



Linking Market Orientation to Competitive Advantage: The Role of Value Creation and Operational Capability in an Automotive Service SME

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Abstract

This study examines how market orientation is translated into competitive advantage through value creation and operational capability in an automotive service SME. Although market orientation is widely recognized as a driver of firm performance, the organizational process through which it creates competitive advantage remains underexplored. Using an interpretive qualitative case study and the Gioia methodology, data were collected through semi-structured interviews and observations. The findings reveal a sequential process consisting of four stages: relational market understanding, value proposition formation, operational capability, and emergent competitive advantage. Market understanding is developed through close customer relationships and transformed into integrated economic, functional, and relational value propositions. Operational capability enables consistent value delivery while simultaneously limiting scalability due to resource constraints. Competitive advantage emerges through customer retention, repeat transactions, long-term relationships, and stronger market positioning. This study contributes to the market orientation literature by proposing a process-based framework that explains how customer understanding is transformed into sustainable competitive advantage through value creation and operational execution. The findings also provide practical guidance for service-based SMEs in strengthening competitiveness under resource-constrained conditions.

Keywords: Market Orientation; Value Creation; Operational Capability; Competitive Advantage; Service-based SMEs

Article Information

Received: Mei 2026

Revised: Mei 2026

Accepted: Mei 2026

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INTRODUCTION

Small and medium enterprises (SMEs) are central to economic development, contributing to employment generation, innovation, and regional competitiveness, especially in emerging economies such as Indonesia (Er & Nurmawati, 2021; Tambunan, 2019). However, SMEs face mounting competitive pressures due to evolving customer expectations, technological advancements, resource limitations, and market volatility (Eggers, 2020; Zahra, 2021). These challenges are particularly acute for service-based SMEs, where organisational success relies on both technical expertise and the continuous ability to understand customer needs, deliver high-quality service experiences, and sustain long-term business relationships. As a result, market orientation has emerged as a key strategic approach for enhancing SME competitiveness.

Extensive research demonstrates that market orientation positively influences organisational performance. Prior studies indicate that market orientation enhances marketing outcomes, export success, and business sustainability by enabling firms to respond effectively to customer needs and competitive dynamics (Bodlaj & Čater, 2022; Dabic et al., 2023; Puspaningrum, 2020; Wang et al., 2022). Nevertheless, a significant theoretical inconsistency persists regarding the nature of this relationship. Some studies identify market orientation as a direct antecedent of firm performance, while others contend that its impact depends on organisational capabilities such as innovation, marketing, service innovation, quality management, and organisational learning (Butkouskaya et al., 2024; Dameshifa et al., 2023; Fikri et al., 2022; Wasim et al., 2024). These divergent findings imply that market orientation alone may not guarantee competitive advantage, but rather requires organisational mechanisms that convert strategic orientation into superior customer outcomes.

This inconsistency highlights an important theoretical gap. Existing research has mainly examined this inconsistency, leaving the process by which market orientation translates into competitive advantage less explored. While recent studies increasingly recognise the role of internal capabilities in this process (Ferreira et al., 2018; Satyanegara & Yusup, 2025; Sinaga, 2025), they typically employ linear causal models that treat organisational capabilities as isolated mediators. These approaches offer limited understanding of the strategic processes by which customer insights are transformed into value propositions, operational execution, and ultimately, competitive advantage. Firms do not achieve superior performance simply by understanding customers; they must transform market knowledge into value propositions that customers perceive as meaningful and superior (Day, 2020; Leroi-Werelds, 2019; Payne et al., 2017). In service businesses, value is created through an integrated combination of competitive pricing, service quality, responsiveness, flexibility, and trust. However, delivering these value propositions consistently requires operational capabilities that enable firms to coordinate resources, execute service processes efficiently, and maintain service reliability. Accordingly, competitive advantage may emerge not directly from market orientation itself but through a process in which market understanding is translated into customer value and effectively executed through operational capability.

Although interest in market orientation and organisational capability is increasing, the literature remains dominated by quantitative studies utilising regression-based and structural equation modelling approaches (Fikri et al., 2022; Wang et al., 2022; Wasim et al., 2024; Yu et al., 2018). While these studies identify significant relationships among constructs, they provide limited insight into the strategic mechanisms by which market orientation translates into competitive advantage. Consequently, the interplay among market orientation, value creation, and operational capability remains insufficiently understood, especially in service-based SMEs. Furthermore, most prior research has focused on manufacturing firms, export-

oriented SMEs, and technology-driven businesses, with minimal attention to automotive service SMEs in emerging economies. These enterprises differ from product-based firms in that they compete primarily through intangible service value, ongoing business-to-business (B2B) relationships, customer trust, rapid operational responsiveness, and resource constraints. To address these gaps, this study employs a qualitative case study approach, using the Gioia methodology, to examine how market orientation translates into competitive advantage through value creation and operational capabilities. This approach advances market orientation research by offering a process-based explanation that integrates market orientation, value creation, and operational capability within a coherent strategic framework and by providing empirical evidence from an automotive service SME in an emerging economy.

