

THE MEDIATING ROLE OF INTERNAL RESOURCE INTEGRATION IN ENHANCING CUSTOMER ORIENTATION FOR FIRM PERFORMANCE: EVIDENCE FROM ISLAMIC MICROFINANCE INSTITUTIONS

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ABSTRACT

This study was started by a research gap regarding the influence of customer orientation on firm performance. Grounded in the resource-based theory, it develops a research model to examine the effect of customer orientation on firm performance, with internal resource integration serving as a mediating variable. This research population consisted of managers of Islamic Microfinance Institutions (IMFIs) in Semarang Regency, with a purposive sample of 100 respondents. Using SmartPLS for data analysis, the findings reveal that customer orientation exerts a positive and significant effect on firm performance, that customer orientation positively and significantly influences internal resource integration, and that internal resource integration positively and significantly enhances firm performance. Moreover, internal resource integration is found to effectively mediate the relationship between customer orientation and firm performance. These results provide empirical support for the resource-based theory, highlighting that superior internal resource integration amplifies the impact of customer orientation on performance. Accordingly, firms are advised to strategically manage their internal resources to build sustainable competitive advantage and achieve long-term performance excellence.

Keywords: Customer Orientation; Firm Performance; Islamic Microfinance Institutions; Internal Resource Integration.

INTRODUCTION

The study of customer orientation has attracted increasing attention from researchers and practitioners in the field of management, particularly marketing, in recent years (Ismail, 2023; Lee & Wei, 2023; Woehler & Ernst, 2023). Customer orientation refers to a company's commitment to its customers by understanding and actively seeking information about their needs and preferences, thereby enabling the company to develop strategies that create added value. Customer behavior and decision-making significantly influence a company's sales strategies. When effectively managed, customer orientation fosters the creation of shared value between companies and their customers (Racela & Thourunroje, 2020). Through shared value creation, companies strive to deliver meaningful value to customers, while customers, in turn, derive value from their experiences. Moreover, customer orientation can enhance resource-based advantages, as it requires firms to listen to customer feedback, formulate responsive policies, and place customers at the core of their strategic focus (Tseng, 2019).

Based on the study above, it can be concluded that customer orientation plays a crucial role in enhancing a company's understanding of its customers, particularly in designing new or improved service solutions to meet customer needs (Linder, 2019). Therefore, improvements in company performance can be evaluated by how well the company identifies customer needs, prioritizes customer service, ensures service quality, and continuously assesses customer satisfaction.

Numerous studies have shown that customer orientation plays a critical role in enhancing firm performance (Domi, Capelleras, & Musabelliu, 2020; Racela & Thourunroje, 2020; Sa, Choon-Yin, Chai, & Joo, 2020). However, other empirical findings indicate that customer orientation does not always lead to improved firm performance (Feng, Wang, Lawton, & Luo, 2019; Hughes, Richards, Calantone, Baldus, & Spreng, 2019). This discrepancy arises when the impact of customer orientation is viewed as solely dependent on external market conditions, while internal organizational capabilities are overlooked. Therefore, even a well-implemented customer orientation strategy may fail to enhance firm performance if it does not integrate both internal and external factors in a coherent and aligned manner.

The preceding studies reveal a research gap in the form of inconsistent findings regarding the impact of customer orientation on firm performance. This gap is noteworthy, as superior customer orientation is theoretically expected to enhance firm performance. However, several prior studies have reported contradictory results, indicating that customer orientation does not always lead to performance improvements. Therefore, further investigation is warranted to clarify the conditions under which customer orientation contributes effectively to firm performance.

To optimize customer orientation in service-based firms, particularly in the banking sector, internal resource integration is essential for enhancing firm

performance. Internal resource integration plays a critical role, as it facilitates the development of customer-centered strategic knowledge that enables firms to achieve superior resource utilization (Rini & Kusumawardhani, 2024). Firms that effectively implement customer-centric strategies are more likely to enhance organizational creativity and foster sustainable growth. Moreover, sustainable development can be achieved when firms manage long-term customer relationships and maintain a strong customer focus, thereby strengthening relational ties. Such knowledge enables firms to identify, assimilate, and utilize information from both external and internal sources to support and streamline operational activities (Jeng, 2018).

