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The Influence of Market Orientation and Entrepreneurial Orientation on MSME Performance through Cost Leadership Strategy as an Intervening Variable

(Case Study on Watch Business Actors of MSMEs JP.010 Central Jakarta)

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Abstract

This study aims to analyze the influence of market orientation and entrepreneurial orientation on the performance of Micro, Small, and Medium Enterprises (MSMEs), with a focus on the cost leadership strategy as a moderating variable. The research was conducted on 60 respondents from the watch MSME cluster JP.014 in Central Jakarta. Data analysis was performed using the Moderated Regression Analysis (MRA) technique through SPSS 25. The results show that both market orientation and entrepreneurial orientation have a positive and significant effect on MSME performance. However, the cost leadership strategy does not have a significant direct effect, nor does it serve as a significant moderating variable in the relationship between the independent variables and performance. These findings highlight that customer focus and entrepreneurial behavior are key drivers of MSME success, while cost-efficiency strategies may not yet be optimally implemented or prioritized in this business context. The study provides important insights for MSME actors and policymakers in enhancing strategic approaches to improve business performance.

Keywords: **Market Orientation, Entrepreneurial Orientation, Cost Leadership Strategy, MSME Performance.**

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INTRODUCTION

Development is essentially a conscious, planned, and sustainable process of change aimed at improving the welfare and quality of life of society. In Indonesia, national development priorities have predominantly focused on the economic sector as a fundamental pillar. In this context, Micro, Small, and Medium Enterprises (MSMEs) play a strategic role as the main drivers of the national economy (Angreny et al., 2022). MSMEs not only contribute significantly to economic growth but also help address various domestic issues such as poverty, unemployment, and income inequality.

MSMEs have a crucial role in creating employment and stimulating national GDP growth (Rosita, 2020). With over 56.54 million registered MSMEs—accounting for 99.999% of all enterprises in Indonesia—the sector dominates the national economic structure. According to data from the Ministry of Cooperatives and Small and Medium Enterprises (KUKM), from 2020 to 2023, MSMEs absorbed approximately 97% of the total national workforce, contributed 61.07% to GDP, participated in 14.37% of exports, and generated 60.42% of total domestic investment (Sembiring et al., 2019). These figures highlight MSMEs as a vital pillar in achieving sustainable economic development.

By 2022, a total of 8.71 million MSMEs had been registered through the Online Single Submission (OSS) system, reflecting increasing participation in digitalization and formalization across Indonesia. This advancement is expected to enhance the competitiveness of MSMEs in facing the challenges of the digital economy. However, the rapid growth in the number of MSMEs has led to increasingly intense competition. The dynamic and complex business environment demands that MSME actors continuously improve their performance to survive and grow. Business success is closely linked to competitive capability, with business performance becoming a crucial factor. In this regard, MSME performance is influenced by key factors such as market orientation, entrepreneurial orientation, and cost leadership strategy.

Market orientation is essential in responding to ever-evolving consumer needs and preferences. MSMEs must be sensitive to current market trends. Aulia et al. (2019) define market orientation as an organizational culture that effectively creates superior customer value and enhances long-term business performance. Aprizal (2018) adds that market orientation serves as a critical foundation for strategic business planning. Several studies (Purba & Warganegara, 2023; Hutahaean & Sari, 2023; Wicaksono & Isa, 2023) confirm a positive and significant relationship between market orientation and MSME performance. However, different findings were reported by Ahmatang & Sari (2022), who argued that market orientation does not significantly influence MSME performance.

