

# CHAPTER I

## INTRODUCTION

This chapter contains research background, problem formulation, research objectives, research scopes, and outline of final project report.

### 1.1 Background

Small- and Medium-sized Enterprises (SMEs) play an important role in the economic and social development of a country. The roles of SMEs are reflected in the creation of jobs and income, improved trade balance, the main mechanisms in revitalizing, and enhancing national economic advancement via income generation and job creation. In addition, SMEs are the starting point of development into an industry (Distanont & Khongmalai, 2018). Most large companies at present developed from SMEs (Oduntant, 2014). SMEs are a major type of company, accounting for 95 – 99 percent of all businesses, with additional job creation totalling more than 60 – 70 percent (The Organization for Economic Co-operation and Development (OECD), 2016).

In 2015 in Asia SMEs accounted for 96 percent of the total enterprises and created more than 50 – 85 percent of the total employment positions within each Asian country. In addition, SMEs accounted for a large proportion of the GDP within their respective countries, from 30 to 53 percent, while 19 – 31 percent of the goods exported by each Asian country came from SMEs (ASEAN Secretariat, 2015). Therefore, SMEs in ASEAN are clearly not only important for job and income creation but also an economic pillar of ASEAN. At present, SMEs have become the link between macro and micro economics. The economy of a country grows steadily and sustainably as SMEs continually development (Distanont & Khongmalai, 2018).

In the current era of globalization, especially in the business world has experienced increasing complexity and dynamics of the global business

environment and resulting competition in an increasingly competitive business world. The increasingly fierce competition in the business world, the company must understand how to manage the company's various resources. One of the main keys to winning competition lies in the company's ability to create competitive advantage. Competitive advantage can be created from various company activities, such as designing, producing, marketing, delivering, and supporting its products (Narver & Slater, 1990).

SMEs provides an extraordinary contribution to the Indonesian economy. Therefore it is necessary to provide support in order to remain competitive. Market orientation is one of the factors that can influence competitive advantage (Andiyanto & Miyasto, 2017). Many studies have explained that market orientation is a key factor in creating and maintaining a company's competitive advantage. Market orientation is defined as the company's response to the needs and tastes of customers (Narver & Slater, 1990).

Narver and Slater (1990) define 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 companies, especially in a tightly competitive environment (Narver & Slater, 1990). Narver and Slater (1995) further explained that companies that have made market orientation an organizational culture will focus on external market needs, wants, and market demand as the basis for developing strategies for each business unit in the organization, and determining the company's success (Slater & Narver, 1995). Companies that are oriented to the market will always make efficiency and always try to create more value for their customers who are expected to create competitive advantage and provide long-term benefits for the company. The importance of market orientation is closely related to the results of products offered to customers (Supriyanto et al., 2017).

Padang is one of the provincial capitals in Indonesia. Like in Indonesia, Padang also has various types of SMEs that need to make market orientation an

organizational culture in order to compete with its competitors. There are 2191 Small and Medium-sized Enterprises (SMEs) registered in *Dinas Tenaga Kerja dan Perindustrian (Disnakerin) Padang* in 2018. SMEs in Padang consists of various types of industry, including food industry, metal industry, electronics industry, clothing industry, chemical industry, furniture industry, machinery industry, handicraft industry, transportation equipment industry, wood goods industry, and various industries. The following is a recapitulation of SMEs in Padang based on the type of industry.

**Table 1.1** Recapitulation of SMEs in Padang

No	Type of Industry	Total
1	Transportation Equipment	13
2	Various	126
3	Wood Goods	83
4	Electronics	67
5	Furniture	85
6	Handicraft	29
7	Chemical	84
8	Metal	111
9	Machinery	31
10	Food	1.118
11	Clothing	444
<b>Total</b>		<b>2191</b>

In **Table 1.1**, it can be seen that the food IKM has the most amount, namely 1.118 units. The large number of food SMIs will certainly cause intense competition between SMEs. This has become a problem in SMEs in Padang. Understanding customer satisfaction is very necessary and recognizing the movements of competitors in the market needs to be improved by means of market orientation (Supriyanto et al., 2017).

This research focus on aspects of market orientation that lead to competitive advantage on SMEs of pastry in Padang. This type of SMEs was chosen because this type of SMEs was quite dominating in Padang, which was as many as 282 units. Mrs. Emmilda said that the growth of SMEs of pastry is very rapid in Padang. This

phenomenon has implications in the form of increasingly fierce competition (hyper competition) between business people, especially those engaged in the same field in fighting over and controlling the market.

Based on the description above, researcher are interested in conducting research on the effect of market orientation on competitive advantage on SMEs of food in Padang. So that the title taken in this study is "**The Effect of Market Orientation on Competitive Advantage on SMEs of Food in Padang**".

## **1.2 Problem Formulation**

Based on the background of the problems that have been described, the formulation of the problem in this study is how the influence of market orientation on competitive advantage on SMEs of pastry in Padang.

## **1.3 Research Objectives**

Based on the problems that have been explained, the purpose of this study is to analyze the effect of market orientation on competitive advantage on SMEs of pastry in Padang.

## **1.4 Research Scopes**

The research scopes of this study is the respondents obtained from SMEs of pastry in Padang.

## 1.5 Outline of Final Project Report

The outline of the report that used in this final project are as follows.

### CHAPTER I INTRODUCTION

This chapter contains background, problems formulation, research objectives, research scopes, and outline of the final project report.

### CHAPTER II LITERATURE REVIEW

This chapter describes a review of the related literature of the research. The literature review consists of theories and tools to be used in problem solving.

### CHAPTER III RESEARCH METHODOLOGY

This chapter contains the stages of research starting from problem identification to data collection and processing based on the method used in this study.

### CHAPTER IV RESULTS AND DISCUSSIONS

This chapter describes the data collection and data processing. The data were collected using the questionnaire and interviews, while the data processing are conducted with a structural equation model using SmartPLS 3.0 tools. The discussions are conducted to the results.

### CHAPTER V CONCLUSIONS

This chapter contains conclusions and suggestions related to research that has been done. Conclusions and suggestions were obtained from the results and discussion of this study