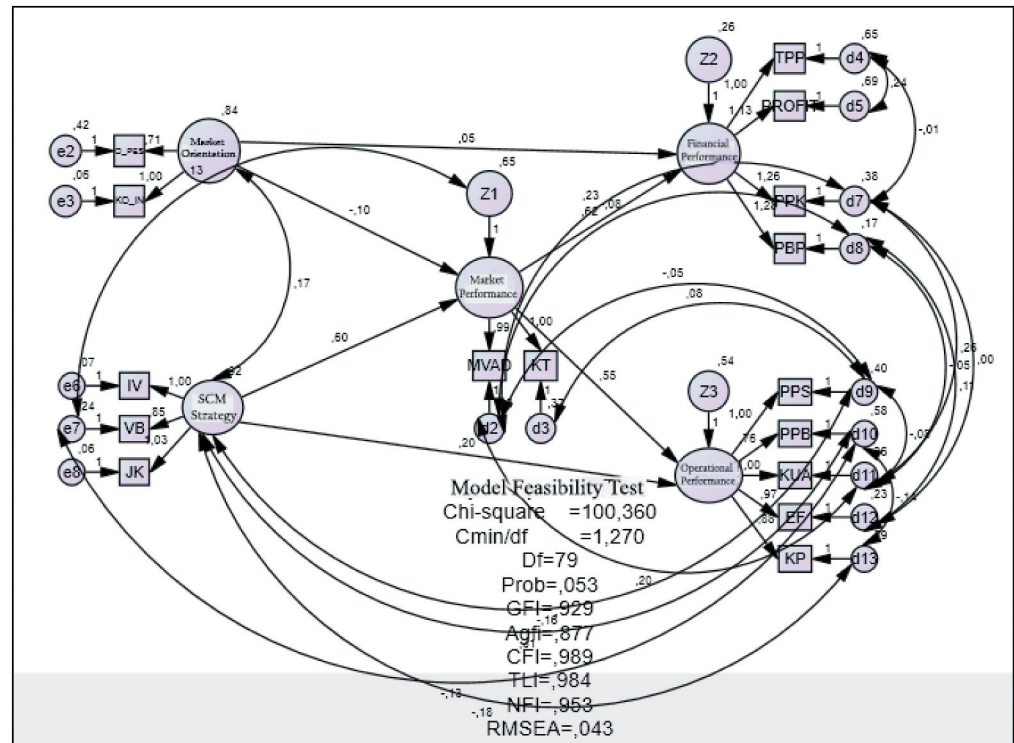
The test results on the third hypothesis obtained the path coefficient between market orientation to financial performance of  $0.053$  and  $p$ -value of  $0.393 > 0.05$ . The result means that the third hypothesis is rejected, which means that there is no influence of market orientation on financial performance.

The result of testing the fourth hypothesis is that the path coefficient between SCM strategy and market performance is  $0.596$  and  $p$ -value is  $0.000 < 0.05$ . Thus, the fourth hypothesis is accepted, meaning that there is a positive and significant effect of SCM strategy on market performance.

**Table 5. Empirical results of structural equation modelling**

<b>Hypothesis</b>				<b>Estimate</b>	<b>S.E.</b>	<b>C.R.</b>	<b>p</b>
H1	Market orientation	→	Market performance	-0.100	0.090	-1.115	0.265
H2	Market orientation	→	Financial performance	0.053	0.062	0.854	0.393
H3	Market orientation	→	Operational performance	0.065	0.072	0.663	0.093
H4	SCM strategy	→	Market performance	0.596	0.085	7.024	0.000
H5	SCM strategy	→	Financial performance	0.645	0.089	6.877	0.000
H6	SCM Strategy	→	Operational Performance	0.198	0.090	2.201	0.028
H7	Market performance	→	Financial performance	0.617	0.083	7.444	0.000
H8	Market performance	→	Operational performance	0.547	0.098	5.571	0.000
H9	Financial performance	→	Operational performance	0.573	0.091	6.175	0.000

**Figure 3. Research model test results.**



A positive coefficient of 0.596 indicates that the higher the SCM strategy, the higher the market performance. This means that the fourth hypothesis which states that the SCM strategy has a significant effect on market performance is supported.

The results of testing the fifth hypothesis obtained the path coefficient between market performance and operational performance of 0.547 and  $p$ -value of  $0.000 < 0.05$ . This result means that the fifth hypothesis is accepted. In addition, a positive path coefficient result of 0.547 indicates that the higher the market performance, the higher the operational performance. This means that there is a positive and significant influence on market performance on operational performance.