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On the other hand, entrepreneurial orientation also plays an important role in MSME sustainability and growth. Entrepreneurs must demonstrate creativity and innovation in facing business challenges. Mardia et al. (2018) describe entrepreneurial orientation as the application of creative ideas to solve problems and identify opportunities. Riante & Utama (2023) emphasize the importance of organizational capacity to independently recognize and pursue opportunities. MSME actors must be proactive in exploring new opportunities, techniques, products, and services to outperform competitors and adapt to future business environment changes (Yacob et al., 2021). Empirical studies by Chow & Utama (2023), Riante & Utama (2023), Sunyoto et al. (2023), and Jannah et al. (2019) support the positive and significant influence of entrepreneurial orientation on MSME performance. In contrast, Ahmatang & Sari (2022) found no significant impact of entrepreneurial orientation on MSME performance.

In addition, cost leadership strategy is another important factor. This strategy aims to minimize costs so that products or services become more affordable to a broader market. It emphasizes operational efficiency, cost control, and attractive pricing for price-sensitive consumers. Alhamda et al. (2022) found that cost leadership strategy can significantly improve MSME performance, a conclusion echoed by Ahmatang & Sari (2022) and Pusung et al. (2023). However, contrasting results were presented by Kaya (2015) in Ambarwati & Fitriasari (2021), who reported no significant impact of cost leadership on MSME performance. These discrepancies may stem from contextual factors such as business type, managerial capacity, or resource limitations.

Moreover, while various studies have investigated the direct influence of market orientation and entrepreneurial orientation on MSME performance, few have examined these relationships using intervening variables. In reality, the relationship between managerial orientation and business performance is not always linear. The limited inclusion of mediating variables such as cost leadership strategy—despite its theoretical relevance—reveals a conceptual gap in current research. Further studies are needed to explore the potential role of strategic mediation in enhancing business outcomes.

LITERATURE REVIEW

Market Orientation

Market orientation is a crucial organizational culture that serves as a foundation for producing and delivering products or services based on market needs. As a business culture, market orientation encourages organizations to foster creative behaviors aimed at creating superior value for customers while maintaining a focus on long-term interests

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and profitability (Darmanto et al., 2018). It is widely recognized as one of the most effective and efficient organizational cultures in instilling behaviors necessary to deliver superior customer value, thereby enhancing sustainable business performance (Aulia et al., 2019; Aprizal, 2018). Through continuous market observation and responsiveness, businesses can align their offerings with consumer expectations and dynamic market trends. In this context, market orientation can be defined as a marketing strategy in which business actors must understand market conditions to accurately meet consumer needs and wants. The success of market-oriented businesses largely depends on their ability to observe, anticipate, and respond to market developments. According to Aprizal (2018), market orientation consists of the following key dimensions:

1. Customer Orientation

   The ability of businesses to understand customer needs, provide satisfaction, and build long-term relationships based on trust and loyalty.
2. Competitor Orientation

   The extent to which businesses recognize and evaluate competitors' strengths, weaknesses, and strategic moves in order to maintain competitiveness.
3. Interfunctional Coordination

   The degree of collaboration and coordination among different departments within the organization in generating, disseminating, and responding to market intelligence to serve customers more effectively.

Entrepreneurial Orientation

Innovation is one of the most critical factors in driving superior business Entrepreneurial orientation is a process that involves the application of creativity and innovation to address various challenges and identify new opportunities aimed at improving quality of life, particularly in the business and employment sectors (Mardia et al., 2018). This concept emphasizes not only the generation of new ideas but also the ability to manage and utilize available resources effectively. The goal is to achieve business success through adaptive and sustainable change strategies that enable firms to compete in dynamic markets (Jannah, 2020). In essence, entrepreneurial orientation can be understood as the strategic application of creativity and innovation to develop practical solutions and resolve business problems. This approach is crucial for enhancing business process efficiency and improving the quality of services provided. According to Auliana and Zaini (2023), entrepreneurial orientation can be measured using the following key indicators:

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1. Need for Achievement
   The drive to set and accomplish challenging goals, striving for excellence and continuous improvement.
2. Internal Locus of Control
   The belief that success is determined by one's own actions and efforts, rather than external forces.
3. Self-Reliance
   The confidence in one's own abilities to take initiative, make decisions, and solve problems independently.
4. Extroversion
   An openness to interacting with others, sharing ideas, and seeking opportunities through external networks.

