

The Role of Competitive Advantage in Mediating the Influence of Market Orientation on Internationalization (A Study on Small and Medium Wood Craft Enterprises in Gianyar Regency)

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Abstract: This study aims to examine the influence of market orientation on competitive advantage, the influence of market orientation and competitive advantage on internationalization, and the role of competitive advantage in mediating the influence of market orientation on internationalization of small and medium enterprises (SME) in the woodcraft industry sector. There is a total of 110 respondents in this research in which they are the owners or the managers of the woodcraft SMEs in Gianyar Regency. The data collection method is through interview for the open-ended questions and questionnaires for the closed questions. The analysis technique in this research is the path analysis and the Sobel test.

The results of this research show that all the hypothesis are accepted. Market orientation has a positive and significant influence on competitive advantage, competitive advantage has a positive and significant influence on internationalization, market orientation has a positive and significant influence on internationalization, and competitive advantage is significantly capable of mediating the influence of market orientation on internationalization. The implication of this research is providing recommendations to owners or managers of the woodcraft SMEs in Gianyar to always develop a market orientation culture in order to improve their competitive advantages which has an impact on internationalization.

Keywords: market orientation, competitive advantage, internationalization, SME

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I. Introduction

The development of Small and Medium Enterprises (SME) is very important and strategic in anticipating the future Indonesian economy, especially in strengthening the national economic structure. This can be seen from the monetary crisis which occurred in 1997 and the global crisis which occurred in recent years, SMEs are viewed to be a promising solution. SMEs are among the industrial sectors that are slightly affected, or even not affected at all by the recent global crisis. The position of SMEs in the national economy is not only because there are many in numbers, but it is also in terms of employment absorption. Furthermore, SMEs also have the potentials to produce large incomes through the export of commodities and contribute to the Gross Domestic Product (GDP).

Even though SMEs are viewed to be capable of surviving the global crisis conditions, there are challenges that the SMEs in Indonesia will face, due to the implementation of the ASEAN Economic Community since 2015 in all ASEAN countries. Without doubt, the implementation of the ASEAN Economic Community will have positive and negative effects on the industries. The positive effect among others is the availability of a larger international market, while the negative effect in which will certainly occur is the increasingly tight competition for SMEs in the international market. This mandates the SMEs in Indonesia to conduct internationalization in order to be capable of competing in other countries through the improvement of their competitive advantage to enter the global market. The SMEs in Indonesia should develop policies and strategies that are suitable with the market needs, competition and organizational resources in the global scale.

SME in the economic growth of a country has become an important factor in the development of policies in every country (Ebrahim et al., 2010). The internationalization of SMEs in developing countries and in economic transition conditions have attracted attention and are continuously being developed today (Ibeh & Kasem, 2010). SMEs significantly play an important role in the global market and some SMEs are able to attain much greater income in the international market than from the domestic market (Chelliah et al., 2010).

The development of small businesses in Bali Province shows the potentials to be businesses that drive the economic activities in Bali Province. The conditions of the local natural resources and the creativity of the people in art and crafts contribute to the development of SMEs and the improvement of the surrounding communities. The development of small businesses in Bali Province is in line with the development of the

tourism industry. This integration will result in new ideas in the small industries of handicraft which is among the developing businesses in Bali. There are 17 types of handicraft in Bali Province and these products have already entered the export market. The handicraft export commodities in Bali Province are shown in Table 1.

Table 1
Handicraft Export Commodities in the Years of 2011-2016

No	Export Commodity	2012	2013	2014	2015	2016
1	Wood Craft	71.493.260	90.618.137	73.243.287	74.149.072	80.843.606
2	Furniture	39.107.513	28.205.087	34.729.165	33.577.163	22.906.213
3	Silver Craft	22.375.763	24.235.062	22.907.660	27.617.991	28.251.555
4	Bamboo Handicraft	12.864.022	9.486.097	18.335.991	7.360.283	8.777.443
5	Metal Crafts	9.741.524	11.228.568	15.211.828	14.042.217	14.290.044
6	Other Handicrafts	13.743.145	4.185.235	12.798.507	6.611.391	8.664.466
7	Rattan Handicrafts	1.586.506	4.024.449	4.427.508	1.882.961	1.757.636
8	Terracota Handicrafts	3.410.240	2.334.873	2.566.727	1.881.717	3.719.182
9	Skin Crafts	9.705.384	9.236.328	9.541.913	14.594.603	9.863.366
10	Rock Handicrafts	11.484.690	10.265.244	14.772.477	13.579.708	12.665.195
11	Mat Crafts	2.085.820	1.062.490	3.643.201	1.914.607	1.932.245
12	Ceramic Crafts	1.053.703	1.478.951	1.660.458	1.363.808	1.971.642
13	Shell Crafts	945.675	1.121.660	2.439.453	1.410.630	1.531.558
14	Paint Crafts	1.602.759	2.215.993	2.289.470	1.895.289	1.458.254
15	Musical Instrument Crafts	167.807	412.841	692.022	474.241	1.411.304
16	Paraffin Crafts	480.425	286.393	509.383	610.914	310.352
17	Bone Crafts	220.887	264.182	268.788	403.062	412.764

Source : The Department of Industry and Commerce of Bali Province, 2017

Shown in Table 1, the export value of wood crafts have experienced rises and falls from year to year. From the year of 2012 to 2013, the exports of wood crafts experience an increase from \$ 71.493.260 to \$ 90.618.137. In 2014 and 2015, the exports value of wood crafts experienced a fall compared to the year of 2013. However, the exports value of wood crafts from Bali Province was able to increase in 2016 to \$ 80.843.606. The rise and fall in export value of wood crafts were influenced by the global economic condition and the strict regulations in the destination country of the wood craft exports. This is an issue which influences the activities of wood craft SMEs in Bali.

