



The Mediating Effect of Islamic Marketing Capabilities in The Relationship Between Entrepreneurial Orientation And Firm Performance at Handicraft SMEs In West Java

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Abstract

The purpose of this study is to determine the influence of entrepreneurial orientation and market orientation on Islamic marketing capabilities and their impact on the performance of SMEs in the handicraft sector in West Java. The population in this study is the managers of leather craft SMEs with a sample of 160 respondents using the purposive sampling method. Data analysis using the help of SmartPLS program. The results showed that entrepreneurial orientation had a significant positive effect on Islamic marketing ability, Islamic marketing ability had a significant positive effect on SME performance, and Islamic marketing ability mediated the influence of entrepreneurial orientation on the performance of SMEs in the leather handicraft sector in West Java. The results of this study recommend to SMEs in the handicraft sector in West Java to continue to improve entrepreneurial orientation to support the improvement of the ability to market their products, so that overall business performance continues to grow.

Keywords: *Entrepreneurial Orientation; Islamic Marketing Capabilities; SMEs Performance; Handicraft; West Java.*

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1. Introduction

Small and Medium Enterprises (SMEs) are a pillar in economic growth, where many jobs are absorbed, and are able to mediate the development results of a country (Hendayana et al., 2019). Small and Medium Enterprises (SMEs) have a very important role in a country's economy, especially providing a significant contribution to economic growth. In Indonesia, SMEs contribute 63.4% to gross domestic product (GDP). The contribution to the total workforce is 97%, but the contribution of SMEs to national exports is still low at 14.17% (Ministry of SMEs, 2022). The low contribution to national exports indicates the weak performance of SMEs, especially in terms of marketing

effectiveness. Strategic steps are needed so that SME products can be widely accepted by the market. The problem faced by SMEs in West Java, especially in the craft sector, is the weak marketing capabilities so that SME efficiency is not optimal. According to the 2022 Micro, Small, and Medium Enterprises (MSMEs) Empowerment Report, as many as 70% of MSMEs have difficulty marketing their products (<https://dailysocial.id/research/msme-report-2022>). In fact, the ability to market properly can help MSMEs increase potential markets, strengthen customer loyalty, and ultimately increase sales and business performance. Islamic marketing strategies are a solution for business people to achieve the goal of generating profit and blessings, so that they become part of the process that must be carried out to achieve the expected performance and sustainability of the Company ([Alom & Haque, 2011](#)), ([Saeed et al., 2001](#)).

There are inconsistent findings regarding the effect of entrepreneurial orientation on marketing capabilities and Company performance. ([Rezaei et al., 2017](#)) analyzed the effect of entrepreneurial orientation on marketing capabilities.

These results indicate that entrepreneurial orientation has a positive impact on marketing capabilities. supported by research ([Pascal & Shin, 2015](#)) where entrepreneurial orientation has a direct and indirect influence (through marketing capabilities) on SME performance. Islamic marketing by implementing ethics plays an important role in increasing customer satisfaction and company performance. ([Abbas et al., 2020](#)), ([Buldan et al., 2021](#)), ([Rafiki & Wahab, 2013](#)). Islamic business ethics is the application of Islamic values in running a business, namely in the form of honesty and truth ([Muhayatsyah, 2020](#)). In contrast to the results of research conducted ([Hari Adi & Adawiyah, 2018](#)) who conducted research on Muslim entrepreneurs in Indonesia, showed that there was no significant influence of marketing capabilities on business performance.

Based on the differences in research results, where there are inconsistent results, this study will test Islamic marketing capabilities as a mediating variable as something new in research. Therefore, this study aims to determine the role of marketing capabilities in mediating the influence of entrepreneurial orientation on company performance. This study assumes that entrepreneurial orientation with indicators of innovation ability, proactiveness, and courage to take risks to improve company performance requires mediation of marketing strategy implementation ability. This study uses a quantitative approach to SMEs in the craft sector in West Java as a unit of analysis. The sampling process is carried out randomly, and to test the hypothesis is analyzed using a structural equation model (SEM).