Cost Leadership Strategy

Porter (1980), as cited in Dewangga & Layman (2023), proposed cost leadership as one of three generic strategies that can generate competitive advantage. In this strategy, firms strive to minimize costs to maximize profits, even when product prices remain at the industry average. The cost leadership approach emphasizes operational efficiency by leveraging internal capabilities, making strategic infrastructure investments, strictly controlling indirect and overhead costs, and avoiding customer segments that do not significantly contribute to profitability. Furthermore, Stentoft et al. (2021), as cited in Navaia et al. (2024), argue that cost leadership should not be limited to production activities alone, but must be applied throughout the supply and distribution chains. This comprehensive application enables companies to achieve long-term and sustainable cost savings, positioning cost leadership as a strategic tool for gaining a durable competitive edge in the marketplace. Thus, cost leadership can be defined as an integrated strategic approach in which businesses prioritize cost efficiency across all aspects of operations. The goal is not only to lower selling prices, but also to create customer value through overall cost-effectiveness and resource optimization. According to Prasetio (2020), the implementation of cost leadership strategy can be measured using the following indicators:

1. Labor Cost Control
   Efficient management of workforce-related expenses through productivity monitoring, role optimization, and wage structure analysis.
2. Minimization of Operational Management Costs

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Efforts to reduce overhead and operational waste through lean management practices and process improvements.

3. Raw Material Cost Efficiency
   Strategic sourcing, inventory control, and supplier negotiation to reduce the cost of materials.
4. Administrative Cost Reduction
   Optimization of administrative processes and functions to reduce non-value-adding expenditures.

MSME Performance

Performance refers to activities that reflect improvements in profitability and other benefits obtained by a business through various efforts such as creating, delivering, and communicating value, as well as understanding customer needs (Prasetyo & Wijaya, 2019). Performance is a critical factor in maintaining business sustainability and competitiveness, especially amid constantly shifting market dynamics. Firm performance, or business unit performance, illustrates the extent to which organizational goals are achieved within a specific timeframe (Herman et al., 2018). In the context of Micro, Small, and Medium Enterprises (MSMEs), business performance can be understood as the achievement of outcomes or results from business activities carried out by entrepreneurs. This reflects both the quality and quantity of outputs that contribute to the sustainability of the enterprise (Diana et al., 2022). MSME performance is also influenced by various internal factors, such as the loyalty and commitment of business owners or managers to the development of the enterprise (Ayem et al., 2020). A strong sense of ownership, motivation, and managerial consistency can significantly affect how effectively the business achieves its objectives. Therefore, MSME performance can be defined as the level of achievement or business output attained by entrepreneurs, which meets expected standards in terms of quality and quantity and supports long-term business sustainability. According to Suparlinah et al. (2019), MSME performance can be assessed using the following indicators:

1. Sales Growth
   An increase in product or service revenue over time as an indicator of market acceptance and demand fulfillment.
2. Capital Growth

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The ability of the business to accumulate financial resources and strengthen its capital base.

3. Expansion of Workforce
   The consistent addition of employees on an annual basis as a reflection of business expansion and increasing operational capacity.
4. Market and Marketing Growth
   The ability to enter new markets or improve existing ones, supported by effective marketing strategies.
5. Profitability
   The capacity to generate financial surplus after covering all costs, indicating the financial health and viability of the enterprise.