This study aims to develop a conceptual model for managing customer orientation to enhance the performance of banking institutions by incorporating internal resource integration as an intervening variable. Internal resource integration serves as a mediating mechanism that links the independent variable (customer orientation) to the dependent variable (firm performance). This variable is introduced to address the key questions that emerge from the identified research gap. To validate the proposed model, this study focuses on Islamic microfinance institutions (IMFIs), savings and loan cooperatives, and other sharia-compliant financing institutions operating in Semarang Regency. These institutions are selected due to their distinct characteristics—namely, their personalized and informal approach to customer relationships (Pousa & Mathieu, 2014) and their emphasis on employee and community engagement in organizational development. According to data from Badan Pusat Statistik (BPS), in 2024, there were 11 Islamic savings and loan cooperatives out of a total of 34 such institutions in Semarang Regency, serving a combined membership of 46,237 individuals.

RESEARCH METHODS

This study employs a quantitative research approach involving 135 managers of Sharia Microfinance Institutions (IMFIs) in Semarang Regency, Central Java. A purposive sampling technique was applied, with the inclusion criteria being that respondents must serve as managers or branch heads of IMFIs operating in the Semarang district. Semarang was selected as the research site due to its relatively high concentration of Islamic microfinance institutions compared to other regions.

Data were collected using a structured questionnaire designed with an interval scale ranging from 1 to 10, allowing respondents to express their level of agreement from "strongly disagree" to "strongly agree" (Ferdinand, 2006). The questionnaire was distributed using two methods: first, via WhatsApp in soft file format; and second, in printed form delivered directly to respondents. WhatsApp was chosen due to its accessibility, flexibility in completion time, and ease of use, which supports a more gradual and thoughtful response process.

To minimize response bias, the researchers ensured that all selected respondents were managers or key administrators of IMFIs. A total of 137

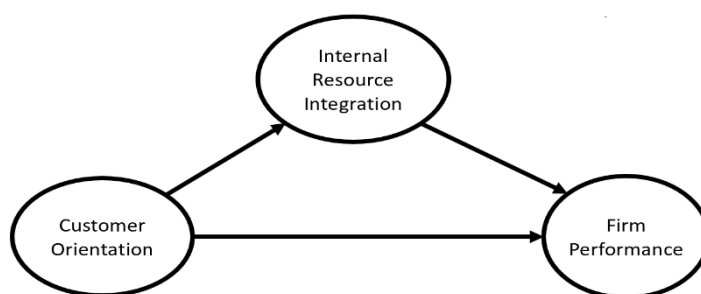
questionnaires were distributed, with 117 returned. After data screening, 100 questionnaires met the criteria for further analysis. The final dataset was processed using the SmartPLS software.

This study is grounded in the Resource-Based Theory (RBT), which views a firm as a collection of tangible and intangible resources that can generate competitive advantage when properly managed (Barney, 2000). According to this theory, firms that are able to organize and integrate their resources effectively will achieve superior performance compared to competitors (Kozlenkova, Samaha, & Palmatier, 2014; Rehman, Ashfaq, Bresciani, Giacosa, & Mueller, 2023). Within the context of Islamic microfinance institutions, customer orientation is considered as one of the key intangible resources, while internal resource integration functions as a capability that enables firms to align, coordinate, and maximize these resources (Muhammad Luthfi & Faqih, 2023).

The conceptual framework of this study suggests that customer orientation, as a strategic approach focusing on understanding and fulfilling customer needs, has the potential to directly enhance firm performance (Fatonah, Haryono, & Sari, 2021). At the same time, customer orientation is expected to strengthen internal resource integration, as firms that prioritize customer satisfaction are likely to improve collaboration, knowledge sharing, and internal alignment. Furthermore, internal resource integration itself is assumed to positively influence firm performance, since organizations that can coordinate and utilize their resources effectively will be better positioned to respond to challenges and deliver value (Alfalla-Luque, Marin-Garcia, & Medina-Lopez, 2015; Nabhan & Munajat, 2023; Rini & Kusumawardhani, 2024). Finally, internal resource integration is hypothesized to act as a mediating variable that links customer orientation with firm performance (Ghlichlee & Bayat, 2021). In this perspective, customer orientation drives integration across organizational resources, which in turn amplifies the impact on performance outcomes.

Building on the preceding theoretical discussion, this study introduces the concept of internal resource integration as a mediating mechanism. This construct is posited to bridge the influence of customer orientation on firm performance by enhancing the alignment and utilization of organizational resources. Accordingly, the following research model is proposed.

