

Original Article

How Market Orientation and Intellectual Capital Enhance Firm Performance: The Role of Competitive Advantage in Indonesia's Creative Industry

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Abstract: Firm performance depends not only on a firm's responsiveness to market signals but also on its ability to leverage intangible resources and convert them into competitive advantage. This study examines the effects of market orientation, learning orientation, intellectual capital, and competitive advantage on firm performance, while also testing the effect of intellectual capital on competitive advantage. Using survey data from 114 owners and managers of creative industry firms in Semarang, Indonesia, the study estimates the proposed relationships through Structural Equation Modeling (SEM). The results show that market orientation, intellectual capital, and competitive advantage have positive and significant effects on firm performance. Intellectual capital also exerts a positive and significant effect on competitive advantage. By contrast, learning orientation does not show a significant direct effect on firm performance. These findings suggest that market attentiveness and the effective deployment of intellectual capital matter more for performance than organizational learning processes that have not yet become deeply institutionalized. The study contributes to strategic management research by clarifying how intangible resources and competitive positioning jointly shape firm performance in a crisis-sensitive creative industry setting.

Keywords: Competitive Advantage, Firm Performance, Intellectual Capital, Market Orientation, Creative Industry.

I. INTRODUCTION

The creative industry is one of the most important sectors in the economy because it relies on creativity, skills, and intellectual capabilities as the primary sources of economic value creation. In Indonesia, the sector spans a wide range of subsectors, including culinary products, crafts, fashion, design, photography, and applications, and contributes to national value added (BEKRAF & BPS, 2017). At the local level, Semarang City has considerable creative industry potential, particularly in the culinary, fashion, and craft subsectors. However, development across subsectors remains uneven, and many firms continue to face managerial, marketing, creativity, and operational constraints, resulting in suboptimal firm performance. Firm success can no longer be explained solely by ownership of physical resources, but also by the firm's ability to develop market orientation, manage intellectual capital, and sustain competitive advantage. The creative industry is therefore a relevant context for explaining how market capabilities and intangible resources shape firm performance.

Previous studies have shown that market orientation positively affects firm performance (Barnabas & Mekoth, 2010; Wicaksono & Nuvriasari, 2012), learning orientation can improve firm performance (Martinette & Obenchain-Leeson, 2012; Vij & Farooq, 2015; Prakoso, 2005), intellectual capital contributes to firm performance (Kamukama et al., 2011; Nkundabanyanga, 2016; Hermawan, 2012), and competitive advantage improves firm performance (Li et al., 2006; Handoko et al., 2015; Rahmasari, 2011). In addition, intellectual capital has been shown to play an important role in shaping competitive advantage (Chahal & Bakshi, 2015; Gemina et al., 2013; Jain et al., 2017). Nevertheless, prior findings remain inconsistent, particularly regarding the effects of learning orientation and certain components of intellectual capital on performance and competitive advantage.

These inconsistent results suggest that the relationships among strategic variables are not yet fully settled, particularly when examined in the context of the creative industry during a period of crisis. Most earlier studies were conducted in manufacturing, services, or SMEs in general. Accordingly, studies that specifically investigate the relationships among market orientation, learning orientation, intellectual capital, competitive advantage, and firm performance in the creative industry during the pandemic remain limited. This study, therefore, offers both theoretical and practical relevance in identifying the factors that matter most for improving creative industry firm performance under high uncertainty.

Accordingly, this study aims to analyze the effects of market orientation, learning orientation, intellectual capital, and competitive advantage on the performance of creative industry firms in Semarang City, and to test the effect of intellectual capital on competitive advantage. Theoretically, this study contributes by showing that during crisis conditions, market orientation and



intellectual capital are more decisive than learning orientation in explaining variation in firm performance. Practically, the findings provide a basis for creative industry actors to formulate strategies that emphasize market sensitivity, stronger internal systems, and the creation of relevant competitive positions.