THEORITICAL REVIEW

Market Orientation

Market orientation is widely recognised as a strategic orientation that enables firms to understand market dynamics and create superior customer value by integrating customer orientation, competitor orientation, and inter-functional coordination (Kohli & Jaworski, 1990; Narver & Slater, 1990). Rather than representing isolated organizational activities, these dimensions collectively enable firms to sense market changes, respond to customer needs, and coordinate internal resources to sustain competitive performance.

Subsequent studies have consistently confirmed the strategic importance of market orientation across different organizational contexts. Market orientation has been shown to improve organizational performance through stronger customer relationships, enhanced marketing capabilities, and greater organizational responsiveness (Bodlaj & Čater, 2022; Fikri et al., 2022; Wang et al., 2022). More recent studies further demonstrate that market orientation contributes to SME competitiveness by fostering innovation capability, creativity, digital responsiveness, and integrated marketing communication, particularly in dynamic business environments (Butkouskaya et al., 2024; Dameshifa et al., 2023; Satyanegara & Yusup, 2025; Wasim et al., 2024). These findings suggest that market orientation remains one of the most important strategic capabilities supporting sustainable SME performance.

Although the positive relationship between market orientation and organizational performance has been widely established, previous studies predominantly examine this relationship using variance-based models that position market orientation as an antecedent of firm performance or competitive advantage (Puspaningrum, 2020; Sinaga, 2025; Yu et al., 2018). Consequently, relatively limited attention has been given to explaining how market orientation is translated into organizational capabilities that progressively generate competitive advantage, particularly in service-based SMEs operating under resource constraints.

Value Creation

Value creation refers to the organizational process through which firms transform customer understanding into meaningful customer benefits that support long-term competitiveness. Although the concepts of value proposition, value creation, and value co-creation are closely related, they represent distinct theoretical perspectives. A value proposition reflects the firm's promise of value, value creation concerns the generation of economic, functional, and relational benefits, whereas value co-creation emphasizes the joint participation of firms and customers in creating value (Leroi-Werelds, 2019; Payne et al., 2017). From this perspective, value creation extends beyond designing products or services

to encompass the organizational activities through which customer value is continuously developed.

Previous studies consistently demonstrate that superior customer value strengthens customer relationships, improves organizational performance, and contributes to sustainable competitive advantage (Day, 2020; Sullivan et al., 2012). More recent research further suggests that value creation in SMEs depends on the firm's ability to integrate customer knowledge, organizational resources, and collaborative relationships into coherent value propositions that address evolving customer expectations (Butkouskaya et al., 2024; Runfola et al., 2024). These studies indicate that value creation is increasingly understood as a dynamic organizational capability rather than merely a marketing activity.

Despite these advances, existing research predominantly examines value creation as an organizational outcome or as a mediating construct linking market orientation with organizational performance (Fikri et al., 2022; Wang et al., 2022). Consequently, relatively limited attention has been devoted to explaining how customer understanding is progressively translated into multidimensional customer value before influencing competitive advantage, particularly within service-based SMEs.

Operational Capability

Operational capability refers to a firm's ability to coordinate and deploy organizational resources to execute routine activities efficiently and consistently, ensuring reliable service delivery and organizational performance (Helfat et al., 2023). Unlike dynamic capability, which focuses on reconfiguring organizational resources in response to environmental change, operational capability emphasizes the effective execution of existing strategies through coordinated processes, resource utilization, and service reliability (Teece, 2025). This distinction highlights operational capability as the organizational foundation for translating strategic intentions into day-to-day operational outcomes.

Previous research consistently identifies operational capability as a critical driver of organizational performance and competitive advantage. Effective coordination of operational processes improves service quality, productivity, and customer satisfaction by integrating organizational resources into consistent service delivery (Froehle & Roth, 2007; Yu et al., 2018). Recent studies further demonstrate that SMEs strengthen operational performance through resource integration, organizational coordination, and operational interaction among employees and stakeholders, enabling firms to respond more effectively to customer requirements despite resource limitations (Er & Nurmawati, 2021; Tibrewal et al., 2024). Collectively, these studies position operational capability as a strategic organizational capability that supports value delivery and long-term competitiveness.

Despite these advances, operational capability has largely been examined as a performance-enhancing organizational capability. Comparatively less attention has been devoted to understanding how operational constraints—including technological limitations, workforce shortages, production capacity, and supply-chain instability—influence the firm's ability to sustain consistent value delivery, particularly in service-based SMEs. As a result, operational capability is commonly viewed as an organizational resource rather than as a mechanism that both enables and constrains organizational performance.

Competitive Advantage

Competitive advantage refers to a firm's ability to achieve superior performance by creating and sustaining greater customer value than its competitors (Barney, 1991; Porter, 1991). In service-based businesses, competitive advantage extends beyond financial

performance to include customer retention, repeat transactions, long-term relationships, customer preference, and sustained market positioning. This perspective emphasizes that competitive advantage is not merely reflected in organizational outcomes but also in the firm's ability to consistently deliver value that customers perceive as superior.