Hypothesis

Based on the literature review and previous empirical findings, this study develops a theoretical framework to explain the relationships between market orientation, entrepreneurial orientation, cost leadership strategy, and MSME performance. Market orientation and entrepreneurial orientation are seen as strategic capabilities that drive business performance. However, the relationship between these orientations and performance may be strengthened through the implementation of a cost leadership strategy, which serves as an intervening variable. The conceptual framework of this study can be illustrated as follows:

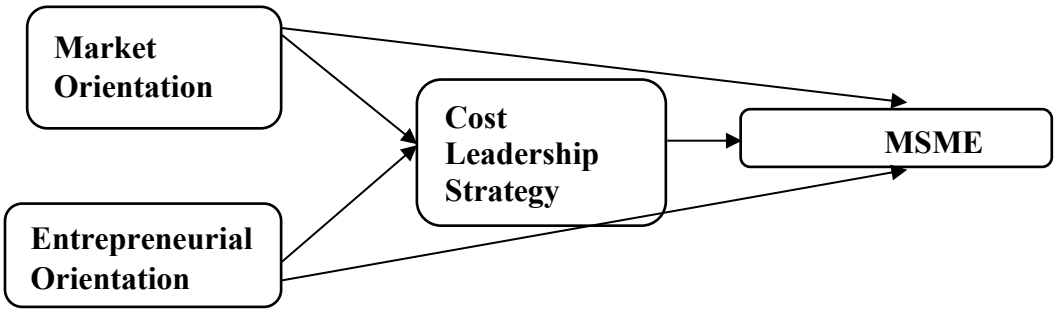


Figure 1: Conceptual Framework

Based on this framework, the research hypotheses are formulated as follows:

H1: Market orientation has a significant effect on the performance of MSMEs in the watch business sector of JP.014 Central Jakarta.

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H2: Entrepreneurial orientation has a significant effect on the performance of MSMEs in the watch business sector of JP.014 Central Jakarta.
H3: Cost leadership strategy has a significant effect on the performance of MSMEs in the watch business sector of JP.014 Central Jakarta.
H4: Cost leadership strategy partially mediates the effect of market orientation on the performance of MSMEs in the watch business sector of JP.014 Central Jakarta.
H5: Cost leadership strategy partially mediates the effect of entrepreneurial orientation on the performance of MSMEs in the watch business sector of JP.014 Central Jakarta.

RESEARCH METHOD

This study adopted a quantitative approach with a survey design. The research population included all watch business actors under the MSME group JP.014 in Central Jakarta, consisting of approximately 48 active watch kiosks, each involving 2–3 individuals in daily operations. Thus, the estimated population ranged from 96 to 144 individuals. Using purposive sampling, 60 respondents were selected as the research sample. Data were collected through a structured questionnaire using a 5-point Likert scale. The questionnaire underwent validity and reliability testing to ensure the robustness of the measurement instrument. Data analysis was conducted using SPSS version 25, employing Moderated Regression Analysis (MRA) to test the influence of market orientation and entrepreneurial orientation on MSME performance, as well as to examine the moderating effect of the cost leadership strategy.

RESULT

Respondents' Demographic Profile

Table 1: Demography

Gender	**Total**
Male	60
Female	0
Total	60
Age	**Total**
< 30 Years	13
> 30 Years	47

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Total	60
Education Level	**Total**
High School	47
Diploma/Bachelor's Degree	13
Total	60
Income	**Total**
Rp. 1.000.000 – Rp. 5.000.000	28
Rp. 5.000.000 – Rp. 10.000.000	15
Rp. 10.000.000 – Rp. 20.000.000	7
> Rp. 10.000.000	10
Total	60
Experience	**Total**
< 10 Years	28
10–12 Years	15
13–15 Years	7
> 15 Years	10
Total	60

This study involved 60 respondents from MSME watch businesses in JP.014 Central Jakarta. All participants were male (100%), indicating that the sector is currently dominated by male entrepreneurs. In terms of age, 78.3% of the respondents were over 30 years old, while the remaining 21.7% were under 30 years old. This suggests that most respondents are mature individuals likely to have significant business experience. Regarding education level, 78.3% of respondents had completed senior high school, while 21.7% held a diploma or bachelor's degree. These figures show that while higher education is not predominant among these entrepreneurs, most have completed at least secondary education. In terms of monthly income, 46.7% earned between IDR 1,000,000 and 5,000,000, 25.0% earned IDR 5,000,000 to 10,000,000, 11.7% earned between IDR 10,000,000 and 20,000,000, and 16.6% earned more than IDR 20,000,000. These variations reflect diverse levels of business scale and performance among respondents. Business experience was also assessed: 46.7% of the respondents had less than 10 years of experience, 25.0% had 10–12 years, 11.7% had 13–15 years, and 16.6% had more than 15 years of business experience. This indicates that while a significant number