The development of the handicraft business sector in Gianyar Regency is supported by the agricultural sector, tourism and other service sectors that make Gianyar Regency able to compete with other regencies in Bali Province. The SME sector in Gianyar Regency has the potentials to develop, considering the local natural resources and creativity of the people in the fields of art and handicrafts which contribute to the increase in the people's welfare and support the local development programs. The rapid development of SMEs is in line with the development of the tourism industry which opens market opportunities, both local and international. This can be seen in Table 2, regarding the number of handicraft businesses and workers in the handicraft business for each regency and city in Bali Province in year of 2013. The data displayed in Table 2 shows the number of wood craft industries, workers, and production value per regency and city in Bali Province in the year of 2015. The city with the most business units is in Denpasar City. However, seen from the number of workers and production value, Gianyar Regency places first.

Table 2
The Total of Wood Craft Industries, Workers and Production Value of each Regency or City in Bali Province Year 2015

No.	Regency/City	Total Business Units	Work Force (People)	Production Value (in Million Rupiah)
1	Jembrana	343	1.587	43.762.021
2	Tabanan	221	1.550	147.934.425
3	Badung	278	2.783	131.987.768
4	Kota Denpasar	365	2.436	162.352.676
5	Gianyar	341	6.751	215.948.266
6	Bangli	681	3.472	77.417.308
7	Klungkung	24	319	5.394.274
8	Karangasem	93	775	7.384.001
9	Buleleng	213	1.303	47.850.089

Source : The Department of Industry and Commerce of Bali Province, 2015

If SMEs are developed well, they will have great potentials to increase their export performance continuously and also able to increase the number of SMEs that perform internationalization in

order to compete in the AEC (ASEAN Economic Community) which has been enacted since 2015. Increasing the number of woodcraft SMEs that perform internationalization is expected to be able to overcome the problem regarding the export level of wood craft industries that has not moved significantly over the last 10 years, while the export level should have increased greatly considering the availability of abundant resources, skilled work force, and attractive designs, though it has not been managed well to achieve a competitive advantage.

Many researchers have focused on understanding the factors that influence the internationalization of SMEs (Amal & Filho, 2010; Javajgi & Todd, 2011; Julian & Ahmed, 2012; Wyncarczyk, 2013; Ahmad, 2014). These studies are more focused on business strategies, company size, government policies, entrepreneurship orientation, innovation, company resources and management commitment on the internationalization of SMEs. Some studies showed less preference towards market orientation and competitive advantage in the influence on Internationalization of SMEs (Afsharghasemi et al., 2013). This research is expected to fill in the gap through the development of a conceptual framework based on literature reviews.

Some research have also shown that market orientation and competitive advantage have positive influence on the internationalization of SMEs (Armario et al., 2008; Chelliah et al., 2010; Javalgi et al., 2011). There are also studies that showed that competitive advantage has a role as the intervening variable in the influence of market orientation on internationalization of SME (Afsharghasemi et al., 2013; Lengler et al., 2013). Afsharghasemi et al. (2013) stated that competitive advantage is able to significantly intervene the influence of market orientation on SME internationalization. However, there were also different results obtained by Lengler et al. (2013) who stated that competitive advantage is an insignificant intervening variable. This research is expected to add the literature regarding the role of competitive advantage in mediating the influence of market orientation on the internationalization of SMEs.

All parties in the wood craft industry sector should fix and improve their conditions to attain optimal growth. SMEs usually operate with limited resources, thus through improving their competitive advantage, it is expected that they are able to perform export activities (Parnell et al., 2015). Market orientation in small businesses is a form of continuous response towards the demands and needs of customers, which facilitates the development of strategies that is focused on the creation of customer value, to achieve competitive advantage (Didonet et al., 2012). Competitive advantage is the ability of top management to understand the process in which the ability of the SME becomes their core competence to be used as an opportunity for the company (Chelliah et al., 2010). Therefore, woodcraft SMEs in Gianyar Regency should efficiently utilize their competitive advantage to enter the international market.

The role of competitive advantage in mediating the influence of market orientation on SME internationalization in the woodcraft industry sector is examined by conducting comprehensive reviews on previous studies and conduct surveys on the owners or managers of the woodcraft SMEs in Gianyar Regency. This research is focused on SMEs in the woodcraft industry sector because the export volume is high enough compared to other commodities and they have high income values.

Based on the research background, the objectives of this research are (1) To examine the influence of market orientation on the competitive advantage of woodcraft SMEs in Gianyar Regency. (2) To examine the influence of competitive advantage on the internationalization of woodcraft SMEs in Gianyar Regency. (3) To examine the influence of market orientation on the internationalization of woodcraft SMEs in Gianyar Regency. (4) To examine the role of competitive advantage in mediating the influence of market orientation on the internationalization of woodcraft SMEs in Gianyar Regency.