Previous studies consistently identify competitive advantage as the outcome of strategic organizational capabilities. Market orientation, marketing capability, innovation capability, and dynamic capability have all been shown to strengthen SME competitiveness by improving organizational responsiveness, customer value, and business performance (Ferreira et al., 2018; Sarfo et al., 2025; Wang et al., 2022; Wasim et al., 2024). Recent research further suggests that sustainable competitiveness increasingly depends on firms' ability to integrate customer orientation, innovation, and adaptive capabilities in response to changing market conditions (Satyanegara & Yusup, 2025; Sinaga, 2025). Collectively, these studies position competitive advantage as the outcome of strategic capability development rather than the result of a single organizational resource.

Current perspectives primarily explain competitive advantage through the performance effects of individual organizational capabilities. Less attention has been given to understanding how these capabilities interact to progressively transform customer understanding into sustained competitive advantage.

RESEARCH METHODS

This study adopts an interpretive qualitative approach using a single-case study design to explore how market orientation is translated into competitive advantage through value creation and operational capability in a service-based SME. A qualitative case study is appropriate because the research seeks to understand how strategic processes unfold within their real organizational context rather than to test causal relationships among variables (Yin, 2018).

The study is guided by an interpretive perspective, which assumes that organizational phenomena are socially constructed through the experiences and interactions of organizational members. Accordingly, understanding the meanings attached to customer orientation, value creation, and operational capability requires in-depth engagement with participants rather than statistical measurement. Furthermore, the research employs the Gioia methodology (Gioia et al., 2013), which provides a systematic inductive approach for developing theoretical insights grounded in empirical data.

Research Setting and Case Selection

This study was conducted in an automotive service SME located in Bandar Lampung, Indonesia, which primarily serves the business-to-business (B2B) market by providing wheel repair and maintenance services for logistics and transportation companies. A purposive case selection strategy was employed because the firm represents an information-rich case for exploring the strategic process underlying competitive advantage (Yin, 2018). The case was selected based on its strong customer-oriented practices, long-term relationships with high-frequency B2B customers, service-based competition through quality, responsiveness, pricing, and operational efficiency, as well as operational challenges related to human resources, inventory management, supplier coordination, and service execution. These characteristics provide a theoretically relevant context for examining how market orientation is translated into competitive advantage through value creation and operational capability.

Informants and Sampling Strategy

Participants were selected using purposive sampling because they possessed direct knowledge and experience relevant to the research phenomenon. Five key informants participated in the study, representing both internal and external organizational perspectives. Internal informants consisted of the business owner, operational manager, and administrative employee, while external informants comprised two long-term B2B customers. This combination enabled the study to capture strategic decision making, operational implementation, and customer perceptions simultaneously.

Table 1 presents the profile of the research informants.

Informant Code	Position/Role	Category
I1	Owner	Internal
I2	Manager	Internal
I3	Employee (Admin)	Internal
I4	Customer 1	External
I5	Customer 2	External

Rather than pursuing statistical representativeness, qualitative case studies seek analytical depth. Data collection therefore continued until the interviews produced sufficient information to explain the strategic process under investigation and no substantially new conceptual insights emerged across participants. This information sufficiency supports the credibility of the findings within the selected case.

Data Collection

Data were collected through semi-structured interviews, supported by field observations and organizational documents. Semi-structured interviews were selected because they provide flexibility to explore participants' experiences while maintaining consistency across interviews (Yin, 2018). The interview protocol was developed from the literature on market orientation, value creation, operational capability, and competitive advantage. Open-ended questions encouraged participants to describe their customer management practices, service processes, operational challenges, and sources of competitive advantage. Each interview lasted approximately 25–40 minutes and was conducted face-to-face at the company premises between January–March 2026. All interviews were conducted in Indonesian, audio-recorded with participants' consent, and subsequently transcribed verbatim for analysis.

To strengthen contextual understanding, interview data were complemented by non-participant observations of daily service operations, customer interactions, inventory management, and workflow coordination. In addition, internal documents—including service records, operational procedures, and company profiles—were reviewed to corroborate interview findings. The use of multiple data sources enabled methodological triangulation and enhanced the credibility of the findings.

