

The Influence of Market Orientation on Business Performance of Micro, Small, and Medium Enterprises Through Innovativeness

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ABSTRACT

The new era affects the world of industry and business, including small and medium companies such as Micro, Small, and Medium Enterprises (MSMEs). MSMEs have a strategic and significant role in the economy and then contributed to increasing foreign exchanges through export-import activities. However, MSMEs in Indonesia are facing various problems such as limited modality, low-quality human resources, mastery of science and technology, and the dependence of the domestic industry on imported raw materials. They reduce the purchasing power and slow industrial growth in Indonesia. Therefore, this study conducts to find out the influence orientation market on the performance of MSMEs in Payakumbuh. This study used quantitative methods and data collection by distributing questionnaires. The unit of analysis in this study is traditional crackers (Kerupuk) from Indonesia MSMEs while the observation unit is the owner or manager. The population of the study was 285 MSMEs owners or managers. The results of this research found that the orientation market has a significant effect on business performance and innovation Kerupuk MSMEs in Payakumbuh. Innovation also has a significant effect on MSME's Performance. However, innovation has shown no effect between the orientation market and business.

Keywords: Market orientation, business performance, innovation, MSMEs

INTRODUCTION

The development of technology is increasing rapidly. This trend makes the industry also more advanced, including small and medium companies. Small and medium enterprises (MSMEs) are the business group with the most significant number in the Indonesian economy. One indicator of economic success is influenced by the small and medium enterprise performance sector (Indonesian Economic Report, 2016). Data from the Statistics Department (2015) shows that Indonesia has 57.9 million small and medium enterprises and contributes 58.9% of GDP

(Gross Domestic Product) and absorbs up to 90% of the workforce and makes Indonesia the country with the most businesses in the micro, small and medium industrial sector in Southeast Asia.

MSMEs have a strategic and significant role in the economy; seen during the 1998 monetary crisis, MSMEs became the leader of the economy. MSMEs also contribute to the country's foreign exchange with export receipts of 27,700 billion, creating a 4.86% role in total exports (BPS, 2015). Based on information from the results of the 2016 census conducted by BPS, MSMEs in Indonesia face various problems. Some MSMEs experience slow growth, limited raw materials, limited capital, low-quality human resources, and minimal mastery of science and technology (BPS, 2016). The domestic industry import dependent on raw materials will be a threat, affecting unstable global economic conditions, which result in expensive raw material prices, affecting price policy and the level of profit earned (Ministry of Industry, 2016). The declining purchasing of export destination countries has resulted in slow industrial growth in Indonesia.

One of the critical factors in a business is marketing. Marketing's role in explaining a company's business performance has received significant attention in the history of the marketing discipline. A business integrated with marketing is a performance business (Morgans, 2012). Performance is the result of activities; it includes the actual outcomes of the strategic management process and the practice of strategic management in terms of its ability to improve organizational performance (Jhonson et al., 2009). Agha et al., (2012) stated that MSME performance can be seen from growth and profitability.

Business performance can be enhanced by market-oriented behaviour and can lead to the development of various competitive strategies (Ketchen et al., 2007). According to Barney (1991) A superior business can be created by developing the capabilities of the resources. Widiastuti and Santoso (2012) reiterated that market orientation is the company's willingness to implement a market orientation culture in its organization; this is useful for creating the behaviour needed to create superior value for buyers and performance for the company. Suliyanto and Rahab (2012) stated that MSMEs need to learn about the market or carry out market orientation *because* it will affect the ability to innovate as a source of competitive advantage, significantly increasing business performance.

Management business is needed to keep business performance so that effective and efficient in managing source power. Therefore, an innovative effort is needed to maintain the business. The empowerment of MSMEs in globalization and high competition demands that they be responsive and careful in responding to these challenges. Some solutions include product or service innovation, human resources and technology development, and expansion of marketing areas (Salman, 2015). The key to maintaining it is to exchange knowledge and innovative products (Christa, 2021). Jhonson, Dibrell, and Hansen (2009) added that innovative products are believed to reach a better market, so the company has improved functional products that are better than competitors because these products will have an advantage or added value for consumers.

