

CUSTOMER ORIENTATION AND SME PERFORMANCE IN INDONESIA: THE MODERATING ROLE OF MARKET ENVIRONMENT

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ABSTRACT

Background: A strong customer orientation is often associated with improved business performance. Yet, studies examining its effectiveness in emerging market settings, particularly among SMEs, are relatively scarce and highly dependent on contextual conditions.

Purpose: This study examines the effect of customer orientation on business performance among Indonesian SMEs and investigates whether market turbulence and competitive intensity moderate this relationship.

Design/methodology/approach: This study employs a quantitative, cross-sectional survey design. Data were collected from 122 SMEs using a purposive sampling method, targeting business owners and senior managers. The study focuses on the footwear manufacturing sector in Cibaduyut, Indonesia. Hierarchical regression analysis was used to examine both the direct effect of customer orientation on business performance and the moderating effects of market turbulence and competitive intensity.

Findings/Result: The results demonstrate a significant positive association between customer orientation and business performance. Market turbulence enhances this effect, whereas competitive intensity shows no significant moderating role. This suggests that customer orientation may serve as a basic strategic necessity rather than a source of differentiation in intensely competitive markets.

Conclusion: Customer orientation serves as a strategic capability that enhances SME performance, especially in turbulent markets. However, its effectiveness is context dependent and may diminish under intense competition unless complemented by additional differentiating strategies such as innovation or customer engagement.

Originality/value (State of the art): This study extends market orientation research by empirically examining the moderating role of market environment (competitive intensity and market turbulence) in the relationship between customer orientation and business performance within Indonesian SME footwear manufacturing sector. Unlike prior studies that primarily focus on direct effects of customer orientation, this study provides more specific evidence on how external environmental conditions shape the effectiveness of customer orientation in a developing- country. The findings offer a more precise understanding of when customer orientation is most effective, thereby contributing to the literature on strategic marketing capabilities under environmental uncertainty and resource constraints.

Keywords: business performance, competitive intensity, customer orientation, Indonesia, market turbulence, SMEs

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INTRODUCTION

Customer orientation is commonly regarded as an important determinant of organizational success, especially in highly dynamic and competitive business environments (Narver and Slater, 1995; Narver & Slater, 2020). This orientation reflects a firm's capability to identify, anticipate, and respond effectively to customer needs in order to deliver superior value (Han et al. 1998). In today's business landscape, adopting customer-focused strategies has become increasingly important for organizations aiming to maintain competitive advantage, improve organizational performance, and adapt to rapidly changing market conditions and growing competitive pressure (Singh, 2004).

In line with these developments, businesses are increasingly required to continuously monitor customer preferences and adapt their strategies accordingly (Keskin, 2006). Globalization and market dynamism have significantly altered customer expectations, making them more diverse and rapidly changing (Shoham et al. 2005). As a result, firms that fail to respond effectively to customer needs risk losing competitiveness in the marketplace (Porter, 1985). This is particularly relevant in industries characterized by intense competition and high levels of uncertainty, where understanding customers becomes a key strategic capability (Lukas and Ferrell, 2000; Kim, 2003).

Small and medium-sized enterprises (SMEs), in particular, face greater challenges in adapting to such conditions due to their limited resources and capabilities (Pelham, 1999; Neneh, 2018). Nevertheless, SMEs

play a vital role in economic development, especially in developing countries such as Indonesia (Osugwu, 2006; Syahdana et al. 2019). SMEs in Indonesia are a crucial pillar of the economy (Nasoha et al. 2023; Junaidi, 2024). They are contributing approximately 61.7% to GDP and absorbing about 97% of total employment. In addition, as seen in Figure 1 the number of SMEs (64.14 million units) far exceeds large enterprises (approximately 5.6 thousand units), highlighting their dominant role in the national business structure (BPS, 2023). Therefore, understanding how strategic orientations, such as customer orientation, can enhance SME performance becomes an important issue both academically and practically (Kotey and Meredith, 1997; Low et al. 2007). This understanding can help policymakers and practitioners design targeted interventions to support SME growth and competitiveness.

