

The Role of Product Innovation Mediation in the Relationship between Market Orientation and Competitive Advantage in Culinary Sector MSMEs

Feliks Anggia Binsar Kristian Panjaitan¹, Muhammad Taali²
Politeknik Negeri Madiun

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ABSTRACT

This study aims to examine the mediating role of product innovation in the relationship between market orientation and competitive advantage among Indonesian culinary sector Micro, Small, and Medium Enterprises (MSMEs). A quantitative research design was employed using survey data collected from 200 MSME owners and managers. The measurement instrument utilized a five-point Likert scale, and data were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS 3). The results indicate that market orientation has a significant positive effect on product innovation and competitive advantage. Product innovation also shows a strong and significant influence on competitive advantage, highlighting its role as a key strategic capability in the culinary industry. Furthermore, mediation analysis confirms that product innovation partially mediates the relationship between market orientation and competitive advantage, suggesting that the ability to transform market insights into innovative products strengthens business competitiveness. The findings emphasize the importance of integrating customer focus, competitor awareness, and innovation strategies to achieve sustainable competitive advantage. This study contributes to the literature on strategic entrepreneurship and MSME competitiveness by providing empirical evidence from the Indonesian culinary sector and offers practical implications for business owners and policymakers in promoting innovation-driven development.

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Corresponding Author:

Name: Feliks Anggia Binsar Kristian Panjaitan

Institution Address: Politeknik Negeri Madiun

e-mail: feliksctp23@gmail.com

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in supporting economic growth, employment generation, and regional development in Indonesia. Among various sectors, the culinary industry has emerged as one of the most dynamic segments within the creative economy, characterized by rapid product cycles, intense competition, and evolving consumer preferences [1], [2]. The expansion

of digital platforms, changing lifestyle patterns, and increasing consumer awareness of product quality and uniqueness have intensified the need for culinary MSMEs to develop sustainable competitive strategies [3]. In such a highly competitive environment, business actors are required not only to understand market needs but also to translate that understanding into innovative products that provide superior value to customers.

Market orientation has long been recognized as a strategic capability that enables firms to identify customer demands, monitor competitor movements, and coordinate internal resources effectively [4]. Firms with strong market orientation tend to gather and utilize market intelligence to design strategies that align with consumer expectations and market trends. Previous studies have demonstrated that market-oriented businesses are more adaptive and responsive, which enhances their ability to achieve superior performance outcomes [5], [6]. However, market orientation alone may not directly guarantee competitive advantage unless it is supported by organizational processes that transform market insights into tangible outputs, such as new product development or innovation activities.

Product innovation represents one of the most critical mechanisms through which MSMEs can maintain relevance in a rapidly changing culinary landscape. Innovation in this context includes the development of new menus, improvement of product quality [7], [8], creative packaging, or adaptation to emerging consumer trends such as health-conscious or environmentally friendly food products. For culinary MSMEs, innovation does not always require advanced technology; instead, it often relies on creativity, customer feedback, and incremental improvements that differentiate products from competitors [9], [10]. Empirical research suggests that innovative capabilities allow small businesses to strengthen their market positioning and enhance customer loyalty, ultimately contributing to competitive advantage [10], [11]. Despite this, many Indonesian culinary MSMEs still face challenges in translating market knowledge into innovative outputs due to limited resources, managerial capacity, or strategic planning.

Competitive advantage in the MSME context refers to the ability of businesses to create superior value compared to competitors through uniqueness, quality, efficiency, or customer experience. In the culinary sector, competitive advantage is increasingly shaped by product differentiation, branding, service quality, and

responsiveness to market changes [12], [13]. While previous research has explored the direct relationship between market orientation and competitive advantage, findings remain inconsistent, especially in emerging economies where structural and operational constraints influence business performance [9], [14]. Some studies indicate that the relationship may be indirect and mediated by internal capabilities such as innovation, suggesting the need for more comprehensive models that integrate strategic orientation and operational outcomes.

