

ABSTRACT

This study aims to develop and empirically validate a conceptual model that describes the effect of customer orientation on performance in SMEs in Semarang City, with product innovation as a mediating variable. The study is grounded in the Resource Advantage Theory of Competition (RATOC) and is motivated by inconsistencies in prior research findings regarding the relationship between customer orientation and performance.

This research was conducted using a quantitative method through questionnaires distributed to SMEs owners or managers in Semarang City, selected using a purposive sampling technique, with a total sample of 117 respondents. The collected data were analyzed using the Structural Equation Modeling (SEM) method, estimated through the Analysis of Moment of Structures (AMOS) program.

The results show that all six proposed hypotheses were proven to have positive and significant effects, namely: customer orientation on product innovation, product innovation on performance, technological capability on product innovation, product innovation on competitive advantage, technological capability on competitive advantage, and competitive advantage on performance. In addition, product innovation was proven to act as a full mediator in the relationship between customer orientation and performance.

Keywords: Customer Orientation, Product Innovation, Performance, Technological Capability, Competitive Advantage, Quantitative.