Customer orientation is positively correlated with corporate performance in a variety of industries and geographical locations, according to a substantial body of research. Businesses that implement customer-centric strategies typically produce higher levels of company success, according to empirical studies (Narver & Slater, 2020; Kant et al. 2024). These connections have been noted in small and medium-sized businesses (SMEs) as well as major firms (Kiiru, 2022). Customer orientation and business performance, however, do not always correlate. According to certain research, contextual elements like the market environment may have an impact on how effective customer orientation is (Kohli and Jaworski, 1990).

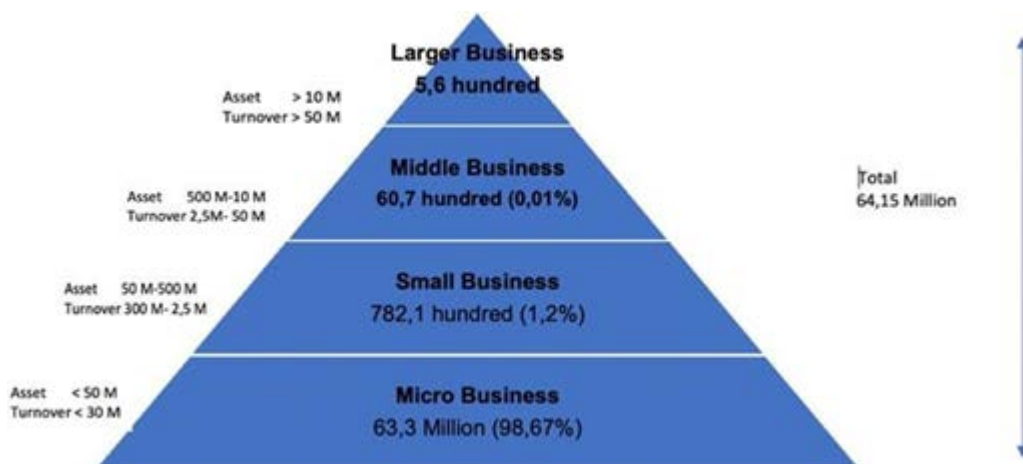


Figure 1. SMS Profile in Indonesia (BPS, 2023)

In highly stable or less competitive environments, the marginal benefits of customer orientation may be limited, as firms face lower pressure to continuously adapt. Moreover, an excessive focus on current customer needs may constrain long-term innovation by limiting firms' ability to explore new opportunities. While earlier assumptions suggested that customer orientation may be less relevant in certain industries, more recent studies indicate that its impact varies depending on the degree of customer influence and specific industry characteristics (Akwir et al. 2025). These mixed findings highlight that the performance implications of customer orientation are conditional rather than universal, underscoring the importance of incorporating environmental factors as moderating variables (Ghlichlee and Bayat, 2021)

Despite extensive empirical evidence, most studies in this domain have been conducted in developed economies and predominantly focus on large organizations, leaving limited understanding of how customer orientation affects the performance of SMEs in developing countries. In particular, Southeast Asian contexts have received comparatively less scholarly attention. Among these, Indonesia represents a particularly important setting due to its large and rapidly growing economy (Martain, 2025), the dominant role of SMEs in driving employment and GDP (Hendriyanto et al. 2022), and its highly dynamic and heterogeneous market conditions (Rialisnawati et al. 2024). These characteristics make Indonesia a relevant context for examining how firms adapt to changing customer needs and competitive pressures. Furthermore, prior research has emphasized that environmental conditions, such as market turbulence and competitive intensity, may shape the extent to which customer orientation contributes to performance outcomes (Narver and Slater, 1994; Lusiana et al. 2024). However, few studies have empirically examined these moderating effects in emerging markets, where environmental uncertainty tends to be more pronounced.

This gap highlights the need to examine how customer orientation contributes to SME performance in developing economies and whether environmental factors condition its impact. By addressing this issue, the present study extends the empirical understanding of customer orientation within an underrepresented context and demonstrates how environmental contingencies shape the effectiveness of customer-driven strategies. In addition, the study provides

practical insights for SME managers in implementing customer-oriented practices within dynamic market environments.