II. Research Hypothesis

The Influence of Market Orientation on Competitive Advantage

Previous research that support this hypothesis, among others was conducted by Rosnawintang et al. (2012) who stated that as market orientation becomes more effective, there would be a positive and significant influence on the implementation of strategies to achieve competitive advantage for small and medium industries in Southeast Sulawesi. Based on the statistics calculation of the significance value, the market orientation variable has a significant influence on the competitive advantage for *songket* (traditional Balinese fabric) businesses (Setiawan, 2012). According to Afsharghasemi et al. (2013), there is a significant relationship between market orientation and the competitive advantage of manufacturing SMEs in Malaysia. This become the basis of the proposed hypothesis, namely:

H1 : Market Orientation has a positive and significant influence on competitive advantage

The Influence of Competitive Advantage on Internationalization

According to Wernerfelt (1984) in Afsharghasemi et al. (2013), the RBV theory for company internationalization is related with the resource used to create value, difficult to be imitated, and unique to attain a competitive advantage. The capacity of companies to efficiently utilize their competitive advantage to support their decision making process in entering the international market (Hamel & Prahalad, 1990). Companies with

competitive advantage create strategies with value that is not the same with competitors or potential competitors are not able to replicate the benefit of the implemented strategy (Barney, 1991 in Afsharghasemi et al., 2013).

The research result by Riyanto (2008) stated that international strategy to achieve competitive advantage has positive and significant influence on the export performance of exporter SMEs in Semarang. Competitive advantage is the ability of top management to understand the process in which the ability of SMEs become their core competence to create opportunities for the company (Chelliah et al., 2010). According to Chelliah et al. (2010), competitive advantage does not have any significant relationship with the internationalization of SMEs in Malaysia. When the SME's profit and resources outperform competitors by offering greater value to customers, they are deemed to have a competitive advantage (Huang et al., 2012).

Prior research that supports this hypothesis was conducted by Afsharghasemi et al. (2013) who stated that based on the direct model, competitive advantage has a positive relationship with the degree of internationalization of manufacturing SMEs in Malaysia. This becomes the basis of the development of the proposed hypothesis, which is displayed as follows:

H2 : Competitive advantage has a positive and significant influence on internationalization

The Influence of Market Orientation on Internationalization

Companies with market orientation adapt and implement the marketing concepts (Kohli & Jaworski, 1990; Morgan et al., 2009). According to Wang et al. (2012) in Afsharghasemi et al. (2013), the main concept of market orientation still involves the emergence, distribution, information sharing, and good reaction towards the change in market needs to achieve the organization goals and ensure the needs and demands of customers, while simultaneously considering the interest of all stakeholders of the company.

There are some studies that support this hypothesis, among others is the study conducted by Javalgi et al. (2011), which stated that there is a positive and significant relationship between market orientation and internationalization. According to Afsharghasemi et al. (2013), based on the direct model there is a positive and significant relationship between market orientation and internationalization. This becomes the basis of the proposed hypothesis as follows:

H3 : Market orientation has a positive and significant influence on internationalization

The Role of Competitive Advantage in Mediating the Influence of Market Orientation on Internationalization

The research result by Javalgi et al. (2011) showed that the mediation of competitive advantage in the relationship between market orientation and international performance of SMEs in India is statistically not significant, which means that competitive advantage is not the mediator of the influence of market orientation on international performance. Market orientation is the culture of the company that can lead to the increase in marketing performance through competitive advantage. The relationship between market orientation and competitive advantage of companies will differ in each situation and will expedite the market growth (Setiawan, 2012). There are some previous studies that support this hypothesis, among others is the study by Afsharghasemi et al. (2013) which stated that competitive advantage mediates the relationship between market orientation and internationalization of manufacturing SMEs in Malaysia. Lengler et al. (2013) stated that there is no evidence that shows that competitive advantage mediates the relationship between market orientation and export performance because the test shows statistically insignificant results. This becomes the basis of the hypothesis proposed as follows:

H4 : Competitive advantage is able to mediate the influence of market orientation on internationalization

RESEARCH METHOD

This research use the associative quantitative approach, in which this research shows the relationship between two or more variables, namely the influence of market orientation and competitive advantage on the internationalization of woodcraft SMEs. This research studies the internationalization of Small and Medium Enterprises (SME) based on the influence of market orientation and competitive advantage. The location this research was conducted was in Gianyar Regency, because the number of woodcraft SMEs are larger than in other regions in Bali Province, thus ensures competent respondents.

The exogenous variable in this research is market orientation (X_1). Market orientation is the culture implemented by owners and managers of woodcraft SMEs in Gianyar Regency in complying to the needs and demand of customers and to understand the strategies implemented by competitors in which all information regarding customers and competitors are coordinated to all functional in the woodcraft SME in Gianyar Regency in order to produce superior value for customers. With this, continuously superior business performance can be achieved. This research utilize the indicators from the research by Afsharghasemi et al. (2013) which was used to measure market orientation. The intervening variable in this research is Competitive

Advantage (Y_1). Competitive advantage emerge from the values created by the woodcraft SMEs in Gianyar Regency for their customers and these values are able to outperform the values offered by competitors. The value here is the benefit attained by customers through the products of the woodcraft SME in Gianyar Regency in which the benefit or value is able to exceed the cost incurred by customers. This research utilize the indicators from the research conducted by Parkman et al. (2012) which was used to measure competitive advantage, namely quality, innovation, company reputation, and managerial ability. The endogen variable in this research is Internationalization (Y_2). Internationalization is a complex and costly process because woodcraft SMEs in Gianyar Regency must actively search for international markets and sell their products in overseas market. Moreover, in the process of entering the international market, woodcraft SMEs in Gianyar Regency are not funded by FDI (Foreign Direct Investment). Three indicators are used to measure internationalization for companies in developing countries and assess the actual coverage of overseas companies (Afsharghasemi et al.,2013). The indicators used to measure internationalization are active in searching for international markets, sell products or services in the international market, and actively enter the international market.