2. Literature Review and Hypotheses Development

2.1. SMEs Performance

According to Jauch and Glueck (in Soares, 2014), the performance of a company can be seen from the level of sales, profit level, return on capital, revenue and market share. The failure of SMEs to overcome growth limitations is caused by inherent weaknesses of SMEs such as lack of production knowledge and technology, lack of marketing knowledge and skills, limited resources (human and financial) and lack of knowledge of management capacity ([Tambunan, 2009](#)). SME performance is the extent to which an SME achieves its financial and non-financial goals ([Cavusgil & Zou, 1994](#)). Furthermore, SME performance is the result of SME business activities measured against resources ([Aliyu et al., 2015](#)). Furthermore, SME performance is considered "a firm's ability to achieve revenue and profit targets and non-financial prospects compared to its competitors" ([Kaplan & Norton, 1996](#)); ([Wilden et al., 2013](#)).

Similarly, according to ([Vij & Bedi, 2019](#)), SME performance is an overall index of SMEs' ability to satisfy stakeholders, measured by financial and non-financial indicators. Indicators to measure the performance of SMEs according to ([Santos & Brito, 2012](#)) include profit, growth, market value, customer satisfaction, employee satisfaction, environmental performance and social performance.

2.2. Entrepreneurial Orientation

Entrepreneurial orientation is a dynamic ability that underlies company performance ([Kuratko & Howard Frederick, 2016](#)). Entrepreneurial orientation is mainly associated with new work ideas that can bring about market changes. An entrepreneurship-oriented approach enhances the company's capabilities and provides technical knowledge, an approach that allows for technical solutions to meet consumer needs ([Gatignon & Xuereb, 1997](#)); ([Workman, 1993](#)). In line with this spirit, ([Freeman & Cavusgil, 2007](#)) asserts that this concept is "an element of behavior that is world-oriented and reflects the tendency of top management to be risk-taking, innovative and proactive". Innovative processes are carried out by coordinating, searching, and monitoring fresh ideas, including market knowledge ([Faeni et al., 2023](#)). Companies that are able to innovate quickly and precisely will achieve improved performance and be able to compete with other companies ([Hendayana et al., 2019](#)), ([Faerrosa et al., 2022](#)).

2.3. Marketing Capabilities

Marketing capabilities are more than just a company's services and features, to be able to see how they meet customer needs and why customers find them attractive. ([Wickham, 2006](#)). According to ([Day, 1994](#)), marketing capabilities are classified into three types. Outside-in capabilities: are skills that help you understand and participate in the market, such as understanding customers and building relationships. Inside-out capabilities: are skills that contribute to effective market participation, including: Financial management, human resources, and marketing.

Spanning capabilities: is a skill that combines inside-out and outside-in skills, including: New product development and internal communication. A responsive business, is responding quickly to their needs and treating consumers with care ([Faeni, 2023](#)).

2.4. Islamic Marketing Capabilities

Islamic marketing is a business strategy that encompasses all activities within a company, including all processes involved in creating, providing, and exchanging value from producers, companies, and individuals, based on Islamic teachings. ([Alfi, 2019](#)), ([El-Menouar, 2014](#)).

Islamic marketing investigates and analyzes how Muslim businesspeople are influenced by Islamic teachings in their marketing efforts, both as marketers and consumers. Muslims primarily rely on Islamic teachings when considering marketing decisions, such as whether to sell or consume a product. Ethics are needed in business that serve as guidelines for the marketing abilities of businesspeople. The ability to market products based on Islamic principles is important for businesspeople to achieve success in their businesses.