Figure 1. Research Model



Drawing upon the theoretical foundations and prior empirical evidence, this study advances several hypotheses. First, customer orientation is expected to exert a positive influence on firm performance. Firms that embed customer-centric perspectives into their strategic and operational decision-making processes are more capable of identifying and anticipating customer needs, delivering superior service quality, and ensuring sustained customer satisfaction, which collectively enhance overall performance (Eren, 2021; Ghlichlee & Bayat, 2021; Lee & Wei, 2023; Varadarajan, 2020; Woehler & Ernst, 2023). Accordingly, the first hypothesis posits that customer orientation positively affects firm performance.

Second, customer orientation is also anticipated to strengthen internal resource integration (Muafi, 2020). Organizations that prioritize customer satisfaction are more likely to cultivate stronger collaboration, facilitate more effective knowledge sharing, and achieve greater alignment among internal resources. Such integration enables firms to adapt more dynamically to evolving customer demands and market fluctuations. Therefore, the second hypothesis asserts that customer orientation positively influences internal resource integration.

Third, internal resource integration is predicted to have a direct positive impact on firm performance. Effective resource integration fosters employee collaboration, encourages the exchange of knowledge, and supports collective problem-solving, thereby enhancing organizational capabilities and enabling superior performance outcomes (Thoumrungroje & Racela, 2022). Hence, the third hypothesis proposes that internal resource integration positively affects firm performance.

Finally, internal resource integration is expected to function as a mediating mechanism in the relationship between customer orientation and firm performance. In this capacity, customer orientation fosters greater internal integration, which subsequently amplifies its effect on organizational performance. Therefore, the fourth hypothesis contends that internal resource integration mediates the relationship between customer orientation and firm performance.

RESULTS AND DISCUSSION

Results

Based on the descriptive analysis of respondent characteristics, the data indicate that the sample was predominantly male (56%), with females comprising the remaining 44%. In terms of age distribution, the largest proportion of respondents (49%) were over 40 years old. Regarding educational background, the majority held a Bachelor's degree (58%), followed by high school or vocational school graduates (29%), Associate degree holders (9%), and Master's degree holders (4%). In terms of length of service, most respondents (32%) had more than 10 years of work experience.

Based on the convergent validity test, all instruments employed in this study were confirmed to be valid indicators for measuring latent constructs. Convergent

validity was assessed using factor loadings, with a threshold value of > 0.70 . As presented in Table 1, all loading factor values exceed this threshold. The following are the results of the data analysis conducted by the researcher.

Tabel 1. Outer Loading

Indicators	Customer Orientation	Internal Resource Integration	Firm Performance
Identifying consumer needs	0.870	-	-
Ensuring service quality	0.880	-	-
Emphasizing customer service quality	0.861	-	-
Assess customer satisfaction	0.889	-	-
Providing a means to receive customer complaints	0.821	-	-
Sharing knowledge	-	0.897	-
Internal collaboration	-	0.928	-
Teamwork and Solidarity	-	0.916	-
Increase in Customer Numbers	-	-	0.902
Increase in Savings Accumulation	-	-	0.943
Increase in Fund Distribution	-	-	0.920

Source: Results of Data Processing

The reliability assessment is presented in Table 2, which displays the results of the composite reliability test. Composite reliability is employed to evaluate the internal consistency of indicators within a construct, with a threshold value of >0.70 indicating acceptable reliability.

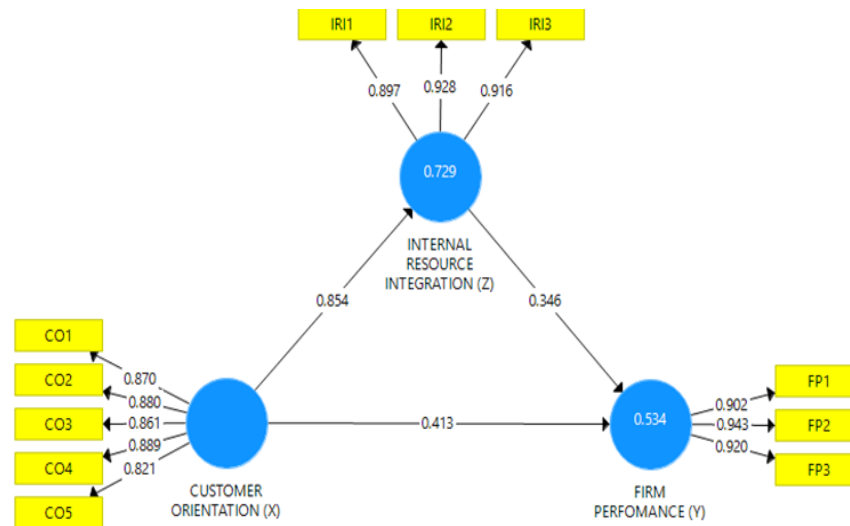
Table 2. Results of the Composite Reliability Test