The quantitative data collected in this research are the total number of woodcraft SMEs in Gianyar Regency that have and have not conducted internationalization, the value of non oil and gas exports in Gianyar Regency in 2013, and the tabulation of the questionnaire answers. Qualitative data are the data that are not stated in the form of numbers or measurement units. The qualitative data collected are the data regarding the general picture of the woodcraft SMEs in Gianyar Regency. Data are collected using the interview method, which is the data collection method through direct interviews with the respondents by preparing a list of structured questions used only for open questions regarding the respondents profile. This research also use questionnaires, which is a data collection method that utilize questionnaires or a list of structured written statement that is distributed to all respondents, to attain data regarding the role of competitive advantage in mediating the influence of market orientation on the internationalization of woodcraft SMEs in Gianyar Regency.

In this research the population is all owners or managers of woodcraft SMEs in Gianyar Regency that have conducted internationalization, thus the total population cannot be determined with certainty (infinite). The sample is a part of the total and characteristics owned by the population (Sugiyono, 2014:116). The suitable sample size is between 100 and 200. If the sample size is too large, for example 400, the method becomes very sensitive. The sample size is the total number of indicators used (22 in this research) times five. Therefore, the sample size was determined to be 110 respondents.

The samples are selected using a non-probability sampling technique, namely by purposive sampling. Purposive sampling is the selection of sample with certain criteria (Sugiyono, 2014:122). The criteria used in this research are owners and managers of woodcraft SMEs in Gianyar Regency that have conducted internationalization.

The research instrument test used are the validity test and reliability test. There are two data analysis method utilized in this research, namely the descriptive statistic analysis and the inferential statistic analysis, namely the path analysis and the Sobel test.

III. Results and Discussion

Based on the validity test shown in Table 3, it can be seen that the instruments of each variable in this research have a total score above 0,30. Thus, it can be concluded that all the items in the research instruments are deemed as valid to be used as measurement tools.

Table 3
Recapitulation of the Instrument Validity Test Results

No.	Variable	Items	Item Correlation Total	Correlation
1.	Market Orientation (X)	X _{1,1}	0,809	Valid
		X _{1,2}	0,855	Valid
		X _{1,3}	0,899	Valid
		X _{1,4}	0,919	Valid
		X _{1,5}	0,948	Valid
		X _{1,6}	0,940	Valid
		X _{1,7}	0,953	Valid
		X _{1,8}	0,957	Valid
		X _{1,9}	0,951	Valid
		X _{1,10}	0,876	Valid
		X _{1,11}	0,860	Valid
		X _{1,12}	0,947	Valid
		X _{1,13}	0,923	Valid
		X _{1,14}	0,926	Valid
		X _{1,15}	0,870	Valid
2.	Competitive Advantage (Y_1)	Y _{1,1}	0,914	Valid
		Y _{1,2}	0,943	Valid

		Y _{1,3}	0,945	Valid
		Y _{1,4}	0,948	Valid
3.	Internationalization (Y ₂)	Y _{2,1}	0,960	Valid
		Y _{2,2}	0,919	Valid
		Y _{2,3}	0,931	Valid

Source: Processed Data using SPSS, 2017

Based on the reliability test results in Table 4, the Cronbach's Alpha value of each variable is shown to be greater than 0,6. This result shows that all the variables have fulfill the reliability requirement or are deemed as reliable and can be used to perform the research.

Table 4
Recapitulation of the Instrument Reliability Test Results

Variable	Cronbach's Alpha	Description
Market Orientation	0,811	Reliable
Competitive Advantage	0,944	Reliable
Internationalization	0,928	Reliable

Source: Processed Data using SPSS, 2017

The questionnaire consists of questions that are arranged based on the following order: market orientation, competitive advantage, and internationalization. The descriptive analysis is performed to determine the characteristics and response of respondents towards each question, and afterwards all the variables are described using the average value.

Based on this criteria range, the interval groups are displayed as follows :

- 1,00 – 1,79 = Strongly Disagree (SD)
- >1,80 – 2,59 = Disagree (D)
- >2,60 – 3,39 = Agree Enough (AE)
- >3,40 – 4,19 = Agree (A)
- >4,20 – 5,00 = Strongly Agree (SA)

Market orientation is the exogenous variable in this research that is measured with 15 statements regarding customer orientation, competitor orientation, and interfunctional coordination. The detailed answers of the respondents are shown in Table 5.