[Alfi, 2019](#), ([Saeed et al., 2001](#)), ([Alom & Haque, 2011](#)), Islamic ethics are guidelines for Muslims to maintain their actions, words, thoughts, and intentions in all matters of human social life, including business matters ([Muhayatsyah, 2020](#)). Even when marketing carries out the process of

creating value, there are three main ethics that you can use as a reference in doing business, namely Honest, Fair and Trustworthy.

2.4. Entrepreneurial Orientation and Marketing Capabilities

Businesses that are not only creative and entrepreneurial but also have significant marketing skills should be able to enjoy corporate profit improvements, regardless of their age or size. Research ([Rezaei et al., 2017](#)) on Greenhouse Businesses Performance in Jiroft County, Iran showed entrepreneurial orientation and marketing capabilities can considerably increase performance and sustain their activity in the competitive environment. Strengthened by Research Results ([Pascal & Shin, 2015](#)) on small-sized firms in Northwestern states including Washington, Montana, Oregon, and Idaho in U.S. Results show that in SMEs an Entrepreneurial Orientation has both a direct and indirect effect (through marketing capability) on SME performance.

Hypotesis 1. Entrepreneurial Orientation has a positive effect on Marketing Capabilities

2.5. Entrepreneurial Orientation and SMEs Performance

Entrepreneurship-oriented SMEs are small and medium-sized enterprises with high levels of innovation, risk-taking, and initiative ([Covin & Lumpkin, 2011](#)). Therefore, entrepreneurial orientation is one of the important resources of SMEs, which provides SMEs with a foundation in making business choices and decisions that can improve their business performance ([Alvarez-Torres et al., 2019](#)); ([Lumpkin & Dess, 1996](#)); ([Wiklund & Shepherd, 2005](#)). Furthermore, EO helps SMEs meet customer needs and demands in the market by introducing new products/services or modifying existing products/services, offering new and valuable ideas to SMEs, supporting SME management processes and improving other practices and activities of SMEs. ([Jin et al., 2017](#)); ([Lumpkin & Dess, 1996](#)). Several studies have shown that entrepreneurial orientation has a significant relationship with small business performance ([Mason et al., 2015](#)); ([Herlinawati et al., 2019](#)); ([Gupta & Batra, 2016](#)); ([Setyo Pranowo et al., 2020](#)).

Hypotesis 2. Entrepreneurial Orientation has a positive effect on SMEs Performance

2.6. Marketing Capabilities and SMEs Performance

An entrepreneur is someone who has a good business idea and is able to turn the idea into reality. To be successful, an entrepreneur must not only identify opportunities but also understand them deeply. They must be able to find gaps in the market and recognize which new products or services can fill those gaps. They need to know what features they have and why they appeal to customers. Entrepreneurs must also know how to talk to customers and make new offers. All of this requires in-depth knowledge of a particular industry sector. Turning ideas into reality requires two types of skills. General management skills are needed to organize the physical and financial resources necessary to run a business, and human resource management skills are required to get the necessary support from others to run a business ([Wickham, 2006](#)).

Hypotesis 3. Marketing Capabilities positively affect SMEs Performance

2.7. Mediating Role of Marketing Capabilities.

([Jin et al., 2017](#)) assert that the mediating role of marketing capabilities in the relationship between entrepreneurial orientation and performance varies depending on the dimensions of entrepreneurial

orientation. By combining the direct and indirect roles of the entrepreneurial orientation dimension, the study recommends prioritizing risk-taking over being proactive. This extends the previous approach to the triad of resources, capabilities, and performance. Market-oriented companies can generate and disseminate market information about customer and competitor activities and respond quickly. Market orientation allows a company to improve its marketing capabilities so as to contribute to its operations (Atuahene-Gima et al., 2005); (Day, 1994). Thus, marketing capabilities have the ability to mediate the relationship between marketing orientation and company performance.

Hypotesis 4. Marketing Capabilities mediates the influence between Entrepreneurial Orientation and Market Orientation on SMEs Performance.