Variable	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Customer Orientation	0.915	0.916	0.937	0.747
Firm Performance	0.911	0.912	0.944	0.850
Internal Resource Integration	0.901	0.904	0.938	0.835

Source: Results of Data Processing

A variable is considered valid if its composite reliability value exceeds 0.70 (Hair, 2009). The results presented in Tables 1 and 2 indicate that all proposed variables meet the established validity and reliability criteria. Consequently, the analysis can proceed to the subsequent model evaluation stage.

Figure 2. Model Algorithm



Source: Developed for this research

Based on the discriminant validity test using cross-loading parameters, the results confirm that each indicator satisfies the required discriminant validity standards. This is evidenced by each indicator's construct loading being greater than its loadings on other constructs, as well as by loading factor values exceeding the 0.70 threshold, indicating that the indicators are valid. The results of the author's data analysis are presented as follows.

Table 3. Discriminant Validity Test Results Based on Cross-Loading Parameters

Indicators	Customer Orientation	Internal Resource Integration	Firm Performance
Identifying customer needs	0.870	0.612	0.704
Paying attention to service quality	0.880	0.631	0.725
Prioritizing customer service	0.861	0.627	0.747
Evaluating customer satisfaction levels	0.889	0.667	0.742
Providing channels for customer complaints	0.821	0.518	0.772
Sharing knowledge	0.631	0.897	0.585
Fostering internal collaboration	0.634	0.928	0.651
Promoting teamwork solidarity	0.691	0.916	0.674
Increasing the number of customers	0.631	0.637	0.902
Increasing accumulated savings funds	0.634	0.659	0.943

Increasing fund distribution amounts	0.691	0.636	0.920
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Source: Results of Data Processing

Based on the discriminant validity assessment using the Fornell–Larcker criterion, the results, as presented in Table 4, indicate that all three variables in this study meet the required standards. This conclusion is drawn from the Fornell–Larcker evaluation, which serves to ensure that the variables are theoretically distinct and empirically validated through statistical testing. According to the Fornell–Larcker criterion, the square root of the Average Variance Extracted (AVE) for each construct must exceed its correlations with other constructs (Hair, 2009). The empirical results confirm that the AVE values for all variables are greater than their respective inter-construct correlations.

Table 4. Discriminant Validity Test Results using Fornell-Larcker Criterion

Latent Variable	Customer Orientation	Firm Performance	Internal Resource Integration
Customer Orientation	0.864	-	-
Firm Performance	0.708	0.922	-
Internal Resource Integration	0.854	0.698	0.914

Source: Results of Data Processing

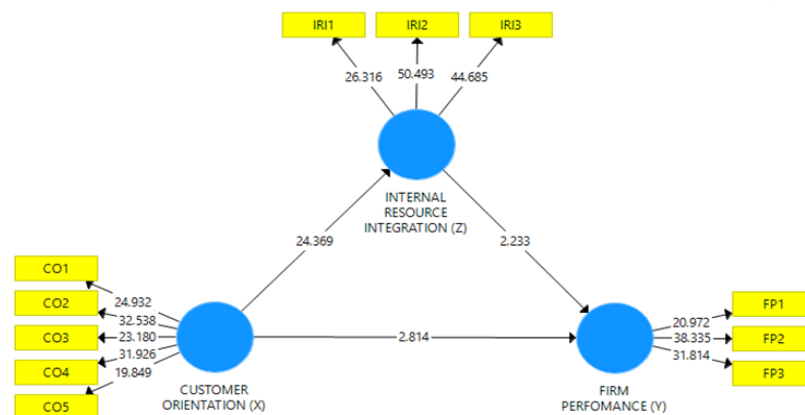
Structural model evaluation (inner model) pertains to hypothesis testing regarding the relationships among research variables. The evaluation is conducted in three stages. First, multicollinearity among variables is assessed using the inner VIF (Variance Inflation Factor), with acceptable values being below 5. Second, the significance of hypothesized relationships is tested by examining the *t*-statistic or *p*-value. A *t*-statistic greater than 1.96 or a *p*-value less than 0.05 indicates a statistically significant relationship between variables. Third, the *f*-square value is analyzed to determine the effect size of direct relationships within the structural model, where an *f*-square value of 0.02 is considered small, 0.15 medium, and 0.35 large (Hair, 2009).