II. LITERATURE REVIEW

Firm performance in the creative industry can be explained through several key determinants. Market orientation refers to an organizational culture that emphasizes understanding customers, monitoring competitors, and coordinating cross-functional activities to create superior value for customers (Narver & Slater, 1990). Learning orientation reflects a firm's commitment to learning, openness to new ideas, and the development of a shared vision in order to adapt to environmental change (Sinkula et al., 1997). Intellectual capital represents intangible assets, especially human capital and structural capital, that can serve as sources of strategic advantage (Bontis, 2001; Edvinsson, 1997). Competitive advantage, in turn, refers to the firm's ability to create greater value than competitors and ultimately enhance performance (Barney, 1991; Porter, 1985).

This study proposes five hypotheses: H1, market orientation positively affects firm performance; H2, learning orientation positively affects firm performance; H3, intellectual capital positively affects firm performance; H4, competitive advantage positively affects firm performance; and H5, intellectual capital positively affects competitive advantage. The research framework is presented in Figure 1.

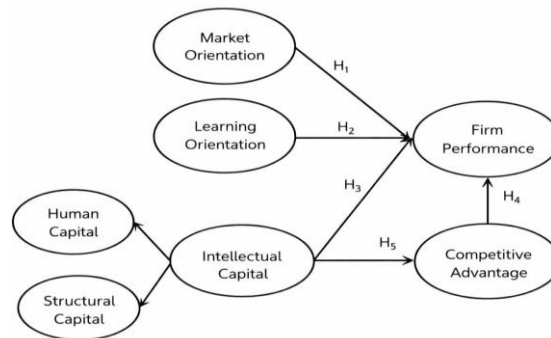


Figure 1. Research Framework

This study employed a quantitative approach with a survey design. The population consisted of 147 owners or managers of creative industry firms in Semarang City, identified through BEKRAF data and *Rumah Kreatif* BUMN. A total of 114 respondents were selected through purposive sampling, namely owners or managers who were directly involved in business decision-making and understood the firm's operational conditions. This sample size was considered adequate for Structural Equation Modeling (SEM) because it met the minimum requirements for testing a structural model with latent constructs.

Primary data were collected through interviews and questionnaires administered to owners or managers, while secondary data were obtained from documents and publications related to the creative industry. The research instrument used a seven-point Likert scale ranging from strongly disagree to strongly agree. Market orientation was measured through customer orientation, competitor orientation, interfunctional coordination, and government orientation. Learning orientation was measured through commitment to learning, shared vision, openness to new ideas, and team learning. Intellectual capital was measured through human capital and structural capital. Competitive advantage was measured through competitive price, product quality, delivery reliability, and product innovation. Firm performance was measured through sales growth, profit growth, market share, and asset growth. The operationalization of variables is presented in Table 1.

Data were analyzed using SEM. Before testing the structural model, the measurement model was evaluated to ensure construct validity and reliability. Indicator validity was assessed using standardized loadings, whereas construct reliability was evaluated through measures of internal consistency. The structural model was interpreted only after the measurement model showed an acceptable level of fit. This approach was used to test the causal relationships among variables in accordance with the proposed hypotheses.

Table 1: Operational Definitions and Indicators of Variables

Variable	Operational definition	Indicators	Source
Market orientation	The firm's capability to understand customer needs, monitor competitors, and coordinate internal functions to create superior Value.	Customer orientation; competitor orientation; interfunctional coordination; government orientation	Narver & Slater (1990); Kazakov (2016)
Learning orientation	The firm's commitment to learning, building a shared vision, being open to new ideas, and developing a team learning.	Commitment to learning; shared vision; openness to new ideas; team learning	Sinkula et al. (1997); Lee & Tsai (2005); Battor & Battour (2013)
Intellectual capital	Intangible resources embedded in people and organizational systems that possess strategic value for the firm.	Human capital: competence, creativity, managerial attitude; structural capital: information technology, organizational culture, teamwork	Edvinsson (1997); Bontis (2001); Chahal & Bakshi (2015); Kamukama (2013)
Competitive advantage	The firm's ability to generate greater value than its competitors.	Competitive price; product quality; delivery reliability; product innovation	Porter (1985); Li et al. (2006)
Firm performance	The final results achieved by the firm after carrying out of its business activities.	Sales growth, profit growth, market share, asset growth	Li et al. (2006); Khalique & Hasan (2014)

III. RESULTS AND DISCUSSION

The respondent profile indicates that the majority of businesses in the sample were relatively young firms, dominated by enterprises operating for 1-5 years, managed by respondents with senior high school to undergraduate educational backgrounds, and mostly employing 1-5 workers.