Table 5
The Description of Respondent's Answers Regarding the Market Orientation Variable

No.	Statement	Percentage of Respondent's Answers					Mean	Description
		SD	D	AE	A	SA		
1	We have a strong focus on customer satisfaction	0	0	8	27	75	4,61	Very good
2	We have a strong focus in understanding customers' needs	0	0	14	53	43	4,26	Very good
3	We use systematic actions for customers' satisfaction	0	2	16	55	37	4,15	Good
4	We provide special attention to post sale services	0	2	9	40	59	4,42	Very good
5	We frequently increase customer value	0	0	14	39	57	4,39	Very good
6	We prioritize high quality for our products	0	1	8	43	58	4,44	Very good
7	We respond fast to competitors' actions	0	34	18	33	25	3,45	Good
8	We share competitor data to choose the strategy in our company	0	22	30	45	13	3,45	Good
9	We define the strength of competitors	0	15	32	47	16	3,58	Good
10	We have a competitive advantage in targeting customers	0	3	36	47	24	3,84	Good
11	We effectively have customer data between our operational services	0	3	12	28	67	4,45	Very good
12	We answer the call of customers between functional	0	6	20	73	11	3,81	Good
13	All service functions contribute to providing high value to customers	0	4	25	71	10	3,79	Good
14	All staffs are fully aware of the market data	0	5	27	62	16	3,81	Good
15	Staffs in the marketing and sales department participate in the development of new products	0	5	23	56	26	3,94	Good
Average							3,97	Good

Source : Processed Primary Data, 2017

Table 5 shows that from the 15 statements regarding market orientation, the average value is 3,97 which means that the respondents, namely the owners or managers of woodcraft SMEs in Gianyar Regency have good market orientations. The highest average value from the respondent's answer is in the statement of "we have strong focus on customer satisfaction", with an average value of 4,61. This means that the woodcraft SMEs in Gianyar Regency strongly focuses on the satisfaction of their consumers, which makes the managers or owners take the correct strategy.

Competitive advantage is the intervening variable measured using 4 (four) statements. The detailed answers of the respondents are displayed in Table 6.

Table 6
Description of Respondents' Answers on Competitive Advantage

No.	Statement	Distribution of Answers (%)					Mean	Description
		SD	D	AE	A	SA		
1	The work quality of our company is better than competitors	0	2	19	75	14	3,92	Good
2	Our Company is more innovative than our direct competitors	0	16	8	74	12	3,75	Good
3	Our corporate image is better than our direct competitors	0	2	22	67	19	3,94	Good
4	Our company has better managerial abilities than our direct competitors.	0	1	20	71	18	3,96	Good
Average							3,89	Good

Source : Processed Primary Data, 2017

The data in Table 6 show that the 4 (four) statements regarding competitive advantage has an average value of 3,89 which means that the respondents, namely the owners and managers of the woodcraft SMEs in Gianyar Regency have good competitive advantages. The highest average value of respondent's answers is shown on the statement of "our company has better managerial abilities than our direct competitors" with an average value of 3,96. This means that the woodcraft SMEs in Gianyar Regency have high competitive advantages, in which most respondents think that their company has better managerial abilities to outperform their competitors. Internationalization is the endogen variable measured using 3 (three) statement related with the internationalization conducted by the woodcraft SMEs in Gianyar Regency. Based on the research result, the answers of the respondents in detail are shown in Table 7.

Table 7
Description of Respondent's Answers on Internationalization

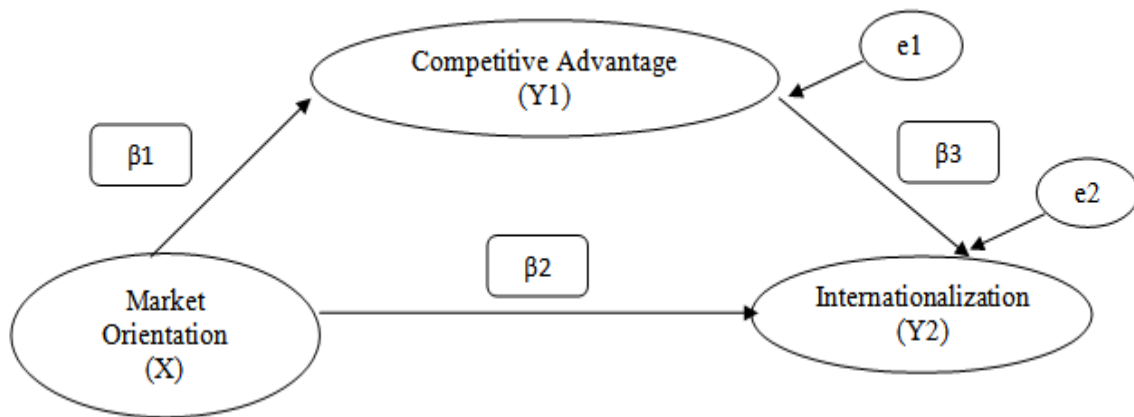
No.	Statement	Distribution of Answers (%)					Mean	Description
		SD	D	AE	A	SA		
1	We actively search for international markets.	0	5	18	69	18	3,91	Good
2	We sell products or services in the international market.	0	15	8	73	14	3,78	Good
3	We develop partnerships with foreign companies.	0	3	37	57	13	3,73	Good
Average							3,81	Good

Source : Processed Primary Data, 2017

The data in Table 7 show that the 3 (three) statements regarding internationalization have an average value of 3,81 which is categorized in the criteria of agree. The highest average value of respondents is shown in the statement "we actively search for international markets", with an average value of 3,91. This means that the woodcraft SMEs in Gianyar Regency can enter the international market and are able to conduct internationalization by actively searching for international markets.