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of MSME players are relatively new in the industry, many others have long-standing involvement, which may influence their strategic choices and performance outcomes.

Instrument Testing

Table 2: Validity Test Result

Item	Market Orientation	Entrepreneurial Orientation	Cost Leadership Strategy	MSME Performance
1	0.514	0.645	0.489	0.351
2	0.611	0.696	0.665	0.667
3	0.692	0.720	0.766	0.598
4	0.454	0.361	0.507	0.527
5	0.673	0.709	0.345	0.544
6	0.643	0.519	0.485	0.495
7	0.544	0.558	0.333	0.438
8	0.449	0.562	0.354	0.553
9	0.514	0.645	0.489	0.351
10	0.611	0.696	0.665	0.667
11	0.692	0.720	0.766	0.598

Validity testing was performed using Pearson's product-moment correlation. Each indicator is considered valid if the correlation coefficient (r-count) exceeds the critical value of 0.254 (with n = 60 and α = 0.05). The results showed that all item statements for the variables of market orientation, entrepreneurial orientation, cost leadership strategy, and MSME performance had correlation values greater than 0.254 and significance values (p-values) less than 0.05. This indicates that all items used in the questionnaire were valid and appropriate for measuring the constructs.

Table 3: Reliability Test Result

Construct	Cronbach's Alpha	Conclusion
Market Orientation	0.807	Reliable
Entrepreneurial Orientation	0.835	Reliable
Cost Leadership Strategy	0.763	Reliable

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MSME Performance	0.743	Reliable

All constructs have Cronbach's Alpha values above 0.60, indicating that the measurement instruments used in this study are reliable and consistently measure the intended constructs.

Classical Assumption Testing

Table 4: One-Sample Kolmogorov-Smirnov Test

N	60	2.212
Mean	0	1.973
Std. Deviation	3.133.112	1.509
K–S Test Statistic	0.097	1.427
Asymp. Sig. (2-tailed)	0.200	1.443
Conclusion	Residuals are normally distributed	

The normality of the regression residuals was tested using the One-Sample Kolmogorov–Smirnov (K–S) test. The test yielded a significance value (Asymp. Sig. 2-tailed) of 0.200, which is greater than the threshold value of 0.05. This result indicates that the residuals are normally distributed and the regression model satisfies the normality assumption.

Table 5: Tolerance and Variance Inflation Factor (VIF)

Variable	Tolerance	VIF
Market Orientation	0.452	2.212
Entrepreneurial Orientation	0.507	1.973
Cost Leadership Strategy	0.663	1.509
Market Orientation × Cost Leadership Strategy (interaction)	0.701	1.427
Entrepreneurial Orientation × Cost Leadership Strategy (interaction)	0.693	1.443

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All variables have Tolerance values greater than 0.10 and VIF values less than 10, indicating that there is no multicollinearity problem in this regression model. Therefore, the assumption of multicollinearity is met.