Based on the theoretical discussion presented earlier, this study formulates several hypotheses to guide the analysis. Customer orientation is predicted to have a positive effect on business performance because firms that are better able to respond to customer needs tend to achieve stronger organizational outcomes. Nevertheless, the magnitude of this relationship may vary depending on external environmental factors. Specifically, market turbulence and competitive intensity are proposed as moderating variables that may influence the strength of the relationship between customer orientation and business performance. The detailed formulation of the hypotheses is discussed in the following section.

To investigate the research problem, this study employs a quantitative approach to analyze the relationship between customer orientation and business performance among Indonesian SMEs, as well as the moderating roles of market turbulence and competitive intensity. A quantitative method is considered suitable because it enables the systematic examination of relationships between variables through empirical measurement and statistical analysis. Using structured questionnaires and analytical techniques, the study evaluates both the direct influence of customer orientation on business performance and the interaction effects associated with environmental conditions. Furthermore, the quantitative approach improves the objectivity and broader applicability of the findings within the SME context. It also helps identify patterns and variable relationships that may be difficult to capture through qualitative approaches alone.

Accordingly, this study aims to investigate the effect of customer orientation on business performance and to evaluate the moderating influence of the market environment within Indonesian SMEs. More specifically, the research examines whether external conditions, particularly market turbulence and competitive intensity, affect the nature and strength of the relationship between customer orientation and business performance. By integrating these moderating factors into the analysis, the study seeks to develop a deeper understanding of how customer orientation functions across varying market situations. In addition, the findings are expected to contribute empirical

insights to the growing body of literature on SMEs in developing countries, with particular relevance to Indonesia. From a practical perspective, this study is also intended to provide useful recommendations for SME practitioners in designing more effective customer-oriented strategies to improve organizational performance.

METHODS

Primary data for this study were gathered from SMEs engaged in the footwear manufacturing industry located in Cibaduyut, Indonesia. Cibaduyut is one of the well-known footwear industrial clusters in West Java characterized by a high concentration of small and medium-scale footwear enterprises with relatively similar production activities and market orientation (Sebayang et al. 2015). Focusing on SMEs within this area ensures contextual relevance and allows for a more accurate examination of how customer orientation is implemented in practice. Primary data were chosen because they provide first-hand insights into firm-level perspectives on customer orientation, environmental conditions, and business performance, reflecting the respondents' current experiences and managerial practices. The unit of analysis consisted of owners and senior managers, as they possess sufficient knowledge of strategic decision-making and organizational operations.

This research categorized SMEs based on employee size, consistent with the criteria established by Tambunan (2007). Under this classification, small firms employ 5 to 19 workers, whereas medium-sized firms have 20 to 99 employees. This approach aligns with prior literature, such as Bhutta, Rana, and Asad (2008), who define SMEs as firms with fewer than 100 employees, and Demirbag et al. (2006), who categorize SMEs as firms with 10 to 100 employees. Micro-enterprises, defined as having fewer than five employees, were excluded because their operational and marketing practices differ substantially from those of SMEs. This classification ensures that the sample reflects firms with sufficient organizational structure and management practices to meaningfully assess customer orientation and business performance. Overall, the selected types and sources of data provided a robust foundation for examining the research questions and testing the proposed hypotheses.

Data collection was carried out using a structured questionnaire distributed through both offline and online methods. For the offline process, printed questionnaires were delivered directly to respondents and completed through face-to-face interactions. Meanwhile, the online survey was administered using electronic forms. All questionnaire items were close-ended and measured using a five-point Likert scale ranging from 1 ("strongly disagree") to 5 ("strongly agree"). The study applied purposive sampling to select respondents who satisfied specific criteria, particularly individuals operating within the SME sector and participating in strategic decision-making activities. Before the main distribution, the questionnaire underwent a pilot test to evaluate the clarity and reliability of the measurement indicators. In total, 122 valid responses were obtained and used for the statistical analysis, which was considered adequate for the quantitative research design.

The data were analyzed using quantitative statistical techniques. Descriptive statistics were first employed to describe respondent profiles and the overall patterns of the study variables. To examine the proposed relationships, hierarchical regression analysis was applied by testing the direct influence of customer orientation on business performance before incorporating the moderating roles of market turbulence and competitive intensity. The significance of the results was evaluated using a 5% significance threshold. In addition, several robustness checks were conducted to verify the reliability and suitability of the regression models. All statistical procedures were performed using SPSS Statistics.