The data is examined using the path analysis in this research, in which the path analysis is the extension of the multiple linear regression analysis to test the causal relationship between 2 or more variables. The steps to perform the path analysis technique is as follows:

- 1) The design of the theoretical path analysis model is shown as follows.



Picture 1
The Path Analysis Model

The Influence of Market Orientation on Internationalization, mediated by Competitive Advantage

2) Calculation of the Path Coefficient

The calculation of the path coefficient is conducted with the regression analysis using the SPSS software. The results attained are shown in Table 8.

Tabel 8
The Path Analysis Results of Regression Equation 1

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0,757	0,293		2,582	0,011
Market Orientation	0,789	0,073	0,721	10,802	0,000
R ²	: 0,515				
F Statistic	: 116,672				
Sig. F	: 0,000				

Source : Appendix 7

The result of the path analysis for substructure 1 is displayed in Table 8. The structural equation is shown as follows.

$$Y_1 = \beta_1 X_1 + e_1$$

$$Y_1 = 0,721 X_1 + e_1$$

Table 9
The Path Analysis Results of Regression Equation 2

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0,332	0,216		-1,537	0,127
Market Orientation	0,552	0,075	0,478	7,324	0,000
Competitive Advantage	0,500	0,069	0,474	7,265	0,000
R ²	: 0,777				
F Statistic	: 190,448				
Sig. F	: 0,000				

Source : Appendix 8

The result of the path analysis of substructure 2 is displayed in Table 9. The structural equation is shown as follows

$$Y_2 = \beta_2 X_1 + \beta_3 Y_1 + e_2$$

$$Y_2 = 0,478 X_1 + 0,474 Y_1 + e_1$$

3) Examining the Coefficient of Determination (R²) Value and Error Variable (e)

From substructure model 1 and 2, the final path diagram model can be designed. Before designing the final path diagram model, the standard error value should firstly be calculated as follows.

$$Pe_1 = \sqrt{1 - r^2}$$

$$Pe_1 = \sqrt{1 - 0,515} = \sqrt{0,485} = 0,696$$

$$Pe_2 = \sqrt{1 - r^2} = \sqrt{1 - 0,777} = 0,472$$

From the calculations, the influence of errors (Pe_1) is attained to be 0,696 and the influence of errors (Pe_2) is 0,472.

The total coefficient of determination results is as follows.

$$R_m^2 = 1 - (Pe_1)^2 - (Pe_2)^2$$

$$= 1 - (0,696)^2 - (0,477)^2$$

$$= 0,890$$

The total determinant value is 0,890, which means that 89 percent of the variance in internationalization is influenced by the variation in market orientation and competitive advantage, while the remaining 11 percent is influenced by other factors not included in the model.

4) The partial influence of variables

The test criteria to explain the interpretation of each variable is as follows.

If Sig. $t < 0,05$, H_0 is rejected and H_1 is accepted.

If Sig. $t > 0,05$, H_0 is accepted. dan H_1 is rejected.

1) The Influence of Market Orientation on Competitive Advantage

H_0 : Market Orientation has no influence on Competitive Advantage

H_1 : Market Orientation has a positive and significant influence on Competitive Advantage

The results of the analysis regarding the influence of market orientation on competitive advantage shows a Sig. t value of 0,000 with a coefficient beta value of 0,721. The Sig. t value is $0,000 < 0,05$, indicates that H_0 is rejected and H_1 is accepted. This research result has a meaning that market orientation has a positive and significant influence on competitive advantage.

2) The Influence of Market Orientation on Internationalization

H_0 : Market Orientation has no influence on Internationalization

H_1 : Market Orientation has positive and significant influence on Internationalization

The results of the analysis regarding the influence of market orientation on internationalization shows a Sig. t value of 0,000 with a coefficient beta value of 0,478. The Sig. t value $0,000 < 0,05$ indicates that H_0 is rejected and H_1 is accepted. This means that market orientation has a positive and significant influence on internationalization.

3) The Influence of Competitive Advantage on Internationalization

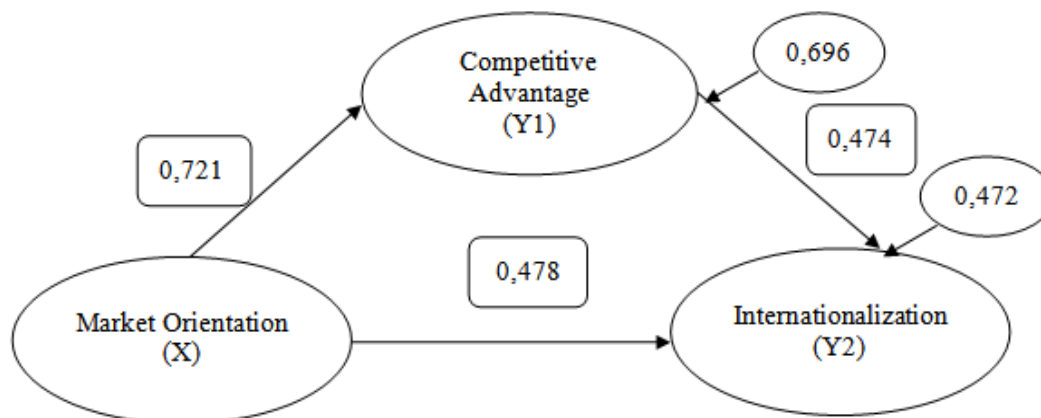
H_0 : Competitive Advantage has no influence on Internationalization

H_1 : Competitive Advantage has a positive and significant influence on Internationalization

The analysis results regarding the influence of competitive advantage on internationalization shows a Sig. t value of 0,000 with a beta coefficient value of 0,474. The Sig. t value is $0,000 < 0,05$ indicates that H_0 is rejected and H_1 is accepted. This result means that competitive advantage has a positive and significant influence on internationalization.