Data Analysis

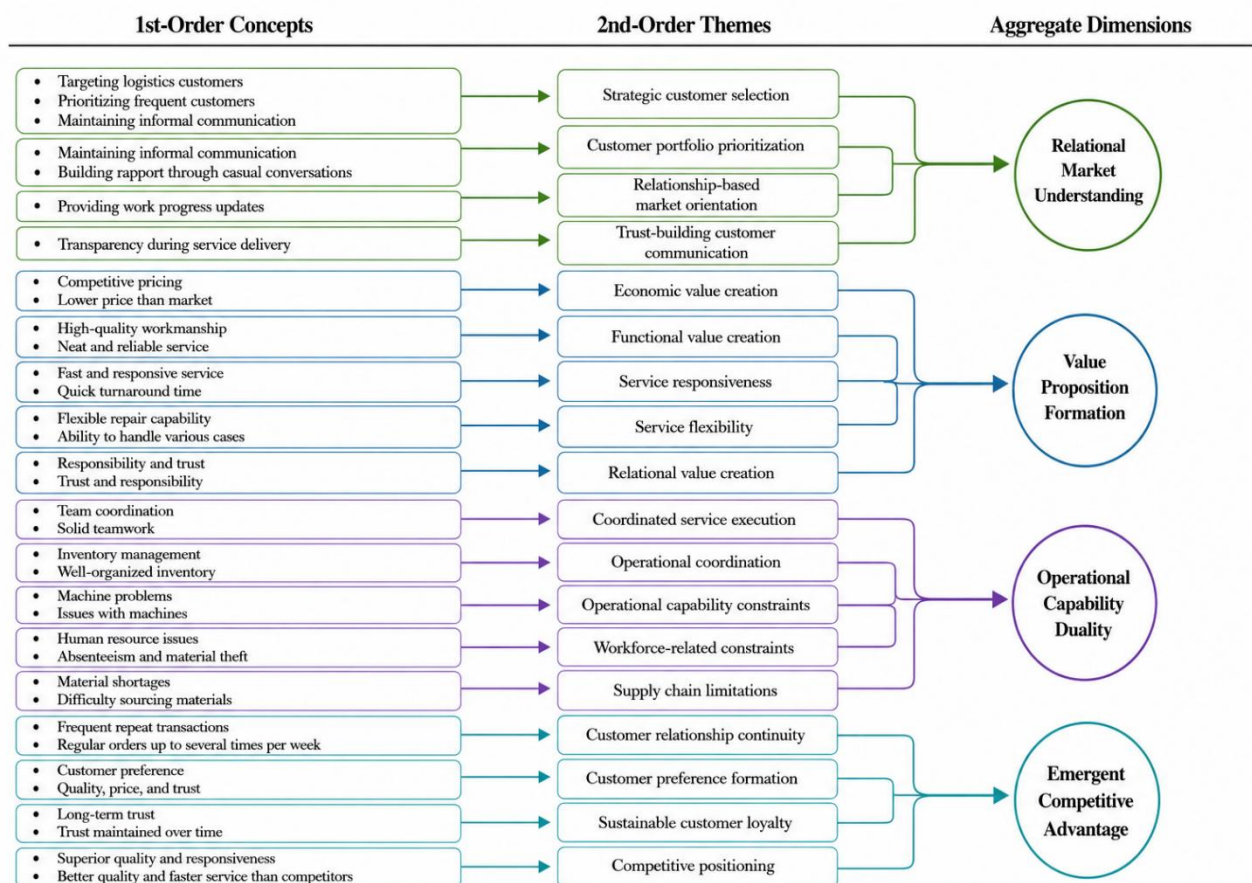
Data were analysed using the Gioia methodology (Gioia et al., 2013), which offers a systematic approach for theory building from qualitative data. The analysis proceeded

iteratively through three stages: identifying first-order concepts from participants' own expressions, developing second-order themes through theoretical interpretation of conceptually related codes, and integrating these themes into aggregate dimensions representing the strategic process through which market orientation is translated into competitive advantage via value creation and operational capability. Coding was conducted through constant comparison across interviews, with emerging interpretations discussed among the researchers until conceptual agreement was achieved. The resulting Gioia data structure provides a transparent audit trail linking empirical evidence to the study's theoretical framework.

Trustworthiness

Research trustworthiness was established following the criteria of credibility, transferability, dependability, and confirmability proposed by (Guba & Lincoln, 1982). To enhance qualitative rigor, the study also followed the principles of excellent qualitative research suggested by Tracy (2010) and the inductive research procedures recommended by (Gioia et al., 2013).

Credibility was strengthened through methodological triangulation by combining semi-structured interviews with field observations, as well as data triangulation involving multiple stakeholder groups, including the owner, manager, administrative staff, and customers. Member checking was conducted with the owner and manager, who reviewed the researchers' preliminary interpretations to verify that the emerging themes accurately reflected the firm's practices and experiences. When differing perspectives emerged between internal informants and customers, the researchers revisited the interview transcripts and field observation notes, compared evidence across participants, and re-examined the coding structure through



iterative analysis. Alternative interpretations were discussed among the research team until a coherent explanation supported by multiple informants was achieved.

Figure 1. GIOIA Data Structure

Transferability was enhanced by providing rich descriptions of the research setting, organizational context, participant selection, and data collection procedures, enabling readers to assess the applicability of the findings to similar service-based SMEs. Dependability was maintained through a transparent audit trail consisting of interview protocols, verbatim transcripts, coding records, analytical memos, and the iterative development of first-order concepts, second-order themes, and aggregate dimensions. Confirmability was ensured by systematically linking empirical quotations to the coding structure and maintaining regular discussions among the research team throughout the analytical process to minimize interpretive bias.