Based on the theoretical arguments presented in the previous section, this study empirically tests the following hypotheses:

1. Customer orientation positively affects business performance among Indonesian SMEs.

Customer orientation is conceptualized as an organization-wide philosophy focused on identifying and responding to customer needs, coordinating organizational resources to deliver superior value, and building long-term competitive advantage (Kohli & Jaworski, 1990; Narver & Slater, 1990). Prior studies have consistently shown that customer orientation contributes positively to business performance across different contexts and industries (Zhu and Nakata, 2007;

Domi and Musabelliu, 2020). For example, Narver and Slater (2020) found that customer-oriented firms achieve higher profitability and customer satisfaction, while Kiiru (2022) reported significant performance improvements in SMEs adopting customer-centric practices. Similar evidence is also found in both service and manufacturing sectors, including SMEs in developing economies, where customer orientation has been linked to increased sales growth and customer retention (Storey, 2000; Yulianthini et al. 2021; Akwir et al. 2025). Based on these theoretical and empirical arguments, this study proposes the following hypothesis:

Hypothesis 1: Customer orientation is positively related to business performance among Indonesian SMEs.

2. Market Environment positively moderates the relationship between customer orientation and business performance

The market environment plays an important role in shaping firm strategies and performance, as firms operate within external conditions such as competitive dynamics and changing customer preferences (Jaworski & Kohli, 1993; Narver & Slater, 1990). In dynamic environments, firms face higher uncertainty, requiring greater responsiveness to maintain competitiveness (Garcia-Buendia et al. 2025). Prior studies suggest that environmental conditions can strengthen or weaken the effectiveness of strategic orientations, including customer orientation, in driving business performance. Accordingly, firms are required to continuously adjust their strategies to align with external environmental pressures in order to sustain performance. This indicates that the impact of customer orientation is not uniform across different environmental conditions.

In this study, the market environment is reflected through competitive intensity and market turbulence, which capture the degree of rivalry and the unpredictability of customer demand. In highly competitive and turbulent markets, customer-oriented firms are expected to perform better because they are more responsive to changing customer needs and market conditions. Conversely, in more stable environments, the advantage of customer orientation may be less pronounced, as firms face lower pressure to adapt quickly. Based on these arguments, the market environment is expected to moderate the relationship between customer orientation and business performance. Specifically, the positive effect of customer orientation is stronger under conditions of higher competitive intensity and market turbulence (Diaz (2021)). Therefore, the following hypotheses are proposed:

Hypothesis 2a: Market turbulence acts as a moderator, altering the strength of the relationship between customer orientation and business performance.

Hypothesis 2b: Competitive intensity acts as a moderator, altering the strength of the relationship between customer orientation and business performance.

To facilitate a better understanding of the relationships examined in this research, a conceptual framework is presented in Figure 2. The framework depicts the direct association between customer orientation and business performance, together with the moderating effects of market turbulence and competitive intensity. In this model, customer orientation is hypothesized to positively affect business performance (H1), whereas market turbulence (H2a) and competitive intensity (H2b) are proposed to influence the strength of this relationship. The conceptual framework provides the foundation for hypothesis development and serves as a guide for the empirical investigation conducted in this study.

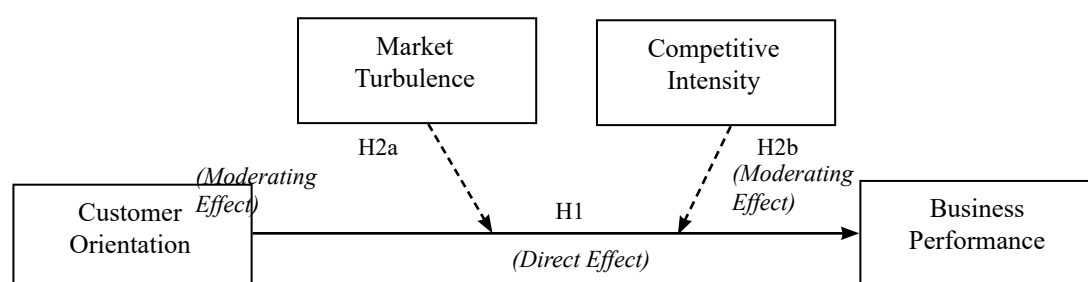


Figure 2. Research model of customer orientation, business performance, and market environment (Narver & Slater, 1990; Jaworski & Kohli, 1993)