Summary And Conclusion

The path coefficient of this research hypothesis can be displayed clearly and completely in Picture 2.



Picture2
Validation of the Final Path Diagram Model

From the path diagram in Picture 2, the direct influence, indirect influence, and total influence between variables in this research can be calculated. The calculations of the influence between variables are summarized in Table 10.

Tabel 10
The Direct Influence, Indirect Influence, and Total Influence of Market Orientation (X), Competitive Advantage (Y₁), and Internationalization (Y₂)

Influence of Variable	Direct Influence	Indirect Influence Through Competitive Advantage (Y ₁) (β ₁ x β ₃)	Total Influence
X – Y ₁	0,721	-	0,721
X – Y ₂	0,478	0,342	0,820
Y ₁ – Y ₂	0,474	-	0,474

Source : Processed Primary Data, 2017

The analysis on the direct influence, indirect influence, and total influence is used to view the power of the influence between constructs, may it be direct, indirect or even the total influence. Based on Table 10, it can be seen that the market orientation variable has a direct influence on the competitive advantage variable with a value of 0,721, the market orientation variable has a direct influence on the internationalization variable with a value of 0,478 and the competitive advantage variable has a direct influence on internationalization with a value of 0,474.

There is an indirect influence from the market orientation variable on the internationalization variable which is mediated by the competitive advantage variable with a value of 0,342. The market orientation variable has a direct influence on the internationalization variable with a value of 0,478. This shows that the influence of the market orientation variable on the internationalization variable will increase if it is mediated by the competitive advantage variable. In this case, competitive advantage also has a role as the partial mediating variable in which without the mediator, market orientation still has a positive and significant influence on internationalization.

The total influence in this research shows the total of the direct influence and the indirect influence between variables. The mediating effect of the competitive advantage variable between market orientation and internationalization has a value of 0,342. Thus, the total effect between the market orientation variable and internationalization is 0,820.

The Sobel Test

The Sobel test is an analysis tool to examine the significance of the indirect influence between the exogenous variable and the endogen variable mediated by the intervening variable. The Sobel test is formulated with the following equation and is calculable using the Microsoft Excel 2007 application. If the calculated Z value is greater than 1,96 (with a confidence level of 95 percent), the intervening variable is deemed significant in mediating the relationship between the exogenous variable and the endogen variable (Preacher & Hayes, 2004).

$$Z = \frac{ab}{\sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}}$$

$$\text{Sig} = (1 - \text{NORMSDIST}(Z) + 2)$$

Annotation :

$$a = 0,721 \quad S_a = 0,073$$

$$b = 0,474 \quad S_b = 0,069$$

$$Z = \frac{ab}{\sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}}$$

$$Z = \frac{(0,721)(0,474)}{(0,474)^2 (0,073)^2 + (0,721)^2 (0,069)^2 + (0,073)^2 (0,069)^2}$$

$$Z = 5,620$$

Table11
Sobel Test Results

Nilai Z	Sig
5,620	0,000

Source : Processed Primary Data, 2017

The results of the analysis using the Sobel Test displayed in Table 11 shows that the tabulation results of the Z value is 5,620 > 1,96 with a significance level of 0,000 < 0,05 which means that the intervening variable, namely competitive advantage, is deemed as significant in mediating the influence of

market orientation on internationalization. Furthermore, competitive advantage has been proven to be a partial mediating variable, because after including the competitive advantage variable in the influence of market orientation on internationalization, the value decreased but does not until zero ($\beta_2' \neq 0$) or the direct influence of market orientation on internationalization remains significant even through the indirect influence, but the beta coefficient experiences a decrease.

The test results show that the positive beta coefficient value is 0,721 with a significance level of 0,000 (less than 0,05) which means that H_1 is accepted. The results of this research indicate that the market orientation variable has a positive and significant influence on competitive advantage. The results of this research also shows that woodcraft SMEs in Gianyar Regency have high market orientations which will increase the competitive advantage owned by the SME and vice versa, if the SMEs have low market orientation, it will be difficult for them improve their competitive advantage, because with market orientation, the SMEs will be able to create competitive strategies that are suitable with the market conditions to have a competitive advantage.

This research result is in line with the research conducted by Afsharghasemi et al. (2013) which showed that there is a positive and significant relationship between market orientation and the competitive advantage of manufacturing SMEs in Malaysia. Setiawan (2012) stated that the statistics calculation results of the market orientation factor has a positive and significant influence on the competitive advantage of small scale *Songket* businesses. Rosnawintang et al. (2012) stated that the more effective the market orientation, the more accurate the company is able to implement their strategy to achieve a competitive advantage, which is especially positive and significant for small industries.