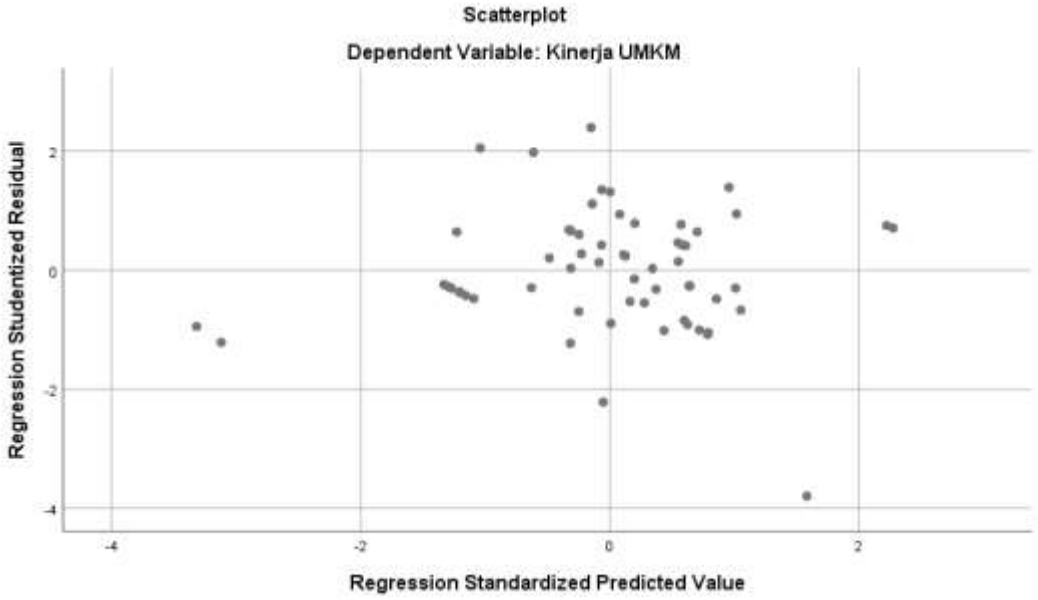


Figure 2: Scatterplot

As shown in the scatterplot below, the residuals appear to be randomly scattered without forming any distinct or systematic pattern. This suggests that there is no heteroscedasticity problem in the regression model. Therefore, the model meets the assumption of homoscedasticity.

Hypothesis Testing

Table 6: t-Test Result

Variable	t-value	Sig. (p-value)	Interpretation
(Constant)	2.884	0.006	-
Market Orientation	2.069	0.043	Significant
Entrepreneurial Orientation	2.177	0.034	Significant
Cost Leadership Strategy	1.941	0.057	Not significant

The results show that:

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1. Market Orientation has a positive and significant effect on MSME performance, as indicated by a t-value of 2.069 and a p-value of 0.043 ($p < 0.05$).
2. Entrepreneurial Orientation also has a positive and significant effect on MSME performance, with a t-value of 2.177 and a p-value of 0.034 ($p < 0.05$).
3. However, the Cost Leadership Strategy variable is not statistically significant, with a p-value of 0.057 ($p > 0.05$), although it approaches the significance threshold.

Table 7: MRA Test Result

Variable	t-value	Sig. (p-value)	Interpretation
(Constant)	2.757	0.008	-
Market Orientation × Cost Leadership Strategy (interaction)	-1.020	0.312	Not Significant
Entrepreneurial Orientation × Cost Leadership Strategy (interaction)	0.623	0.536	Not Significant

The results indicate that neither interaction term is statistically significant ($p > 0.05$). This implies that Cost Leadership Strategy does not moderate the effect of either Market Orientation or Entrepreneurial Orientation on MSME Performance. In other words, the presence of a cost leadership strategy does not strengthen or weaken the impact of these orientations on business performance among MSMEs in the watch retail sector at JP.014 Central Jakarta.

Table 8: ANOVA

Source	Sum of Squares	df	Mean Square	F-value	Sig. (p-value)
Regression	557.766	5	111.553	10.401	0.000
Residual	579.167	54	10.725		
Total	1.136.933	59			

Based on the results of the F-test, the model obtained an F-value of 10.401 with a significance level of 0.000 ($p < 0.05$), indicating that the variables Market Orientation, Entrepreneurial Orientation, Cost Leadership Strategy, along with the interaction effects between each orientation and cost leadership strategy, simultaneously have a significant influence on MSME performance. Therefore, the regression model is considered valid

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and appropriate for explaining the variation in MSME performance among watch business actors in JP.014 Central Jakarta. These findings reinforce that managerial orientation and cost leadership, both directly and interactively, are critical factors in enhancing the performance of micro, small, and medium enterprises in this sector.