This pattern suggests that firms still dominate the creative industry in Semarang City in an early growth phase that require stronger business models, market capabilities, and internal systems in order to survive and expand under uncertain conditions. A summary of respondent characteristics and business profiles is presented in Table 2.

Table 2: Respondent Characteristics and Business Profile

Characteristic	Category	Frequency	Percentage (%)
Years in operation	1-5 years	104	91.23
	6-10 years	9	7.89
	>= 11 years	1	0.88
Highest education	Junior high school	1	0.87
	Senior high school/vocational school	59	51.76
	Diploma/Bachelor	51	44.74
	Master	3	2.63
Respondent position	Owner	8	7.02
	Manager	26	22.81
	Owner-manager	80	70.17
Number of employees	1-5 persons	97	85.09
	6-10 persons	10	8.77
	>= 11 persons	7	6.14

The measurement model evaluation shows that all constructs met the validity and reliability criteria. All indicators had item-total correlation values above the critical threshold, average variance extracted (AVE) values exceeded 0.50, and construct reliability (CR) values were above 0.70. These results indicate that the instrument was appropriate for measuring the research constructs consistently. A summary of the validity and reliability tests is presented in Table 3.

Table 3: Construct Validity and Reliability

Variable	Number of indicators	Range of items-total correlations	Validity criterion	AVE	CR	Remark
Market orientation	4	0.732-0.862	All indicators valid (r > 0.361)	0.720	0.949	Valid and reliable
Learning orientation	4	0.847-0.899	All indicators valid (r > 0.361)	0.658	0.932	Valid and reliable
Intellectual	6	0.897-0.942	All indicators	0.770	0.974	Valid and

capital			valid (r > 0.361)			reliable
Competitive advantage	4	0.849-0.905	All indicators valid (r > 0.361)	0.809	0.969	Valid and reliable
Firm performance	4	0.623-0.861	All indicators valid (r > 0.361)	0.659	0.933	Valid and reliable

The estimated SEM structural model is presented in Figure 2. Overall, the model demonstrated an acceptable level of fit. The chi-square value of 209.254 was lower than the cut-off value of 226.412, CMIN/DF was 1.084, probability was 0.201, TLI was 0.990, CFI was 0.990, and RMSEA was 0.027. Although the GFI value of 0.864 and AGFI value of 0.822 were still in the marginal range, the overall model was considered adequate for hypothesis testing. A summary of the goodness-of-fit results is presented in Table 4.