A notable research gap lies in understanding how product innovation functions as a mediating variable between market orientation and competitive advantage within Indonesian culinary MSMEs. Many existing studies have concentrated on manufacturing industries or large-scale enterprises, resulting in limited empirical evidence regarding small culinary businesses that operate in localized and culturally diverse markets. In addition, the rapid digital transformation within the culinary sector has introduced new dynamics that may reshape traditional strategic relationships. Therefore, examining the mediating role of product innovation becomes crucial to explain how market-oriented behaviors can be translated into measurable competitive outcomes in this specific context. This study addresses these gaps by investigating the structural relationship between market orientation, product innovation, and competitive advantage among culinary MSMEs in Indonesia using a quantitative approach, aiming to generate empirical insights into the mechanisms that drive competitiveness in small-scale culinary businesses.

The contribution of this research is twofold. From a theoretical perspective, the study extends resource-based and market orientation frameworks by positioning product innovation as a mediating construct within the MSME culinary context, thereby enriching the literature on strategic entrepreneurship and small business competitiveness. From a practical standpoint, the findings are expected to provide guidance

for MSME owners, policymakers, and development institutions in designing innovation-oriented programs that foster market responsiveness and sustainable growth. By highlighting the strategic role of innovation, this research emphasizes that competitive advantage in the culinary sector emerges not only from understanding market needs but also from the continuous ability to transform that understanding into innovative products aligned with evolving consumer demands.

2. LITERATURE REVIEW

2.1 *Market Orientation*

Market orientation is widely recognized as a strategic approach that focuses on understanding customer needs, monitoring competitors, and coordinating organizational functions to deliver superior value through customer orientation, competitor orientation, and interfunctional coordination [4]. In the MSME context, especially among Indonesian culinary businesses, market orientation becomes a crucial capability due to limited resources and rapidly changing consumer trends and digital dynamics [5]. Firms that actively collect market information and respond to feedback tend to adapt their products more effectively, leading to stronger innovation performance, higher customer satisfaction, and improved business outcomes [15], [16]. However, the link between market orientation and competitive advantage is often influenced by intermediary capabilities, indicating the importance of examining additional variables that explain how market-oriented practices translate into superior performance.

2.2 *Product Innovation*

Product innovation refers to the introduction of new or improved products that create enhanced

customer value, which in the culinary sector may include new menu variations, adjustments in taste or ingredients, creative packaging, improved presentation, and alignment with health or sustainability trends. Unlike large corporations that depend on substantial technological investment, innovation within MSMEs often arises from creativity, experimentation, and close interaction with customers [7], [8]. From a resource-based view perspective, innovation represents a strategic capability that enables firms to differentiate themselves, attract new customers, remain relevant in dynamic markets, and strengthen brand identity, particularly for Indonesian culinary MSMEs where competition is driven by uniqueness and customer experience rather than price alone [17], [18]. Although innovation is crucial for long-term performance and resilience, MSMEs frequently face constraints such as limited financial resources, weak research and development capacity, and managerial skill gaps, making innovation heavily influenced by external drivers like customer feedback, market trends, and digital collaboration; consequently, market orientation can be seen as a key precursor that provides the insights needed to develop products aligned with evolving consumer expectations.

2.3 *Competitive Advantage*

Competitive advantage refers to a firm's ability to create superior value compared to competitors, leading to stronger market positioning and sustained performance, which in culinary MSMEs can be reflected through product uniqueness, consistent quality [12], [19], customer loyalty, brand reputation, and responsiveness to market changes. Grounded in

strategic management theory, competitive advantage emerges from the alignment between internal capabilities and external opportunities, particularly in saturated culinary markets where differentiation becomes essential. For small businesses, success is not merely determined by scale or financial strength but by the effective use of creativity, innovation, and close customer relationships [20], [21]. Empirical studies indicate that firms with strong strategic orientation and innovative capabilities tend to achieve higher levels of competitive advantage [22], although the mechanisms through which these factors interact remain an important area of investigation, especially within emerging economies characterized by distinct institutional and market dynamics.