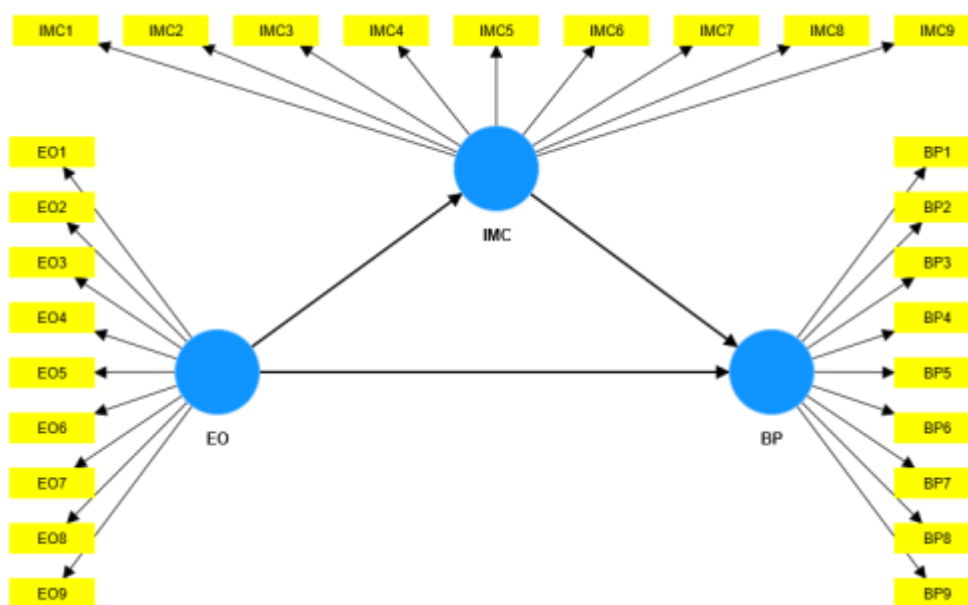


Figure 1. The research model

3. Methodology

3.1. Sampel

This study collected primary data through questionnaires sent to 200 respondents of handicraft SME owners in West Java.

This study used a quantitative approach by conducting survey research. Samples are taken from the population using questionnaires as a data collection tool. The survey was conducted on 160 SMEs in the handicraft sector spread across West Java. To obtain samples using purposive sampling with the following criteria: (a) SMEs based on Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs), namely those with a turnover above three hundred million rupiah and a workforce of more than 5 people. (b) SME sector that has been operating for more than three years. Of the 160 participants, the characteristics of respondents showed that most respondents were men (74 percent), while women were only 26 percent. The characteristics of respondents based on age are dominated by respondents who are productive aged between 25 - 50 years. Based on education level, respondents with lower secondary education from the entire research sample were dominated by 88

percent, while those with higher education were only 12 percent. Based on the length of running a business, it is dominated by SMEs that have been in business for 3 to 15 years, which is as much as 78 percent. While the remaining 22 percent run a business for less than 3 years. The data were analyzed using a structural equation model with SmartPLS.

3.2. Measures

This study used measures that existed in previous studies. Research by (Morgan et al., 2009) measured three groups of marketing capabilities related to the marketing mix (new product development, pricing, channel management, and marketing communications).

The study used questionnaires that asked questions about entrepreneurial orientation, Islamic marketing capabilities, and company performance. The total instruments in our study consisted of 27 items that we measured on a Likert scale of 1 to 5; 1-very low, 2-low, 3-medium, 4-high, 5-very high. In this study we measured entrepreneurial orientation using 9 question items, Islamic marketing ability using 9 question items, company performance using 9 questions adopted from (Alfi, 2019), (Man et al., 2002), (H Gin Chong, 2008), (Wang & Ahmed, 2004).