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.700	0.491	0.443	3.275

Based on the Model Summary, the regression model obtained an R value of 0.700, indicating a strong correlation between the independent variables and MSME performance. The R Square value of 0.491 means that approximately 49.1% of the variation in MSME performance can be explained by Market Orientation, Entrepreneurial Orientation, Cost Leadership Strategy, and their respective interactions. Meanwhile, the remaining 50.9% is explained by other variables not included in the model. The Adjusted R Square value of 0.443 confirms the model's suitability after adjusting for the number of predictors, suggesting that the model provides a reasonably good fit for the observed data.

DISCUSSION

The results of this study indicate that market orientation has a positive and significant effect on MSME performance, as evidenced by a t-value of 2.069 and a significance level of 0.043. This suggests that the higher the level of market orientation—such as the ability to understand customer needs, market trends, and shifts in consumer preferences—the better the business performance achieved by MSMEs. A strong market orientation allows businesses to align their products and services more effectively with customer expectations, thereby enhancing competitiveness and sustainability. Similarly, the regression analysis reveals that entrepreneurial orientation has a positive and significant impact on MSME performance, with a t-value of 2.177 and a significance level of 0.034. This supports the idea that entrepreneurial characteristics such as innovation, proactiveness, and risk-taking behavior play a critical role in improving business outcomes. These traits enable MSME owners to adapt to market changes, explore new opportunities, and differentiate their offerings in competitive environments.

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In contrast, the cost leadership strategy does not show a statistically significant influence on MSME performance in this model (t-value = 1.941; p = 0.057). This finding suggests that cost efficiency may not yet be a primary focus or is not effectively implemented among MSMEs in the study context. While theoretically, a low-cost strategy can enhance profitability, many MSMEs may prioritize flexibility, innovation, and customer proximity over strict cost control, especially in sectors driven by personalized service and craftsmanship, such as watch retail. Furthermore, the study tested whether the cost leadership strategy moderates the relationship between market and entrepreneurial orientations and MSME performance. However, the results indicate no significant moderating effects. For the relationship between market orientation and performance, the interaction term yielded a t-value of -1.020 and a p-value of 0.312, which is not significant. This suggests that the presence of a cost leadership strategy does not strengthen the effect of market orientation on performance. Likewise, for the relationship between entrepreneurial orientation and performance, the interaction with cost leadership strategy also shows no significant effect (t-value = 0.623; p = 0.536). This implies that the positive influence of entrepreneurial orientation on MSME performance operates independently, without being conditioned or enhanced by the firm's cost-efficiency strategy.

CONCLUTION

This study examined the influence of market orientation and entrepreneurial orientation on the performance of MSMEs, with cost leadership strategy as a moderating variable. Based on the data analysis conducted on watch-based MSMEs in JP.014 Central Jakarta, the findings revealed that both market orientation and entrepreneurial orientation have a positive and significant effect on MSME performance. This indicates that understanding market dynamics and possessing entrepreneurial characteristics such as innovation and proactiveness play a crucial role in enhancing business outcomes. However, the cost leadership strategy was found not to have a significant direct impact on performance. Furthermore, it did not significantly moderate the relationship between market or entrepreneurial orientations and MSME performance. These results suggest that while cost efficiency remains theoretically important, it may not yet be a dominant strategic factor among MSMEs in this context. Overall, the study highlights the importance of strengthening market and entrepreneurial orientations as core strategies for improving MSME performance, particularly in traditional sectors where customer focus and innovation are key to competitiveness. Future research is recommended to explore other

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moderating or mediating variables that may further explain the dynamics of MSME success.

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