RESULTS AND DISCUSSION

The Gioia analysis produced a hierarchical data structure comprising first-order concepts, second-order themes, and aggregate dimensions. First-order concepts were identified directly from participants' statements, whereas second-order themes were developed through iterative theoretical interpretation. These themes were then consolidated into four aggregate dimensions that elucidate how market orientation leads to competitive advantage. The resulting Gioia data structure is illustrated in Figure 1.

Relational Market Understanding

Relational market understanding forms the basis of the firm's competitive advantage. This approach involves four interconnected themes: choosing strategic customers, prioritising the customer portfolio, focusing on market relationships, and building trust through customer communication. These themes show how the firm builds its market understanding by targeting valuable customers and maintaining long-term relationships through ongoing personal interactions. The company chooses to work primarily with logistics and expedition businesses that need regular services, rather than trying to serve a wide range of customers. The owner explained:

"Our target is those who run expedition businesses." (I1–Owner)

The company selects customers based on more than just market size. They also consider how often customers use their services and the potential for long-term business.

"We prioritise customers who place the most orders." (I1–Owner)

Instead of using formal marketing, the company finds new customers by reaching out directly and building personal connections.

"We look for customers via WhatsApp or by visiting expedition companies to find opportunities." (I1–Owner)

Maintaining relationships is also a key part of how the company understands its market. By staying in regular contact, the company builds stronger customer relationships and learns more about what customers expect. The manager explained:

"I maintain relationships with customers through clear, polite, and responsive communication." (I2–Manager)

The owner also highlighted how important informal, personal interactions are for keeping good customer relationships.

“We usually have casual conversations to build rapport.” (I1–Owner)

The company builds even more trust by being open and clear when providing services.

“I always provide updates on the progress of the work so customers don't have to wait too long.” (I3–Administrative Staff)

For customers, these relationship-focused practices lead to positive service experiences and greater trust in the company.

“The service is very satisfying, and the work system is well-organised and meets my expectations.” (I4–Customer)

In summary, the evidence shows that this SME builds its market understanding primarily by carefully selecting which customers to prioritise and by focusing on relationship-building. Instead of relying on formal market research, the company learns about the market through ongoing contact with key customers, which helps shape its value proposition.

Value Proposition Formation

Forming a value proposition is the second step in building the firm's competitive advantage. This step involves five connected themes: economic value, functional value, service responsiveness, service flexibility, and relational value. Together, these themes show how the company turns customer insights into a value proposition that draws from several sources of customer value. The company starts by offering competitive pricing as a key part of its value proposition. The owner explained:

“We compete through pricing.” (I1–Owner)

Customers also saw pricing as one of the company's main strengths.

“The price is about 10% lower than the market rate.” (I5–Customer)

However, customers look at more than just price when judging the company's services. They value reliable workmanship and consistent service quality. The operational manager said:

“Neat and high-quality workmanship, with fast and responsive service.” (I2–Manager)

Customers confirmed this view, highlighting the quality and organization of the service process.

“The service is very satisfying, and the workflow is well-organised, exactly as I expected.” (I4–Customer)

Service responsiveness adds to the firm's value by ensuring services are delivered on time without compromising quality. Service flexibility helps the company meet a wide range of customer needs. The manager explained:

“The workshop is capable of handling both minor and more complex cases.” (I2–Manager)

Relational value is also an important part of the firm's value proposition. The owner stressed that trust and responsibility are at the heart of every service interaction.

“Trust and responsibility.” (I1–Owner)

The evidence shows that the firm's value proposition is built on a mix of different strengths, not just one. Competitive pricing brings economic value. High-quality workmanship, service responsiveness, and flexibility create functional value. Trust and responsibility add relational value. Together, these strengths turn market insights into customer value and lay the groundwork for delivering value in operations.

Operational Capability Duality

Operational capability duality constitutes the third stage of the firm's competitive advantage process. This stage is reflected in four interrelated themes: coordinated service execution, operational coordination, operational capability constraints, and supply chain limitations. These themes explain how operational capability enables the consistent delivery of customer value while simultaneously defining the operational boundaries that constrain organisational scalability. Service responsiveness emerged as a particularly important capability because customers expect timely service without compromising quality. As the manager explained:

“Customers tend to prefer workshops that can deliver fast results without compromising quality.” (I2–Manager)

Although the company consistently strives to maintain service quality, the owner acknowledged that operational improvements remain necessary to sustain customer value.

“There are certainly aspects that need improvement, especially in terms of resources and machinery.” (I1–Owner)

Some organisational constraints still affect how well operations run. Problems with technology lower efficiency and interrupt the flow of service.

“There are sometimes issues with the machines.” (I1–Owner)

Workforce-related challenges also make it harder for the company to keep operations running smoothly.

“The main issues are absenteeism and even theft of leftover wheel materials.” (I1–Owner)

Operational coordination needs constant adjustment because customer requests and service schedules often change. As the administrative staff explained:

“Sudden schedule changes and requests require us to ensure that stock data remains accurate in a highly dynamic environment.” (I3–Administrative Staff)

Supply chain problems make service delivery harder by limiting access to important materials.