4. Results And Discussion

4.1. Measurement Model Analysis

Table 1. Construct and Measurements

Variable	Indicator	n item
Entrepreneurial Orientation	1. Proactiveness	3
	2. Innovativeness	3
	3. Risk-Taker	3
Islamic Marketing Capabilities	1. Value Creation	3
	2. Halal and Haram considerations	3
	3. Islamic Ethics	3
SMEs Performance	1. Market Effectiveness	3
	2. Market Growth	3
	3. Profitability	3

Source: Research data processing (2024)

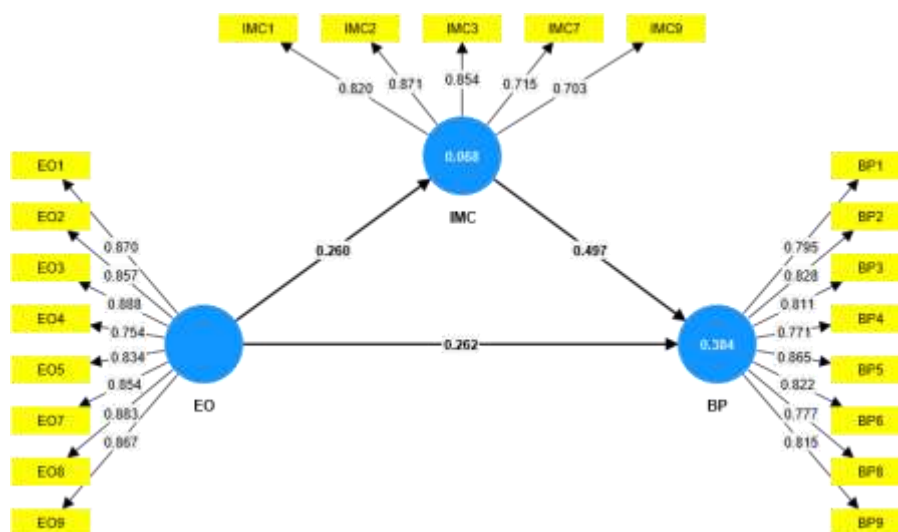


Figure 2. Path Coefficient

4.2. Outer Model (Measurement Model)

Table 2. Value of Loading Factor (Outer Loading) Research Variables

Variable	Indicator	Outer Loading	CR	AVE
Entrepreneurial Orientation (EO)	EO1	0.870	0.955	0.726
	EO2	0.857		
	EO3	0.888		
	EO4	0.754		
	EO5	0.834		
	EO7	0.854		
	EO8	0.883		
	EO9	0.867		
	Islamic Marketing Capabilities (IMC)	IMC1		
IMC2		0.871		
IMC3		0.854		
IMC7		0.715		
IMC9		0.703		
SMEs Performance (BP)	BP1	0.795	0.939	0.658
	BP2	0.828		
	BP3	0.811		
	BP4	0.771		
	BP5	0.865		
	BP6	0.822		
	BP8	0.777		
	BP9	0.815		

Source: Research data processing (2024)

Note: CR = Composite Reliability

AVE = Average Variance Extracted

The test results of Table 2 show that all outer loading has a value greater than 0.5 so that this measurement can be concluded to have met the requirements of convergent validity. The results of the composite reliability (CR) test show good results because the latent variable is all reliable because it has a composite reliability value greater than 0.7. This shows all indicators to be their respective construct measuring instruments. The AVE value in the research variable has a value above 0.5, so that this measurement can be concluded to meet the requirements for discriminant validity measurement. Thus, the above tables show adequate results for the measurement model because of the sufficient reliability, convergent, and discriminant validity values.

4.3. Inner Model (Model Structural)

The structural model analysis and hypotheses testing are presented in the following section.