The collinearity statistic (VIF) test in the inner model is employed to assess the presence of multicollinearity among variables. The measurement results indicate that the inner VIF value of 3.687 falls below the critical threshold of 5 (<5), suggesting a low degree of multicollinearity. This finding reinforces the robustness of the parameter estimation results within the SEM-PLS framework.

The R-square statistical test quantifies the proportion of variance in the dependent variable that can be explained by the independent variable(s). The R-square value for the effect of customer orientation on firm performance is 0.534,

indicating a moderate level of explanatory power. This suggests that more than half of the variance in firm performance can be reasonably attributed to customer orientation. Meanwhile, the R-square value for the effect of customer orientation on internal resource integration is 0.729, representing a strong explanatory power. This finding implies that most of the variance in internal resource integration can be attributed to customer orientation, with only a minor portion influenced by other factors. Overall, these results provide robust empirical support for the proposed research model, affirming its validity and credibility for further analysis. The model's strong statistical fit enhances its applicability as a reliable reference for strategic decision-making.

Figure 3. Results of Measurement Model Evaluation



Source: Developed for this research

The significance of the hypotheses was assessed using the bootstrapping technique. This procedure evaluates the path coefficients through statistical testing. A p-value less than 0.05 and a t-statistic greater than 1.96 indicate that the construct is statistically significant, thereby supporting the acceptance of the hypothesis.

Table 5. Path Coefficient Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistics (O/STDEV)	p-Values
Customer Orientation→Firm Performance	0.413	0.432	0.147	2.814	0.005
Customer Orientation→Internal Resource Integration	0.854	0.854	0.035	24.369	0.000
Internal Resource Integration→Firm Performance	0.346	0.347	0.155	2.233	0.026

Customer Orientation→Internal Resource Integration→Firm Performance	0.296	0.295	0.130	2.272	0.024
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Source: Results of Data Processing

Based on the hypothesis testing results obtained through bootstrapping with the path coefficient parameter, the following conclusions can be drawn. First, customer orientation exerts a positive and statistically significant influence on firm performance. This is evidenced by a p-value of 0.005 (< 0.05) and a t-statistic of 2.814 (> 1.96), indicating a statistically significant relationship. The path coefficient of 0.413 further confirms the positive direction of this relationship. Second, customer orientation has a positive and significant effect on internal resource integration, as indicated by a p-value of 0.000 (< 0.05) and a t-statistic of 24.369 (> 1.96). The corresponding path coefficient of 0.854 reflects the strong positive association between the two constructs. Third, internal resource integration positively and significantly affects firm performance, supported by a p-value of 0.026 (< 0.05) and a t-statistic of 2.233 (> 1.96), with a path coefficient of 0.346 indicating a positive directional effect.

Furthermore, the mediation analysis results, presented in Table 8 and obtained through bootstrapping with specific indirect effect parameters, reveal that customer orientation influences firm performance positively and significantly through internal resource integration. This is supported by a p-value of 0.024 (< 0.05) and a t-statistic of 2.272 (> 1.96), confirming the presence of a statistically significant indirect effect.

Discussion

Customer Orientation and Firm Performance

Hypothesis testing results indicate that the first hypothesis, which examines the effect of customer orientation on firm performance, yields an original sample (path coefficient) of 0.413, signifying a positive directional relationship, with a p-value of 0.005 indicating statistical significance. Accordingly, customer orientation is found to have a positive and significant association with firm performance, leading to the acceptance of H1.

This finding can be interpreted from several perspectives. First, Islamic microfinance institutions (IMFIs) have demonstrated the ability to understand customer needs comprehensively, prioritize service quality, and maintain close attention to delivering satisfactory services. Adopting a customer-oriented approach enables IMFIs to gather relevant information regarding the services required and desired by their members, including savings, financing, and other related products. Such information allows IMFIs to enhance their performance, as reflected in the

annual growth of member savings and the increased variety of financing products offered (Varadarajan, 2020).

Second, the availability of mechanisms for receiving member feedback—such as satisfaction ratings and complaints—encourages IMFI to improve their performance. This improvement is evident in the consistent annual growth in membership (Eren, 2021).

Overall, these findings align with the results of (Abbu & Gopalakrishna, 2021) who reported a positive and significant relationship between customer orientation and firm performance.