RESULTS

Table 1 presents the demographic and organizational profile of the study's participants. The data indicates a predominantly male (85%) respondent base, with the vast majority (90%) falling within the 25 to 50 age bracket. In terms of professional roles, 67% of those surveyed were business owners. While 55% of respondents reported less than five years of total experience in footwear manufacturing, two-thirds had a tenure of five to ten years at their present firm. Regarding the organizational landscape, the sample consisted mainly of small enterprises (67% with fewer than 20 employees), followed by medium-sized entities

(33%). Furthermore, approximately 49% of these firms have been in operation for a period of five to ten years.

Customer orientation is positively and significantly related to business performance (H1)

In line with Hypothesis 1, the analysis revealed that customer orientation exerts a significant positive influence on SME performance ($t = 4.07$; $p < 0.05$). The model indicates that approximately 8% of the fluctuations in business performance can be attributed to the firm's level of customer orientation (Adjusted $R^2 = 0.08$) (Table 2). These findings effectively validate the direct relationship hypothesized at the outset of this study.

Table 1. Demographic and organizational profile of the study sample

Characteristics	Small-sized Enterprise	% of Total Sample	Medium-sized Enterprise	% of Total Sample
Nature of Business Operations	11	67	60	33
Gender Profile				
Male	103	57	51	28
Female	19	10	9	5
Age				
Below 25	12	7	5	3
Between 25-30	109	60	54	30
50 and over	1	1	1	1
Position Held				
Owner	115	63	7	4
Manager/Employee	46	25	14	8
Sector-Specific Experience (Shoe Manufacturing)				
None	1	1	-	-
Below 5 years	71	39	29	16
Between 5-10 years	46	25	25	14
More than 10 years	4	2	6	3
Duration of Employment at Current Workplace				
Below 5 years	33	18	3	2
Between 5-10 years	76	42	45	25
More than 10 years	13	7	12	7
Duration of Business Activity				
Below 5 years	2	1	1	
Between 5-10 years	64	35	26	14
More than 10 years	56	31	33	18
Key Consumer Group				
Children	10	5	2	1
Teenagers	8	4	0	0
Adults	57	31	43	24
Men	18	10	9	5
Women	29	16	6	3

The relationship between customer orientation and business performance is moderated by market turbulence (H2a)

As hypothesized in 2a, market turbulence was found to have a significant moderating role ($\beta = 0.14$; $p < 0.05$) in the relationship between customer orientation and business outcomes (Table 3). The inclusion of this interaction effect enhanced the model’s explanatory capacity, as evidenced by a 2% increase in the R² value. These results indicate that the performance benefits derived from customer orientation are contingent upon the level of market instability. Ultimately, the integrated model explains 53% of the variance in performance, providing robust support for Hypothesis 2a.

The relationship between customer orientation and business performance is moderated by competitive intensity (H2b)

Hypothesis 2b was not supported by the empirical findings. The moderation analysis detailed in Table 4 shows that competitive intensity had a negligible and non-significant effect on the relationship between customer orientation and performance ($\beta = 0.04$; $p > 0.05$). Furthermore, the lack of an increase in the R² value confirms that the interaction between these variables is not a significant predictor, resulting in the dismissal of the proposed hypothesis.

Table 2. Results of regression analysis evaluating the impact of customer orientation on business performance

Predictor Variable	Business Performance				
Outcome Variable	Customer Orientation				
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
Constant	1.659	0.422	0.29	3.93	0.00
Customer Orientation	0.413	0.101		4.07	0.00

Adjusted R Squared = 0.08

Table 3. Moderated multiple regression (MMR) results: testing the interaction of market turbulence on the customer orientation–performance nexus

Outcome Variable	Business Performance			
Predictors	Equation 1		Equation 2	
	B	P-Value	B	P-Value
Customer Orientation	0.02	0.718	0.04	0.458
Market Turbulence	0.71	0,000	0.72	0.000
Interaction Term (COXMTur)	N/A		0.14	0.009
R Square	0.51		0.53	
Adj. R. Square	0.51		0.53	