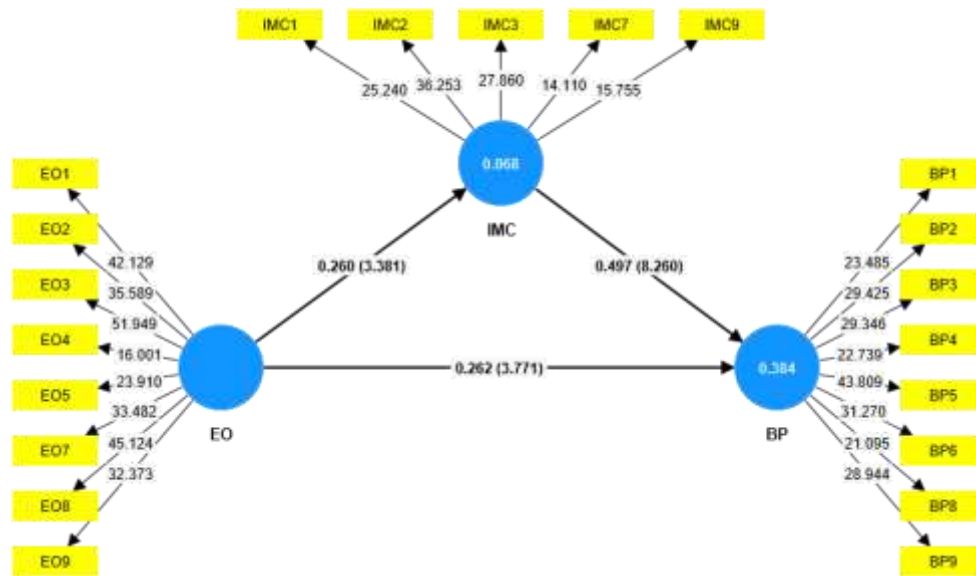


Figure 3. Significant Level With Bootstrapping

4.4. Testing of Hypothesis

Table 4. Hypothesis Test and Effect

Hypothesis	Path	T-Statistic	P-Value	Decision	Direct Effect	Indirect Effect	Total Effect
H1	EO -> IMC	2.265	0.027	Supported	0.260		0.260
H2	EO -> BP	4.003	0.000	Supported	0.262	0.130	0.392
H3	IMC -> BP	6.518	0.000	Supported	0.497		0.497
H4	EO -> IMC -> BP	2.101	0.036	Supported	0.129		0.570

Source: Research data processing (2024)

Table 4 shows the analysis of structural models. The analysis showed that entrepreneurial orientation (EO) ($\beta = 0.260$, $p < 0.05$) was positively correlated with islamic marketing capability (IMC). Entrepreneurial orientation (EO) ($\beta = 0.262$, $p < 0.05$) was positively correlated with SME performance (BP). Islamic marketing capability (IMC) ($\beta = 0.497$, $p < 0.05$) is positively correlated with SME performance (BP). Next, we examined the effect of mediating Islamic marketing capabilities (IMC) on the relationship between entrepreneurial orientation (EO) and SME performance (BP). We tested the indirect effect using the bootstrapping procedure suggested in the literature, and the results showed that the indirect effect ($\beta = 0.129$, $p < 0.05$) was significant, indicating the presence of a mediation effect. Calculate Variance Accounted For (VAF) as suggested by (Hair et al., 2013). VAF determines the magnitude of indirect influence relative to overall influence

(i.e., direct influence + indirect influence): $VAF = \text{indirect influence} / \text{total effect}$. We calculated the VAF for this study and found it to be 0.71, classifying it as partially mediated ([Hair et al., 2013](#)).

The results of the study indicate that entrepreneurial orientation has a significant positive effect on Islamic marketing capabilities and the performance of craft SMEs in West Java. The implications of the research findings indicate that SMEs must improve their Islamic marketing capabilities such as the ability to understand customers, the ability to communicate well, master product knowledge, and be able to implement marketing strategies. It is important for SME actors to apply sharia principles in carrying out their product marketing activities, becoming Islamic marketers who prioritize Islamic religious values such as honesty and truth in carrying out their marketing activities. This means that adequate Islamic marketing capabilities possessed by SMEs are able to mediate the influence of entrepreneurial orientation on company performance ([Jin et al., 2017](#)). SMEs are able to create value for customers through marketing communications that are based on honesty regarding the halalness of the products offered. SMEs are also required to establish communication by paying attention to ethics based on Islamic business ethics. The findings of this study provide input for SMEs in determining the right strategy in running a business to achieve success by fostering entrepreneurial orientation as the key to improving marketing performance and company performance in general.