2.4 Hypothesis Development

Based on the theoretical framework and previous empirical findings, several hypotheses are proposed in this study. Market orientation is expected to positively influence product innovation because firms that actively gather and utilize market information are more capable of developing new products aligned with customer needs. Market orientation is also predicted to enhance competitive advantage, as a deeper understanding of market dynamics enables more effective positioning. Furthermore, product innovation is hypothesized to positively affect competitive advantage by strengthening differentiation and value creation. Finally, product innovation is proposed to mediate the relationship between market orientation and competitive advantage, suggesting that innovation serves as a strategic mechanism through which market-oriented practices translate into

improved competitiveness. Accordingly, the hypotheses of this study are formulated as follows.

2.5 Relationship between Market Orientation and Product Innovation

Market orientation provides the informational foundation necessary for innovation activities, as firms that actively monitor customer preferences, competitor behavior, and market trends are better positioned to identify opportunities for product development and create new or improved offerings [9], [23]. Customer feedback and market intelligence enable businesses to understand unmet needs and inspire creative solutions, making market-oriented firms more likely to engage in continuous innovation processes. In the context of culinary MSMEs, this relationship is particularly relevant because innovation often arises from direct interaction with customers and close observation of evolving trends [24], encouraging experimentation with new recipes, packaging, and service approaches based on consumer insights. Empirical studies consistently show that market orientation has a positive influence on product innovation, emphasizing the importance of strategic learning and adaptability in enhancing innovation performance.

H1: Market orientation positively influences product innovation.

2.6 Relationship between Product Innovation and Competitive Advantage

Product innovation is widely regarded as a key driver of competitive advantage because it enables firms to differentiate themselves in crowded markets, attract new customer segments, and enhance perceived value. In the culinary sector, innovation can manifest through improved taste,

creative presentation, or unique dining experiences that strengthen market positioning [9], [17]. From a resource-based view perspective, innovation capabilities become a source of sustainable competitive advantage when they are valuable, rare, and difficult to imitate. For MSMEs, consistent innovation increases flexibility and responsiveness, allowing businesses to adapt quickly to evolving market conditions [25], [26], and empirical studies show that firms investing in product innovation tend to achieve higher performance outcomes, including stronger brand differentiation and increased customer loyalty.

H2: Market orientation positively influences competitive advantage.

2.7 Relationship between Market Orientation and Competitive Advantage

The relationship between market orientation and competitive advantage has been widely discussed in strategic management literature, where market-oriented firms are seen as more capable of identifying opportunities and responding to competitive pressures, leading to superior performance. However, research also indicates that this relationship is not always direct and may be mediated by internal capabilities such as innovation, organizational learning, or digital capability. In the context of Indonesian culinary MSMEs, understanding customer preferences alone is often insufficient to achieve competitive advantage, as businesses must transform market insights into tangible value for customers. Consequently, product innovation is proposed as a mediating variable that explains how market orientation translates into competitive advantage

through the creation of differentiated and valuable offerings.

H3: Product innovation positively influences competitive advantage.

H4: Product innovation mediates the relationship between market orientation and competitive advantage.

3. RESEARCH METHODS

3.1 Research Design

This study employs a quantitative research approach to examine the structural relationships between market orientation, product innovation, and competitive advantage among Indonesian culinary sector MSMEs. A causal explanatory design was adopted to test the proposed hypotheses and to analyze the mediating role of product innovation. Quantitative methods were selected because they allow for systematic measurement of latent constructs and provide robust statistical evidence regarding the relationships among variables. Data were collected through a structured survey and analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS 3), which is suitable for predictive analysis and complex mediation models involving latent variables.