“Wheel materials are sometimes difficult to source.” (I2–Manager)

Even with these operational challenges, good teamwork and coordination help the company maintain daily operations and continue delivering value to customers.

“Teamwork is solid, and inventory arrangement is fairly well-organised.” (I2–Manager)

Overall, the evidence shows that operational capability has two sides. Coordinated service, good operational coordination, and teamwork help the company deliver on its

promises. But technological limitations, workforce issues, and supply chain problems make it harder to remain flexible and grow. So, operational capability is both a resource for delivering value and a limit that affects how long a service-based SME can keep its competitive advantage.

Emergent Competitive Advantage

Emergent competitive advantage is the final stage in a firm's process of building an edge over competitors. This stage includes four interconnected themes: maintaining strong customer relationships, shaping customer preferences, building lasting loyalty, and securing a strong market position. Together, these show that competitive advantage grows step by step as the company aligns its market knowledge, value offering, and how it delivers that value, rather than relying on just one strength. For example, strong customer relationships are evident when customers return frequently, indicating they trust the firm's services and see real value. As one customer put it:

"Very frequent... up to four or five times a week." (I4–Customer)

Competitive positioning is about more than just price. While good prices matter, customers look at the total value the company offers, especially the quality of service, reliability, and how quickly it responds. The owner explained:

"Competition is mainly on price... sometimes competitors lower prices, but their service quality tends to be lower." (I1–Owner)

The manager also pointed out that staying competitive requires balancing several aspects of operations, not just focusing on one.

"Competition involves price, service quality, processing speed, and stock availability." (I2–Manager)

From the customer perspective, continued patronage is driven by the firm's integrated value proposition, which combines competitive pricing, reliable service quality, and trust.

"The quality is good, the price is competitive, and I trust their work." (I5–Customer)

The evidence shows that competitive advantage comes from how different company processes work together, not from single resources. Understanding the market helps the firm find valuable customers. Turning this understanding into a strong value proposition and delivering on it means customers get what they expect, even when challenges arise. When these processes are in sync, the company keeps strong customer relationships, shapes customer preferences, builds lasting loyalty, and strengthens its position in the local B2B automotive service market.

DISCUSSION

Selective and Relational Market Orientation

Market orientation describes how firms develop a strategic understanding of their markets through customer orientation, competitor orientation, and organizational coordination to create superior customer value (Kohli & Jaworski, 1990; Narver & Slater, 1990). Rather

than constituting a single organizational capability, market orientation enables firms to continuously interpret customer needs and adapt strategic decisions in response to evolving market conditions. Recent studies demonstrate that market orientation enhances the competitiveness of small and medium-sized enterprises (SMEs) by strengthening customer relationships, improving responsiveness, and supporting long-term organizational performance (Bodlaj & Čater, 2022; Dabic et al., 2023; Wasim et al., 2024). Figure 2. Integrated Process Model of Competitive Advantage Development.