Table 4. Moderation analysis results for the influence of competitive intensity on the customer orientation–performance nexus

Outcome Variable	Business Performance			
Predictors	Equation 1		Equation 2	
	B	P-Value	B	P-Value
Customer Orientation	0.05	0.389	0.06	0.329
Competitive Intensity	0.68	0.000	0.68	0.000
Interaction Term (COXCI)	N/A		0.04	0.515
R Square	0.49		0.49	
Adj. R. Square	0.48		0.48	

Managerial Implication

The results of this study offer several important managerial implications, especially for SME managers operating in highly dynamic market environments. First, SMEs should prioritize the development of strong customer insight capabilities, as understanding customer needs and preferences is critical for sustaining competitive advantage. Managers are encouraged to establish systematic mechanisms for monitoring customer demands, tracking market shifts, and translating customer information into strategic and operational decisions. Firms should also focus on enhancing organizational agility, fostering cross-functional communication, and promoting rapid innovation to respond effectively to changes in customer expectations. Furthermore, investing in employee training and development, particularly in customer relationship management, can reinforce the effectiveness of customer-oriented practices and ensure that these strategies are embedded across all business functions.

Second, in highly competitive markets, SMEs are advised to go beyond basic customer orientation by creating distinctive value propositions and implementing relationship-based strategies that promote long-term engagement with customers. Investment in digital platforms, customer analytics, and market sensing technologies can further strengthen responsiveness and enhance the impact of customer-oriented strategies on overall business performance. Additionally, benchmarking against industry leaders and continuously evaluating internal performance metrics allows SMEs to identify gaps, innovate, and sustain competitiveness. These implications underscore the importance of integrating customer-centric practices into the firm's strategic planning and operational routines, ensuring alignment between market insights and business objectives.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

By investigating the relationship between customer orientation and firm performance, this study assessed whether the strength of this connection is influenced by the prevailing levels of market instability and competitive intensity within the Indonesian SME sector.

The findings demonstrate that customer orientation positively and significantly influences business performance, confirming its importance as a strategic capability for SMEs operating in emerging markets. The results strengthen the argument that organizations with a strong customer-oriented culture possess greater ability to recognize and address customer needs, enabling them to generate superior value and maintain organizational performance. Moreover, the findings suggest that SMEs that consistently implement customer-oriented practices are more resilient and adaptable in dynamic business environments, which enhances their long-term sustainability.

Furthermore, the findings indicate that market turbulence enhances the positive relationship between customer orientation and business performance. This indicates that customer-oriented SMEs derive greater benefits from their strategic posture in rapidly changing markets, where customer preferences are unpredictable. This implies that firms should not only understand their customers but also continuously anticipate changes in market demands to maintain a competitive edge. In contrast, the findings do not support competitive intensity as a significant moderating factor, suggesting that in highly competitive industries, customer orientation may become a standard practice rather than a differentiating advantage. Consequently, SMEs must look beyond mere customer orientation to other strategic capabilities, such as innovation and operational efficiency, to remain competitive.

The findings also extend the literature by indicating that the influence of customer orientation is shaped by the surrounding business environment. Market turbulence amplifies its performance impact, whereas competitive intensity may neutralize it. This insight enhances understanding of how environmental contingencies influence the strategic value of customer-oriented practices in resource-constrained firms like SMEs in emerging economies. In addition, these results provide empirical support for contingency theory in marketing strategy, demonstrating that the value of strategic orientations varies according to external environmental conditions.

Recommendations

To address the limitations of the current study, subsequent research could incorporate a broader range of contextual moderators. Particular attention

should be paid to the role of technological evolution and organizational digital capabilities. Further research is needed to determine whether the strategic implementation of data-driven insights and online market strategies alters the effectiveness of customer orientation in driving SME success. Additionally, research could investigate different industries and firm sizes to provide a broader understanding of how environmental conditions and strategic orientations interact to influence SME performance in emerging economies. To broaden the applicability of this study, future inquiries should involve multi-country comparisons across distinct economic landscapes. This would yield a more nuanced understanding of the global drivers affecting SME performance.

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