3.2 Population and Sample

The population of this study consists of Micro, Small, and Medium Enterprises (MSMEs) operating in the Indonesian culinary sector, including food stalls, small restaurants, catering services, and home-based culinary entrepreneurs who actively produce and sell food products, with respondents limited to business owners or managers who possess adequate knowledge of business operations, market strategies, and innovation activities. A total of 200 respondents were selected using purposive sampling based on several criteria: actively managing or owning a culinary MSME, having operated the business for at least one year to ensure sufficient experience in responding to market changes and implementing product innovation, and willingness to complete the questionnaire fully. The sample size of 200 is considered

appropriate for SEM-PLS analysis, as this method can accommodate small to medium samples while maintaining statistical reliability.

3.3 Data Collection Technique

Primary data were collected through a structured questionnaire distributed both online and offline to culinary MSME owners and managers, designed to measure perceptions of market orientation, product innovation, and competitive advantage using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Prior to full distribution, the instrument was pilot-tested to ensure clarity, readability, and relevance within the MSME culinary context, resulting in minor revisions to improve wording and reduce ambiguity. The final questionnaire comprised sections on respondent demographics as well as measurement items representing each construct in the research model.

3.4 Operational Definition of Variables

This study examines three main variables: market orientation as the independent variable, product innovation as the mediating variable, and competitive advantage as the dependent variable. Market orientation refers to a firm's ability to understand customer needs, monitor competitors, and coordinate internal efforts to respond to market changes, with indicators including customer focus, competitor awareness, and interfunctional coordination. Product innovation reflects the firm's efforts to introduce new or improved culinary products, measured through indicators such as new menu development, product quality improvement, creative packaging, and adaptation to consumer trends. Competitive advantage represents the firm's capacity to outperform competitors through differentiation and superior value, captured through indicators such as product uniqueness, perceived quality, customer loyalty, and relative business performance. All measurement items were adapted from established literature and adjusted to align

with the context of Indonesian culinary MSMEs.

3.5 Data Analysis Technique

Data analysis in this study was conducted using Structural Equation Modeling–Partial Least Squares (SEM-PLS 3), selected for its suitability in exploratory and predictive research, its flexibility toward normality assumptions, and its effectiveness in analyzing complex mediation models. The analysis consisted of two main stages: evaluation of the measurement model (outer model) and the structural model (inner model). The measurement model was assessed through convergent validity, discriminant validity, and reliability tests, where convergent validity was evaluated using factor loadings and Average Variance Extracted (AVE), reliability was examined through Composite Reliability and Cronbach's Alpha, and discriminant validity was tested using the Fornell–Larcker criterion and cross-loading analysis. The structural model evaluation focused on hypothesis testing by examining path coefficients to determine the strength and direction of relationships among variables, supported by bootstrapping procedures to assess the significance of direct and indirect effects, including the mediating role of product innovation, while the coefficient of determination (R^2) and predictive relevance (Q^2) were analyzed to evaluate the model's explanatory power.

4. RESULTS AND DISCUSSION

4.1 Respondent Profile

The respondents in this study consisted of 200 owners and managers of culinary sector MSMEs in Indonesia who met the predetermined sampling criteria. The profile analysis aims to provide an overview of demographic characteristics and business backgrounds, which are important for understanding the context of the empirical findings.

Table 1. Respondent Demographic Characteristics (n = 200)

Characteristic	Category	Frequency	Percentage
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Gender	Male	84	42%
	Female	116	58%
Age	18–25 years	40	20%
	26–35 years	68	34%
	36–45 years	56	28%
	>45 years	36	18%
Education	Senior High School	82	41%
	Diploma	24	12%
	Bachelor Degree	74	37%
	Postgraduate	20	10%
Business Age	<2 years	44	22%
	2–5 years	92	46%
	>5 years	64	32%
Number of Employees	<5 employees	108	54%
	5–10 employees	62	31%
	>10 employees	30	15%
Use of Digital Platforms	Yes	122	61%
	No	78	39%

Table 1 shows that the majority of respondents were female (58%), indicating a strong participation of women in the Indonesian culinary MSME sector, while the dominant age group was 26–35 years (34%), suggesting that many businesses are managed by individuals in their productive and adaptive career stage. In terms of education, most respondents held a senior high school background (41%), followed by bachelor's degree holders (37%), reflecting a mix of practical entrepreneurial experience and formal knowledge. Nearly half of the businesses had operated for 2–5 years (46%), indicating relatively stable yet growing enterprises, and most employed fewer than five workers (54%), confirming the micro-scale nature of the sample. Additionally, the fact that 61% of respondents reported using digital platforms highlights an increasing

level of digital adoption within culinary MSMEs, which may influence innovation activities and competitive positioning in the evolving market environment.