5. Conclusion

The purpose of this study was to examine the influence of marketing ability as a mediating variable in the relationship between entrepreneurial orientation and the performance of SMEs in the handicraft sector in West Java. The results of this study found that entrepreneurial orientation had a significant relationship with Islamic marketing capabilities, thus H1 supported. The significant relationship between entrepreneurial orientation and Islamic marketing ability shows that SMEs in the handicraft sector in West Java utilize the characteristics of entrepreneurial orientation, namely proactivity, risk-taking, and innovation in improving their marketing capabilities. This finding is consistent with the point of view of market knowledge that organizations with more entrepreneurial orientation have a strong desire to master areas of marketing that can improve the Company's performance. These results are in line with the study's findings ([Rezaei et al., 2017](#)); ([Pascal & Shin, 2015](#)), The results showed that entrepreneur orientation in SMEs has a direct and indirect effect through Islamic marketing capability on SMEs performance.

The relationship between entrepreneurial orientation and SME performance shows great significance, and supports H2. The findings are consistent with previous research that found that entrepreneurial orientation has improved business performance. These results confirm the findings of ([Herlinawati et al., 2019](#)); ([Okoli et al., 2021](#)); ([Pulka et al., 2021](#)), The results of the study recommend that SME managers have a commitment to entrepreneurial orientation, because it can be better at achieving success.

The relationship between Islamic marketing capabilities and SME performance is significant, and supports H3. These findings are consistent with previous research that found that Islamic marketing capabilities have improved business performance. In line with the findings ([Merrilees et al., 2011](#)); ([Santos-Vijande et al., 2012](#)); ([Camra-Fierro et al., 2012](#)).

Meanwhile, Islamic marketing capabilities will mediate the relationship between entrepreneurial orientation and SME performance, and H4 is supported. This research shows the indirect effect of EO on SME performance is partially mediated by IMC and emphasizes the importance of EO in achieving SME performance. The study's findings are consistent with ([Pratono & Mahmood, 2015](#)); ([Lekmat & Selvarajah, 2018](#)); ([Jin et al., 2017](#)).

As a result, the higher the entrepreneurial orientation applied in business; The greater the desire of the company to improve the capabilities of its marketing field. This analysis shows that entrepreneur-oriented companies tend to be very marketing-oriented and influence the performance of SMEs. On the other hand, the results of this study show that the entrepreneurial orientation and Islamic marketing capabilities practiced by SMEs in West Java have significantly affected the performance of SMEs. This shows that EO holistically offers a systematic model to support SMEs in building Islamic marketing capabilities that include the ability to market and develop new products by paying attention to halal and haram, the ability to build communication and knowledge with customers and competitors by creating value, and practicing ethics in business, so as to improve the performance of SMEs in the craft sector in West Java.

Limitation and Future Studies

This research has limitations including; Research on only one sector of the handicraft industry. While there are many other sectors that were not included in this study; This study used marketing capabilities as a mediation variable. It is expected that future research can use other mediating variables, such as network building capabilities or digital business capabilities. It is expected that researchers can further add other related variables and expand the scope of research in other sector SMEs with a larger number of samples.

Author contribution Statement

All authors contributed to writing the article, namely: Yayan Hendayana, carried out the background, objective study, data collection, analysis analysis and interpretation of results, Dewi Puspaningtyas Faeni was responsible for the methodology and conclusion and Shiham El-kafafi, carried out theoretical review.

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