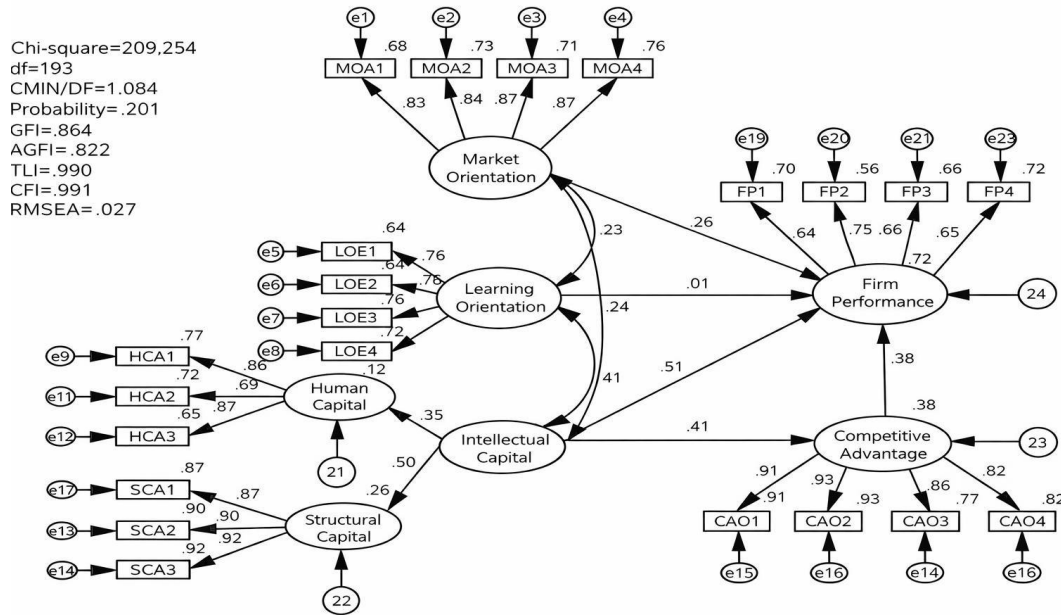


Figure 2. SEM Structural Model

Figure 2 shows that the relationships among the variables in the research model were estimated simultaneously using the Structural Equation Modeling (SEM) approach. In addition to displaying the structural paths among constructs, the figure also presents the indicators of each latent variable together with their estimated coefficients. To provide a more concise overview of the overall model adequacy, the goodness-of-fit statistics are summarized in Table 4.

Table 4: Goodness-of-Fit Results

Index	Cut-off value	Model result	Remark
Chi-square	Small / < 226.412	209.254	Good
Probability	>= 0.05	0.201	Good
CMIN/DF	<= 2.00	1.084	Good
GFI	>= 0.90	0.864	Marginal
AGFI	>= 0.90	0.822	Marginal
TLI	>= 0.95	0.990	Good
CFI	>= 0.95	0.990	Good
RMSEA	<= 0.08	0.027	Good

Hypothesis testing shows that market orientation has a positive and significant effect on firm performance (CR = 2.781; p = 0.005). This result indicates that creative firms that better understand customer needs, monitor competitive moves, and coordinate internal functions more effectively are more likely to achieve superior performance. The finding reinforces the market orientation literature by showing that, during crisis conditions, market-based sensitivity operates not merely as a cultural attribute but as an adaptive capability that helps firms protect demand, reconfigure offerings, and sustain business continuity. In other words, firms that remain closely aligned with market signals are better positioned to preserve and improve performance when environmental turbulence is high.

By contrast, learning orientation does not have a significant effect on firm performance (CR = 0.043; p = 0.966). This non-significant relationship is theoretically important because it suggests that the presence of learning values or openness to new ideas does not automatically translate into measurable performance gains in small creative firms. A plausible explanation is that many firms in the sample were still in an early stage of organizational development, where learning processes may exist informally but are not yet embedded in routines, systems, or decision structures capable of producing immediate performance outcomes. Under pandemic conditions, these firms may have prioritized short-term market responsiveness and operational survival over the slower process of institutionalizing organizational learning.

Intellectual capital has a positive and significant effect on firm performance (CR = 2.275; p = 0.023). This finding confirms that intangible resources, such as managerial competence, employee capability, creativity, organizational systems, and technology-supported routines, constitute a critical foundation for performance in the creative industry. Unlike sectors that depend more heavily on physical assets, creative firms derive value primarily from knowledge, ideas, and their ability to transform those assets into marketable outputs. The result therefore supports the resource-based view by demonstrating that intellectual capital is not a peripheral asset but a central strategic resource that directly improves firm performance.

Table 5: Hypothesis Testing Results

Hypothesis	Relationship	CR	p-value	Decision
H1	Market orientation -> Firm performance	2.781	0.005	Accepted
H2	Learning orientation -> Firm performance	0.043	0.966	Rejected
H3	Intellectual capital -> Firm performance	2.275	0.023	Accepted
H4	Competitive advantage -> Firm performance	2.601	0.009	Accepted
H5	Intellectual capital -> Competitive advantage	2.959	0.003	Accepted

Table 6 presents the decomposition of direct, indirect, and total effects. The pattern of effects confirms that intellectual capital is the most strategically consequential construct in the model because it strengthens both competitive advantage and firm performance. This reinforces the argument that intangible resources are especially decisive in knowledge-intensive, creativity-based industries operating under uncertainty.