4.2 Measurement Model Evaluation (Outer Model)

The measurement model evaluation was conducted to assess the validity and reliability of the constructs used in this study, namely market orientation, product innovation, and competitive advantage. The outer model assessment in SEM-PLS includes tests of convergent validity, discriminant validity, and internal consistency reliability. These procedures ensure that the indicators accurately measure their respective latent variables and that the constructs are statistically sound before proceeding to structural model analysis.

Table 2. Outer Model

Construct	Indicator	Loading	CA	CR	AVE
Market Orientation	MO1	0.786	0.886	0.913	0.635
	MO2	0.824			
	MO3	0.867			
	MO4	0.748			
	MO5	0.803			
Product Innovation	PI1	0.855	0.909	0.933	0.679
	PI2	0.898			
	PI3	0.814			
	PI4	0.747			
Competitive Advantage	CA1	0.705	0.894	0.927	0.618
	CA2	0.838			

	CA3	0.872			
	CA4	0.761			
	CA5	0.797			

Table 2 demonstrates that all indicators meet the required threshold for convergent validity, as the outer loading values range from 0.705 to 0.898, exceeding the recommended minimum of 0.70, which indicates that each item adequately represents its respective construct. The reliability of the constructs is also confirmed by high Cronbach's Alpha (CA) and Composite Reliability (CR) values, all above 0.70, showing strong internal consistency across Market Orientation, Product Innovation, and Competitive Advantage. In addition, the

Average Variance Extracted (AVE) values for all constructs are above 0.50, suggesting that the constructs explain more than half of the variance of their indicators, thereby supporting convergent validity.

Discriminant validity was evaluated using the Fornell–Larcker criterion, which compares the square root of AVE values with inter-construct correlations. A construct is considered discriminant if its square root of AVE is higher than its correlations with other constructs.

Table 3. Fornell–Larcker Criterion

Variable	MO	PI	CA
Market Orientation	0.796		
Product Innovation	0.654	0.825	
Competitive Advantage	0.607	0.722	0.783

Table 3 shows that the discriminant validity of the constructs is supported based on the Fornell–Larcker criterion, as the square root of the AVE for each variable (Market Orientation = 0.796, Product Innovation = 0.825, and Competitive Advantage = 0.783) is higher than the correlations with other constructs in the model. This indicates that each construct has stronger relationships with its own indicators than with other variables, confirming that the constructs are empirically distinct. Although moderate correlations exist between Product Innovation and Competitive Advantage (0.722) as well as between Market Orientation and Product Innovation (0.654), these values remain below the respective AVE square roots, suggesting acceptable construct separation.

4.3 Structural Model Evaluation (Inner Model)

After confirming that the measurement model met the required validity and reliability criteria, the structural model (inner model) was evaluated to examine the predictive power of the research framework

and test the relationships among market orientation, product innovation, and competitive advantage through indicators such as the coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2), and model fit. The R^2 results show that product innovation has a value of 0.426, indicating that market orientation explains 42% of its variance at a moderate level, while competitive advantage has an R^2 value of 0.564, suggesting that market orientation and product innovation jointly explain 56% of its variance with moderate–strong explanatory power. These findings demonstrate that the model possesses substantial capability in predicting competitive outcomes among culinary MSMEs, highlighting the importance of strategic orientation and innovation activities in shaping business performance. Furthermore, the evaluation of effect size (f^2) was conducted to assess the contribution of each exogenous construct to the endogenous variables, where values of 0.02, 0.15, and 0.35 represent small, medium, and large effects, respectively.