The results of testing the sixth hypothesis obtained that the path coefficient between SCM strategy and operational performance was 0.198 and  $p$ -value was  $0.028 < 0.05$ . It means that there is a positive and significant influence on the SCM strategy on operational performance. A positive path coefficient result of 0.198 indicates that the higher the SCM strategy, the higher the operational performance. Thus, the sixth hypothesis is accepted, meaning that the SCM strategy has a significant effect on operational performance can be supported. The analysis was further conducted to examine the indirect influence by using mediating variables of market orientation SCM strategy which is determined by the Sobel formula (Table 6).

The results of testing the seventh hypothesis on the market orientation on market performance obtained at 0.010 with a  $t$ -stat. of  $-6.161 < 1.976$ , meaning that the seventh hypothesis is rejected. With the similar calculation, it is known that that market performance is able to mediate the relationship between SCM strategy and operational performance. Thus, the eighth hypothesis is supported (Table 7).

Sobel test results of the ninth hypothesis on the market orientation on operational performance obtained the value of 0.0509, with a  $t$ -stat. of  $-1.073 < 1.976$ , meaning the hypothesis is not supported. Lastly, in testing the mediating roles of market performance in the relationship

**Table 6. Direct and indirect influence**

Mediating Variable	Direct Effect			Indirect Effect		Total Effect	
	MP	FP	OP	MP	OP	MP	OP
Market Orientation	-0.10	0.053	-	-	-0.53	-0.10	-
SCM Strategy	0.596	-	0.198	-	0.326	0.596	0.198

MP: Market Performance; FP: Financial performance; OP: Operational Performance



**Table 7. Sobel test results**

Hypothesis		a	Sa	b	Sb	Ab	Sobel	T-stat	T-table	Conclusion
H10	MO-MP-FP	-0.1	0.09	0.617	0.83	-0.0617	0.010	-6,161	1.976	Rejected
H11	MO-MP-OP	-0.1	0.09	0.547	0.098	-0.0547	0.0509	-1.073	1.976	Rejected
H12	SCM-MP-FP	0.596	0.085	0.617	0.083	0.376	0.072	5.076	1.976	Accepted
H13	SCM-MP-OP	0.596	0.085	0.547	0.098	0.326	0.0751	4.340	1.976	Accepted

between SCM strategy and financial performance, the Sobel test calculation obtained the value of 0.072, with a t-stat. of  $5.076 > 1.976$ . This means that market performance is likely able to mediate the relationship between SCM strategy and financial performance. Thus, the tenth hypothesis is accepted.

## 5. Discussion

The results of the study empirically prove that there is no influence of market orientation on market performance. This means that the better the market orientation, the worse the market performance. The results are not in accordance with Green et al. (2006) who found that market orientation has a positive and significant effect on market performance. However, this study supports previous research by Shehu and Mahmood (2014) found that there is no significant relationship between market orientation and SME market performance. Market orientation includes customer orientation, competitor orientation and inter-functional coordination including all activities involved in obtaining information about customers and competitors in the target market and disseminating it through the business. It is further explained that customer orientation is defined as an adequate understanding of the target customer's purchase with the aim of being able to create superior value for buyers on an ongoing basis. Understanding here includes understanding the entire value chain of buyers, both at present and in the future. Orientation to competitors can be for example, that salespeople will try to collect information about competitors and share that information with other functions within the company, for example, to the research and product development division or discuss with SME leaders how competitors' strengths and strategies are developed (Sobar et al., 2021).

Descriptive results show that respondents give low ratings on market orientation indicators, namely having routine or usual steps of customer service. Service to customers is an attempt by the company to provide the best service so that customers feel satisfied or happy when purchasing SME products in the city of Bandung and even the services provided by SMEs are not only at the time of purchase but also post-purchase. Providing good service to customers is also an effort by the company to maintain customer loyalty and have a positive impact on the performance of SMEs (Tanwari, 2020). Manufacturing SMEs in Bandung City can build or establish communication with customers, namely by opening special websites and social media facilities, so that SMEs can promote various product innovations and customers can provide input or submit suggestions, as well as complaints when there are problems with SME products.

Regarding the effect of market performance on financial performance, the results empirically found that there is a positive and significant effect of market performance on financial performance. This means that the better the market performance, the higher the financial performance. Moreover, the results empirically found that there is a positive and significant positive effect of market orientation on financial performance. This means that the better the market orientation, the higher the financial performance. The results are in accordance with Green et al. (2006) who found the positive and significant effects of market orientation and market performance on financial performance.