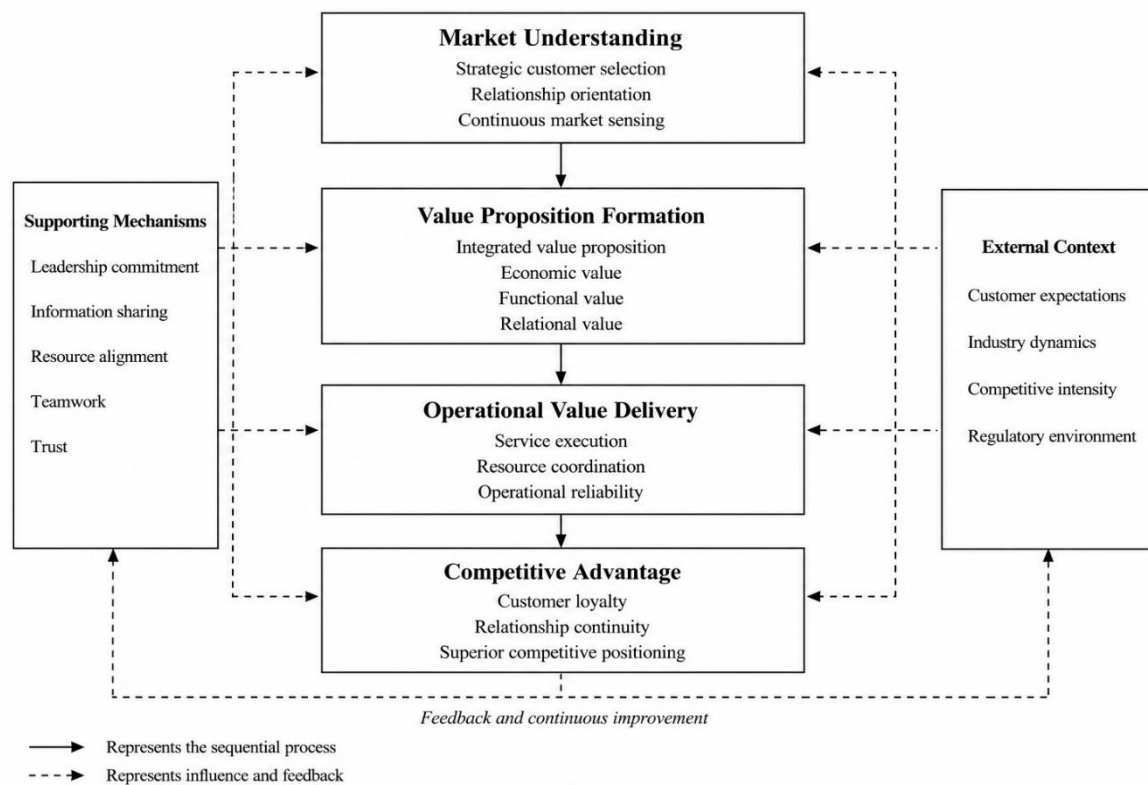


Figure 2. Integrated Process Model of Competitive Advantage Development

This study provides a broader theoretical interpretation by conceptualizing market orientation as a selective and relational capability rather than primarily an information-processing capability. In service-based SMEs, market knowledge is generated not through formal market intelligence systems but through repeated customer interactions, long-term business relationships, and continuous service encounters. Consequently, customer orientation extends beyond identifying customer needs to serve as an organizational mechanism by which firms interpret market signals, prioritize strategically valuable customers, and guide subsequent capability development. This study extends market orientation theory by positioning it as the entry point to an integrated capability development process. Customer knowledge generated through selective and relational engagement serves as the strategic foundation for value creation, which is subsequently operationalized through organizational capabilities and ultimately contributes to competitive advantage. This process perspective complements recent research that emphasizes market orientation as a capability for continuous market adaptation (Dabic et al., 2023) and advances the theory by explaining how market understanding is progressively translated into sustainable competitive advantage

through the sequential integration of capabilities rather than through isolated strategic resources.

Multidimensional Value Creation

Value creation describes the process by which firms transform market knowledge into customer benefits that enhance long-term competitiveness. Rather than relying on a single source of differentiation, customer value emerges from integrating economic, functional, and relational dimensions, enabling firms to develop value propositions that strengthen customer relationships and improve organizational performance (Leroi-Werelds, 2019; Payne et al., 2017). Research further demonstrates that value creation is closely linked to relationship development and superior business performance, particularly among small and medium-sized enterprises (SMEs) in competitive environments (Day, 2020; Runfola et al., 2024; Sullivan et al., 2012).

This study provides a broader theoretical interpretation by conceptualizing value creation as a strategic translation mechanism rather than solely the formulation of a value proposition. Customer understanding derived from market orientation is progressively translated into competitive pricing, service quality, responsiveness, and trust. These elements collectively form an integrated organizational response to diverse customer expectations. This interpretation positions value creation as an active organizational process that links market knowledge with operational execution, rather than as a discrete managerial outcome.

This perspective shifts the theoretical emphasis from viewing value creation as a static construct to understanding it as a dynamic organizational process. While customer value is widely acknowledged as a driver of organizational performance, the mechanisms by which market understanding is translated into multidimensional customer value remain insufficiently theorized. Consequently, value creation is often discussed in terms of its outcomes, with less attention given to the organizational processes through which customer value is continuously developed.

This study advances value creation theory by positioning value creation as the organizational bridge between market orientation and operational capability. This process-oriented perspective complements the value process framework proposed by Martinsuo et al. (2019), which describes value as evolving through interconnected activities of value creation, value delivery, and value capture. It also aligns with recent evidence indicating that SMEs enhance long-term competitiveness by orchestrating value creation through collaborative relationships rather than isolated organizational activities (Runfola et al., 2024). Thus, value creation is conceptualized as the mechanism through which market understanding is translated into multidimensional customer value, subsequently guiding operational execution and supporting sustainable competitive advantage.

Operational Capability Duality

Operational capability enables firms to coordinate organizational resources and execute routine activities that ensure consistent delivery of customer value and sustained competitiveness. Effective service execution relies not only on operational efficiency but also on the organization's capacity to integrate resources, coordinate workflows, and respond reliably to customer requirements. These capabilities are widely recognized as central to organizational performance and competitive advantage, particularly within the Resource-Based View and operations management literature (Barney, 1991; Froehle & Roth, 2007; Helfat et al., 2023).

This study provides a broader theoretical interpretation by conceptualizing operational capability as both an enabler and a constraint within organizations. Coordinated workflows, resource integration, and service responsiveness allow firms to transform intended customer value into realized service experiences. Conversely, technological limitations, workforce shortages, and supply chain disruptions define the organizational boundaries within which value can be delivered consistently. Thus, operational capability functions not only as the mechanism for executing value propositions but also as the structural condition that determines the continuity of value delivery. This interpretation aligns with recent research suggesting that operational effectiveness in SMEs depends on the firm's capacity to coordinate organizational interactions rather than on resource availability alone (Tibrewal et al., 2024).