Table 4. Effect Size (f^2) Results

Relationship	f ² Value	Effect Size
Market Orientation → Product Innovation	0.736	Large
Market Orientation → Competitive Advantage	0.083	Small
Product Innovation → Competitive Advantage	0.417	Large

Table 4 shows that market orientation has a large effect on product innovation ($f^2 = 0.736$), indicating that market-oriented practices strongly contribute to innovation activities among culinary MSMEs, particularly in generating new products and adapting to customer needs. In contrast, the direct effect of market orientation on competitive advantage is relatively small ($f^2 = 0.083$), suggesting that understanding the market alone is not sufficient to significantly strengthen competitiveness without being translated into tangible outcomes. Meanwhile, product innovation demonstrates a large effect on competitive advantage ($f^2 = 0.417$), highlighting its critical role as a strategic driver that transforms market insights into differentiated value and stronger business positioning. These findings reinforce the importance of innovation as a key

mechanism linking market orientation to superior competitive performance.

Predictive relevance (Q^2) was evaluated using the blindfolding procedure, where values greater than zero indicate that the model possesses predictive capability. The results show that product innovation has a Q^2 value of 0.278 and competitive advantage has a Q^2 value of 0.336, both of which support predictive relevance. These findings confirm that the model demonstrates adequate predictive power, suggesting that the structural relationships among market orientation, product innovation, and competitive advantage are meaningful and capable of predicting competitive outcomes among culinary MSMEs. Model fit was also evaluated using the Standardized Root Mean Square Residual (SRMR). An SRMR value below 0.08 indicates a good model fit.

Table 5. Model Fit Index

Fit Indicator	Value	Threshold	Interpretation
SRMR	0.061	< 0.08	Good Fit

The SRMR value of 0.061 indicates that the proposed structural model demonstrates a good fit with the observed data, suggesting that the theoretical relationships among market orientation, product innovation, and competitive advantage are empirically supported. Hypothesis testing was conducted using the bootstrapping procedure in SEM-PLS with 5,000 subsamples to obtain robust estimates of path coefficients, T-statistics, and P-values, where hypotheses are considered supported

when the T-statistic exceeds 1.96 and the P-value is below 0.05, indicating statistical significance at the 5% level. The direct effects analysis was performed to evaluate whether market orientation significantly influences product innovation and competitive advantage, as well as whether product innovation significantly affects competitive advantage, thereby providing a clear understanding of the structural relationships among the variables.

Table 6. Direct Effect Results

	Relationship	Path Coefficient (β)	T-Statistic	P-Value	Decision
H1	Market Orientation → Product Innovation	0.657	11.244	0.000	Supported
H2	Market Orientation → Competitive Advantage	0.244	3.127	0.002	Supported
H3	Product Innovation → Competitive Advantage	0.557	8.763	0.000	Supported

Table 6 shows that all proposed direct relationships are statistically significant, indicating strong empirical support for the research model. Market orientation has a significant positive effect on product innovation ($\beta = 0.657$; $T = 11.244$; $p = 0.000$), confirming that market-oriented practices play an important role in encouraging innovation activities among culinary MSMEs. Market orientation also positively influences competitive advantage ($\beta = 0.244$; $T = 3.127$; $p = 0.002$), although the effect is relatively moderate, suggesting that understanding market dynamics contributes to

competitiveness but may require additional capabilities to maximize its impact. Meanwhile, product innovation demonstrates a strong positive effect on competitive advantage ($\beta = 0.557$; $T = 8.763$; $p = 0.000$), highlighting innovation as a key driver of differentiation and superior market positioning.

To examine the mediating role of product innovation, the indirect effect of market orientation on competitive advantage through product innovation was analyzed. The significance of the mediation effect was assessed using bootstrapping procedures.