Competitive advantage also has a positive and significant effect on firm performance (CR = 2.601; p = 0.009). This result shows that firms capable of offering competitive prices, strong product quality, reliable delivery, and innovation are more likely to record better sales growth, profit growth, market share, and asset growth. In the context of a crisis, competitive advantage functions as the mechanism through which internal resources are translated into market outcomes. Accordingly, firm performance is not driven solely by resource possession, but by the firm's capacity to convert those resources into a distinct and defensible position in the marketplace.

Table 6: Direct, Indirect, and Total Effects

Path	Direct effect	Indirect effect	Total effect	Remark
Intellectual capital -> Firm performance	0.514	0.154	0.668	The direct effect is greater than the indirect effect
Intellectual capital -> Competitive advantage -> Firm performance	-	0.154	0.154	Indirect effect through competitive advantage
Intellectual capital -> Competitive advantage	0.409	-	0.409	Positive effect
Competitive advantage -> Firm performance	0.376	-	0.376	Positive effect

Intellectual capital also exerts a positive and significant effect on competitive advantage (CR= 2.959; p = 0.003). This finding indicates that stronger human capabilities and more supportive organizational systems make it easier for firms to develop a superior competitive position. The result suggests that competitive advantage in the creative industry is rooted not only in pricing or product differentiation, but also in the quality of knowledge, experience, creativity, and internal infrastructure that support value creation. In this sense, intellectual capital operates as an important antecedent of competitive advantage and helps explain why some firms are better able than others to withstand crisis-induced disruptions.

Table 5 summarizes the structural path estimates and confirms that four of the five hypotheses are supported. Taken together, the results indicate that firm performance in the creative industry is primarily shaped by market orientation, intellectual capital, and competitive advantage, whereas learning orientation does not directly affect performance in this setting.

Further analysis shows that intellectual capital has a direct effect of 0.514 on firm performance and an indirect effect of 0.154 through competitive advantage, generating a total effect of 0.668. The stronger direct effect suggests that intellectual capital contributes to performance not only through competitive positioning but also through immediate improvements in organizational quality, coordination, and capability deployment. This pattern implies that competitive advantage partially channels the value of intellectual capital, but does not fully absorb it. For managers, the implication is clear: investment in people, systems, and knowledge infrastructure can yield performance benefits even before those investments are fully reflected in market positioning.

Overall, the findings extend prior research by showing that, in a crisis-sensitive creative industry context, performance is more robustly explained by market attentiveness, intellectual capital, and competitive advantage than by learning orientation alone. The study, therefore, contributes to the literature by clarifying the distinct roles of strategic posture, intangible resources, and competitive positioning in shaping firm performance. In practice, the results suggest that creative industry firms should prioritize market monitoring, strengthen internal knowledge systems, and cultivate competitive differentiation to remain resilient during periods of disruption.

IV. CONCLUSION

This study demonstrates that the performance of creative industry firms in Semarang City is explained more strongly by market orientation, intellectual capital, and competitive advantage than by learning orientation. Market orientation positively and significantly improves firm performance, indicating that firms that better understand customers, monitor competitors, and coordinate internal activities perform more effectively. Intellectual capital also has positive and significant effects on both firm performance and competitive advantage, while competitive advantage itself significantly enhances firm performance. By contrast, learning orientation does not exert a significant direct effect on firm performance. These findings underline the strategic importance of market responsiveness and intangible resources for sustaining performance under crisis conditions.

From a managerial perspective, creative industry firms should focus on three priorities: strengthening market and competitor intelligence, building technology- and knowledge-based internal systems, and developing competitive advantage through price, quality, responsiveness, and innovation. Such priorities are essential not only for short-term survival but also for building a stronger platform for sustainable growth.

This study is limited by its focus on creative industry firms in a single city, its cross-sectional design, and its reliance on perceptual responses. Future research should therefore broaden the geographical scope, apply longitudinal designs, and incorporate additional constructs such as innovation capability, dynamic capabilities, or digital transformation to provide a more comprehensive explanation of firm performance.

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