This perspective shifts the focus from viewing operational capability solely as a performance-enhancing organizational asset to understanding it as both enabling and limiting organizational execution. The constraining role of operational capability has received comparatively less theoretical attention, despite its significant influence on the firm's ability to sustain value delivery under resource-constrained conditions. By introducing the concept of operational capability duality, this study extends operational capability theory beyond its conventional performance-oriented perspective. While Martinsuo et al. (2019) describe value delivery as the process by which intended customer value is realized as customer benefits, this study demonstrates that successful value delivery also depends on the firm's capacity to manage operational constraints. This perspective further complements Teece (2025) distinction between operational and dynamic capabilities by suggesting that, for many service-based SMEs, sustainable competitiveness relies less on continuous resource reconfiguration and more on strengthening operational routines that maintain consistent value delivery despite persistent technological, workforce, and supply chain limitations. Therefore, operational capability is conceptualized not only as an organizational resource but also as a dynamic organizational condition that both enables and constrains the realization of competitive advantage.

Competitive Advantage Realization

Competitive advantage arises when firms systematically convert organizational capabilities into superior customer value and sustained market performance, rather than depending on isolated strategic resources. In this context, customer orientation, market intelligence, and organizational responsiveness collectively strengthen market positions by facilitating ongoing value creation and fostering long-term customer relationships (Barney, 1991; Day, 2020; Kohli & Jaworski, 1990; Narver & Slater, 1990; Payne et al., 2017; Sullivan et al., 2012).

This study provides an alternative theoretical perspective by conceptualizing competitive advantage as an emergent organizational process, rather than as the direct result of individual strategic capabilities. Customer retention, relationship continuity, repeat transactions, and enhanced market positioning develop through the cumulative interaction of market understanding, multidimensional value creation, and operational value delivery. This perspective indicates that competitiveness is progressively built through the alignment of interconnected organizational capabilities, rather than being produced by any single capability. Empirical research consistently demonstrates positive associations between market orientation, organizational capability, innovation capability, and SME competitiveness (Dameshifa et al., 2023; Ferreira et al., 2018; Sarfo et al., 2025; Wasim et al., 2024). However, the organizational mechanisms by which these capabilities collectively generate sustained

competitive advantage remain insufficiently theorized. As a result, competitive advantage is frequently viewed as a performance outcome rather than as a process of capability integration.

The present study advances competitive advantage theory by proposing a process-based explanation in which market orientation initiates customer understanding, value creation transforms that understanding into multidimensional customer value, and operational capability ensures consistent value delivery. Competitive advantage thus results from the integration of these sequential capabilities, rather than from their independent effects. This perspective extends the resource-based view by demonstrating that sustainable competitiveness depends not only on possessing valuable organizational resources but also on the firm's capacity to integrate those resources into a coherent strategic process.

PRACTICAL IMPLICATIONS

The findings provide practical implications for service-based SMEs seeking to strengthen competitive advantage under resource-constrained conditions. Rather than managing market orientation, value creation, and operational capability as separate initiatives, managers should integrate these capabilities into a coherent strategic process. Market understanding should begin with identifying strategically valuable customers through key-account classification, enabling firms to prioritize high-frequency B2B customers and strengthen long-term relationships through continuous communication and structured customer progress updates.

Customer insights should then be translated into integrated value propositions that combine competitive pricing, high-quality workmanship, responsiveness, flexibility, and trust. To ensure consistent value delivery, SMEs should establish standardized service turnaround-time targets, implement digital inventory monitoring systems, strengthen employee attendance and material-control procedures, and diversify supplier networks to reduce operational disruptions. These operational improvements directly address the technological, workforce, and supply-chain constraints identified in this study.

The proposed process model also provides guidance for SME development agencies and policymakers. Rather than offering fragmented support programs, capability development initiatives should integrate customer-oriented market sensing, value proposition development, and operational capability enhancement. Such an integrated approach can help service-based SMEs improve customer retention, strengthen long-term business relationships, and achieve sustainable competitive advantage.

CONCLUSION

This study examined how market orientation is translated into competitive advantage through value creation and operational capability in a service-based automotive SME. The findings demonstrate that competitive advantage develops through a sequential strategic process in which market orientation enables customer understanding, value creation translates that understanding into economic, functional, and relational value, and operational capability ensures consistent value delivery. Competitive advantage subsequently emerges through customer retention, repeat transactions, long-term relationships, and stronger market positioning.

The study contributes to the market orientation literature by proposing a process-based explanation of SME competitiveness. Rather than viewing market orientation as a direct antecedent of competitive advantage, the findings show that its influence is realized through value creation and operational execution. The study also highlights the dual role of operational capability as both an execution mechanism and a constraint on organizational scalability,

offering a more integrated understanding of how competitive advantage develops in service-based SMEs. From a managerial perspective, the findings emphasize the importance of aligning customer orientation, value creation, and operational capability to achieve sustainable competitiveness.

The study is limited to a single-case automotive service SME, which may restrict the transferability of the proposed process model. Future research should examine the model across different SME contexts using comparative case studies, quantitative, or mixed-method approaches to validate and refine the proposed strategic process.

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