Customer Orientation and Internal Resource Integration

The results of the second hypothesis test, examining the effect of customer orientation on internal resource integration, reveal a path coefficient of 0.856, indicating a positive directional relationship, with a p-value of 0.000 confirming statistical significance. Accordingly, customer orientation is found to have a positive and significant association with internal resource integration, leading to the acceptance of H2.

This finding can be interpreted from several strategic perspectives. First, managers of Islamic microfinance institutions (IMFIs) recognize the strategic importance of potential customers in enhancing long-term organizational performance. IMFIs actively seek to identify customer needs and preferences by acquiring high-quality and relevant information, enabling them to meet member requirements effectively (Domi et al., 2020).

Second, IMFIs demonstrate a strong commitment to customer focus and service prioritization. Such an approach has substantial potential to strengthen the perception that IMFIs are reliable collaborative partners, making customers their primary strategic priority (Markovic et al., 2020). Third, customer-oriented IMFIs regularly assess member satisfaction and address complaints through collaboration, as well as through knowledge and experience sharing among employees (Kuo et al., 2021).

Overall, these findings align with the results of (Sa et al., 2020), which indicate that customer orientation can stimulate firms to optimize internal resource integration.

Internal Resource Integration and Firm Performance

The results of the third hypothesis test, assessing the effect of internal resource integration on firm performance, yield a path coefficient of 0.346, indicating a positive directional relationship, with a p-value of 0.026 confirming statistical significance. Therefore, internal resource integration is found to have a significant positive effect on firm performance, leading to the acceptance of H3.

The findings of this study provide several new insights. First, managers recognize the strategic importance of collaboration among employees, as such collaboration can enhance overall organizational performance. Cooperation and knowledge sharing between employees positively influence both individual and organizational performance (Zhao, Jiang, Peng, & Hong, 2021). In the context of Islamic microfinance institutions, managers who actively collaborate with employees are better equipped to address ongoing external challenges and organizational issues, enabling the company to identify optimal solutions, minimize risks, and achieve its strategic targets more efficiently. These collaborative practices ultimately contribute to improved firm performance.

Overall, the results of this study are consistent with the findings of (Amoako, Huai Sheng, Dogbe, & Pomegbe, 2022) which indicate that internal resource integration has a positive and significant effect on firm performance.

Internal Resource Integration, Customer Orientation, and Firm Performance

The results of the fourth hypothesis test, examining the effect of customer orientation on firm performance through the mediation of internal resource integration, yield an original sample (path coefficient) of 0.296, indicating a positive directional relationship. A p-value of 0.024 confirms statistical significance, suggesting that internal resource integration plays a significant mediating role in leveraging customer orientation to enhance firm performance. Therefore, hypothesis four is accepted.

The findings can be synthesized into several key insights. To enhance performance, Islamic microfinance institutions (IMFIs) may adopt one of two strategic approaches. First, they can prioritize strengthening customer orientation, which can directly improve firm performance (Amoako et al., 2022; Zhao et al., 2021). Alternatively, IMFIs may focus on advancing customer orientation and subsequently integrating the firm's internal resources, thereby achieving greater performance gains (Eren, 2021). High levels of solidarity and effective collaboration among employees can mitigate negative conflicts that may hinder performance attainment. Overall, the results indicate that customer orientation exerts a positive and significant influence on firm performance, with internal resource integration serving as a mediating mechanism.

CONCLUSION

This study provides empirical evidence that internal resource integration effectively accelerates improvements in firm performance. From the perspective of Resource-Based Theory (RBT), a firm is conceptualized as a bundle of tangible and intangible assets which, when managed effectively, constitute strategic assets capable of generating added value for the organization. Building on this theoretical foundation, the present study reinforces the RBT proposition that internal resources, as integral components of a firm's asset portfolio, can exert a substantial influence

on the attainment of superior performance outcomes. Such outcomes can be realized through the effective integration and alignment of the firm's internal resources.

Customer orientation enhances both firm performance and the integration of internal resources among IMFIs managers in Semarang Regency. Moreover, higher levels of internal resource integration significantly strengthen firm performance in this context. The findings also indicate that internal resource integration serves as a mediating mechanism in the relationship between customer orientation and firm performance among IMFIs managers in Semarang Regency. Future research could extend these insights by incorporating additional variables, broadening the scope of research objects, and increasing sample size to yield more robust and generalizable results, thereby contributing to the development of more rigorous empirical evidence.

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