Table 7. Indirect Effect (Mediation) Results

	Indirect Relationship	Indirect Effect (β)	T-Statistic	P-Value	Mediation Type
H4	Market Orientation → Product Innovation → Competitive Advantage	0.367	6.452	0.000	Partial Mediation

Table 7 indicates that product innovation significantly mediates the relationship between market orientation and competitive advantage, as reflected by the indirect effect value ($\beta = 0.367$) with a T-statistic of 6.452 and a P-value of 0.000, confirming statistical significance. The mediation type is classified as partial mediation, meaning that market orientation influences competitive advantage both directly and indirectly through product innovation. This finding suggests that while understanding market needs contributes to competitiveness, its impact becomes stronger when translated into innovative products that create added value and differentiation. In the context of culinary MSMEs, innovation acts as a strategic mechanism that transforms market insights into tangible competitive outcomes, reinforcing the importance of continuous product development in achieving sustainable business performance.

4.4 Discussion

The results of this study provide important insights into how market orientation and product innovation interact to shape competitive advantage among Indonesian culinary MSMEs. The findings confirm that market orientation significantly

influences product innovation, indicating that businesses that actively understand customer needs, monitor competitors, and respond to market trends are more capable of developing innovative products. In a culinary industry characterized by rapidly changing consumer preferences, the ability to capture market intelligence becomes a strategic resource that stimulates creativity and experimentation. This supports the strategic marketing perspective that market-oriented behavior enhances organizational learning and encourages firms to continuously refine their products in response to evolving consumer demands [7], [8].

The significant relationship between product innovation and competitive advantage highlights innovation as a central driver of business competitiveness. Culinary MSMEs operate in saturated markets where differentiation is essential, and innovative practices such as new menu variations, improved presentation, and creative packaging enable businesses to build unique value propositions. The relatively strong effect of product innovation compared to market orientation alone supports the resource-based view, emphasizing that internal capabilities—especially innovation—can become sources of sustainable

competitive advantage when they are valuable and difficult to imitate.

Although market orientation also has a direct effect on competitive advantage, its impact is weaker than the indirect effect through product innovation. This suggests that understanding market needs alone is insufficient to generate superior performance; culinary MSMEs must translate market knowledge into tangible outputs such as product improvements and creative offerings [18], [27]. The mediation analysis confirms that product innovation acts as a strategic bridge linking market orientation to competitiveness, aligning with prior research that positions innovation as a key mechanism transforming strategic orientation into measurable business outcomes. From a practical perspective, MSME development programs should therefore emphasize not only marketing capability but also innovation skills, including creative product development and adaptation to emerging consumer trends supported by digital platforms.

Overall, the findings highlight the importance of balancing external market orientation with internal capability development. Market orientation enables businesses to sense opportunities and threats, while product innovation transforms those insights into value creation that strengthens competitive positioning. The synergy between these two factors explains a substantial portion of competitive advantage, demonstrating that successful culinary MSMEs are those that combine strong market awareness with continuous innovation efforts. These results extend entrepreneurship

and strategic management literature by providing empirical evidence that competitive advantage in Indonesian culinary MSMEs is achieved not merely through market knowledge but through the ability to convert that knowledge into innovative products that resonate with customers and sustain long-term growth.

5. CONCLUSION

This study concludes that market orientation and product innovation play significant roles in shaping the competitive advantage of Indonesian culinary sector MSMEs. The empirical findings demonstrate that market-oriented businesses are more likely to develop innovative products, which in turn enhance their ability to compete in dynamic markets. While market orientation directly contributes to competitive advantage, its impact becomes stronger when mediated by product innovation, indicating that innovation acts as a strategic mechanism that transforms market knowledge into tangible business value. These results suggest that culinary MSMEs should prioritize continuous product development and creative differentiation strategies aligned with customer needs and market trends. From a theoretical perspective, the study reinforces the integration of strategic orientation and innovation capability within the resource-based framework of competitiveness. Practically, the findings provide guidance for MSME owners and policymakers to design innovation-focused programs that support sustainable growth and long-term business performance in the culinary industry.

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