The test results show that the positive coefficient beta value is 0,474 with a significance level of 0,000 (less than 0,05) which means that H_2 is accepted. The results of this research indicate that the competitive advantage variable has positive and significant influence on internationalization. The research result also shows that woodcraft SMEs in Gianyar Regency that have high competitive advantage will increase the ability of SMEs to perform internationalizations and vice versa, if the SMEs do not have any competitive advantage, it will make the internationalization process become more difficult and in some cases unable to perform internationalization because they do not have any superiority compared to their competitors.

This research result is consistent with previous studies, among others the research conducted by Afsharghasemi et al. (2013) which stated that based on the direct model, competitive advantage has a positive and significant relationship with the internationalization level of manufacturing SMEs in Malaysia. Riyanto (2008) stated that internationalization strategy to achieve competitive advantage has positive and significant influence on export performance of exporter SMEs in Semarang. However, the results obtained in this research are different from the research conducted by Chelliah et al. (2010) which stated that competitive advantage does not have any significant relationship with the internationalization of SMEs in Malaysia.

The test results show that the positive beta coefficient value is 0,478 with a significance level of 0,000 (less than 0,05) which means that H_1 is accepted. This research result indicates that the market orientation variable has a positive and significant influence on internationalization. This research result shows that woodcraft SMEs in Gianyar Regency have high market orientations which will increase the internationalization activities or exports and vice versa, if the SMEs have low market orientation, they will definitely not be able to perform or increase internationalization activities.

This research result is also in line with the research conducted by Afsharghasemi et al. (2013) which stated that based on the direct model there is a positive and significant relationship between market orientation and the internationalization of manufacturing SMEs in Malaysia. Armario et al. (2008) stated that the overall relationship between market orientation and export performance is positive and significant. Furthermore, this research shows that market orientation is a factor that supports the internationalization process of SMEs that follow the sequential approach. Javalgi et al. (2011) stated that there is a positive and significant relationship between market orientation and internationalization.

The test results show that the Z value is $5,620 > 1,96$ with a significance level of $0,000 < 0,05$ which means that H_1 is accepted. The result of this research indicates that the competitive advantage variable is significantly able to mediate the influence of market orientation on internationalization. In this research, it is shown that the competitive advantage is a partial mediator variable. This research also showed that by having good market orientation, SMEs can improve their competitive advantage, are more able to create strategies that are suitable with the needs of customers and more able to compete with competitors. Afterwards, all the information are coordinated to all functional available to form their competitive advantages and through the competitive advantage, woodcraft SMEs in Gianyar Regency are more able to compete in other countries in performing internationalization activities.

This research result is in line with prior research conducted by Afsharghasemi et al. (2013) which stated that competitive advantage is able to mediate the influence of market orientation on the internationalization of manufacturing SMEs in Malaysia. However, the results attained in the research by Lengler et al. (2013) stated that there is no evidence that proves that competitive advantage mediates the

relationship between market orientation and export performance because the result of the test is statistically insignificant. Furthermore, the research by Javalgi et al. (2011) stated that the mediation effect of competitive advantage in the relationship between market orientation and international performance of SMEs in India are statistically insignificant.

IV. Conclusion

Based on the analysis and discussions explained in this paper, market orientation has positive and significant influence on competitive advantage. The research result showed that if woodcraft SMEs in Gianyar Regency have good market orientation, they will be able to improve their competitive advantage. Competitive advantage has positive and significant influence on internationalization. This research result showed that woodcraft SMEs in Gianyar Regency that have good competitive advantage are able to produce superior performance and as a result it will be easier for the SMEs to perform internationalization and enter the international market. Market orientation positively and significantly influence internationalization. This research result showed that if woodcraft SMEs in Gianyar Regency have good market orientation, and not only for the local market but also the international market, it would be easier for the SMEs to perform internationalization. Competitive advantage significantly mediates the influence of market orientation on internationalization. This research result indicates that if woodcraft SMEs in Gianyar Regency are more market oriented, they will know more regarding the target market, may it be the local market or even the international market of the woodcraft SMEs in Gianyar Regency. Thus, by being more market oriented, the woodcraft SMEs in Gianyar Regency would be able to form their competitive advantage and be more able to achieve their predetermined goals, in which among their goals is to perform internationalization.

Based on the conclusions above, some recommendations can be given with the hope that it can be useful to the parties of interest. The recommendations that can be given are as follows:

- 1) The owners or managers of the woodcraft SMEs in Gianyar Regency should improve their customer data to be more effective in order to maintain good relationships with the customers. Furthermore, this can increase the internationalization of customers of the woodcraft SMEs in Gianyar Regency.
- 2) The woodcraft SMEs in Gianyar Regency should also optimize all resources and ability that they have. Competitive advantage is achievable through continuous innovation in order to create superior performance compared to their direct competitors, namely other woodcraft SMEs.
- 3) Owners and managers of woodcraft SMEs in Gianyar Regency should optimize everything needed in order to perform and increase their internationalization. It would be better for woodcraft SMEs in Gianyar Regency to enter the international market by forming partnerships with companies in the export destination country.
- 4) Future studies should develop the research by adding other factors that can drive SMEs to improve their internationalization. Furthermore, it would be better if the research is conducted on SMEs in other industry sectors to widen the scope of this research.

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