Statistical examination on the effect of SCM strategy on market performance empirically showed a positive and significant effect of SCM strategy on market performance. This means that the better the SCM strategy, the better the market performance. The results are in line with Nupus and Ichwanudin (2021) regarding the positive and significant effect of SCM strategy on market performance. Supply chain management is an activity of managing activities in order to obtain raw materials, transforming these raw materials into goods in process and finished goods, and sending these products to consumers through the distribution system (Render & Heizer, 2014). Supply chain implementation depends on the management or processing properly. It highlighted the important role of management for supply chain activities which will likely form a sustainable SCM strategy value where the processing and indirectly will have an impact on their respective end goals, namely reap high profits or pre-planned performance. Regarding the positive relationship of SCM

strategy to market performance, the SMEs need to emphasize the strength of SCM strategy as a marketing strategy that focuses on satisfying the needs of end customers or who is the final member of the supply chain management.

Empirically, the results also found a positive and significant effect of market performance on operational performance. This means that the better the market performance, the operational performance will increase. The results are in accordance with Green et al. (2006) who found that market performance has a positive and significant effect on operational performance. In testing direct effects, the results also found the positive and significant effect of SCM strategy on operational performance, meaning that the better the SCM strategy, the higher the operational performance. The results are in accordance with Mughal (2019) and Green et al. (2006) who found that the SCM strategy has a positive and significant effect on operational performance.

Furthermore, the testing about mediating effects empirically found that market performance is not able to mediate the relationship between market orientation and the company's financial performance. The results in testing the effect of market orientation on operational performance through market performance also showed that market performance is not able to mediate the relationship between market orientation and the operational performance of SMEs.

The mediating effects are empirically proven in the relationship between SCM strategy on operational performance through mediating variable of market performance. This means that the better the SCM strategy, the higher the market performance. This is consistent with Green et al. (2006) who found that market performance mediates a significant relationship between SCM strategy and operational performance. The success of the SCM strategy in improving the performance of manufacturing SMEs is strongly supported by strategies in supply chain management. Increasing efficiency, one of which can be done by integrating SME supply chain activities, is more likely able to minimize difficulties in the supply chain operational planning process. Market performance is also able to mediate the relationship of SCM strategy on financial performance through market performance. Lastly, the results empirically found that market performance mediates positively on the relationship between SCM strategy and the financial performance of SMEs. This means that the better the SCM strategy, the better the financial performance and the better market performance. This means that the success of SCM strategy in improving the financial performance of SMEs will be able to improve market performance.

## 6. Conclusions

The findings can be drawn from an empirical analysis of the influence of market orientation and SCM strategy on the organizational performance of SMEs. The results underline that the SCM strategy has an effect on market performance, and organizational performance of SMEs. Furthermore, there is empirical evidence regarding the positive influence of market performance on operational performance in terms of finance and operations. Theoretically, this finding confirms the empirical evidence regarding the relationship between SCM strategy as an antecedent of organizational performance. To examine the mediating role of market performance in amplifying the effects of market orientation and SCM strategy, the findings also highlight the important side of market performance. This finding highlights the important role of management to increase the vital role of supply chain activities which are more likely to create sustainable SCM value, and indirectly impact on the ultimate goal on both sides of business management, which is to reap high profits and synergize performance with what was previously planned. Regarding the positive relationship of SCM strategy with market performance, SMEs need to emphasize the strength of SCM strategy as a marketing strategy that focuses on meeting the needs of end customers or who are the last members of supply chain management.

This study theoretically formulates the importance of synergies between SCM strategy relationships mediated by market performance to obtain a more comprehensive improvement in the financial and operational performance of small and medium-sized businesses. Practically speaking,

the findings present the important role of SCM strategy in creating positive value for customers, where the advantages of SCM can synergistically improve operational performance while synergizing relationships with customers in the market. As managerial suggestion to improve performance, managers or owners of SMEs should determine competitive advantage strategies based on customer needs, measuring customer satisfaction levels systematically, focusing more on customers than competitors, and providing feedback to customers to assess product quality. SMEs also need to increase the trust of supply chain members, identify and participate in additional supply chains, make frequent contact and create communication with supply chain members, and involve supply chain members in product marketing plans.

The limitations of this study need to be conveyed to serve as a direction for future research. First, although the model built pays more attention to the practical side of SMEs in developing countries with relatively low levels of innovation, the investigation of innovation and barriers is not discussed in this study. Second, the number of samples in this study includes SMEs that focus on urban markets, so the level of generalization may be limited for medium-sized businesses with different backgrounds and target consumers. Third, although this study has divided business performance into financial performance and marketing performance in more detail, the complexity of these dynamics which are directly related to the consumer side has not been investigated. For this reason, further research is expected to conceptualize the dynamics of market performance and the sustainability of SMEs related to low innovation. Furthermore, future studies can develop a wider sample size by taking research objects in other cities with the same characteristics. Finally, the development of model formulation with respect to the complexity of the relationship between market performance, customer relations and operational and financial performance needs to be framed empirically, to complement the findings of this study which focus on strategic and supplier SCM aspects.

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