West Sumatra is one of Indonesia's provinces with various types of MSMEs. The MSME sector has long contributed to the economy of West Sumatra. The number of MSMEs in West Sumatra

experienced enhancement every year on business micro; in 2013 was 57,987, which increased become 63,409 in 2015. However, small enterprises experienced a decline from 8007 in 2013 to 4,288 units in 2015.

West Sumatra Province divides MSMEs into micro and small businesses, while medium businesses are combined into the large business category. From the MSME data, many MSMEs are competing in West Sumatra Province. These MSMEs are spread over seven cities and 12 regencies in West Sumatra Province. Each region has a superior product so that it will be unique to a region to advance its economy.

Payakumbuh has various types of excellent products produced by MSMEs. Based on MSME category data in Payakumbuh, MSMEs are divided into two categories, namely the agro and forestry industries, which have more categories, and the business capital to open this type of industry is relatively inexpensive (KOPERINDAG, 2016). namely, there were 36 types of businesses recorded, while in the metal, machine, chemical, and miscellaneous industries, only 28 types of businesses were recorded. Agro and forestry industries are expected to continue to grow and offer various products that will ultimately support the development of Payakumbuh. KOPERINDAG has noted that at least 4 MSME units are added every week, the most significant addition in the food sector.

The food sector does have its benefits because consumer demand continues to grow, so it will continue to have new opportunities. In addition, various innovations can be developed in the food sector; production costs are relatively cheap. This phenomenon makes new MSMEs appear, or MSMEs that develop existing products.

The top 4 types of MSMEs in the food sector have contributed to Payakumbuh. Payakumbuh is famous for its various products, such as *Randang Talua*, *galamai*, *Randang Bareh*, and *Batiah*. However, the *Kerupuk* (a traditional cracker from Indonesia) industry has the biggest contribution. Payakumbuh has various types of *Kerupuk*, such as *batiah*, *kipang*, *rakik*, *Kerupuk ubi*, *Kerupuk pisang*, *karak Kaling*, various *sanjai* and others. The many types of *Kerupuk* have fueled the growth of the *Kerupuk* industry in Payakumbuh, where 285 business units produce *Kerupuk*. There is a production value of Rp. 5,904,649,000 indicate that the *Kerupuk* industry has potential and must be developed to improve.

Consumer intention needs to be known and studied. This can be estimated from the type of innovation carried out, such as making attractive packaging and unique product variants and implementing online buying and selling to generate added value. In addition, it is also necessary to pay attention to the orientation of competitors so that possible future threats can be overcome and affect price policy (Leal-Rodriguez & Albort-Morant, 2016). *Kerupuk* SMSEs in Payakumbuh should be able to take advantage of opportunities and improve performance.

Based on this background problem, this research is crucial to be studied on the influence of market orientation on Micro, small, and medium enterprises (MSMEs) Performance through Innovativeness.

LITERATURE REVIEW

Market Orientation

A company needs to approach the market and make business decisions based on actual market conditions. This is called market orientation. Market orientation is information related to markets and changes in consumer behavior due to economic changes that affect consumer needs (Li et al., 2018). According to Montiel et al. (2018), market orientation is knowledge and intelligence relevant to the market and consumer needs that encourages organizations to make changes interactively and exclusively as a resource to effectiveness and then encourage organizational innovation in creating products based on consumer needs. The ability to analyze the market to drive innovation is necessary to sustain the business so that the organization can be sustainable and improve the market with a proactive market orientation (Al-Henzab et al., 2018).

Widiastuti and Santoso (2012) state that market orientation is a company's willingness to implement a market-oriented culture. This is useful for creating the behaviour needed to create superior value for customers and superior performance for the company, and the three dimensions of market orientation are a unit that will increase the company's resistance to competitors while increasing customer satisfaction. Companies that have made market orientation an organizational culture will be based on external basic needs wants, and market demand to develop strategies for each business unit in the organization and determine the company's success (Setyawati, 2013). In addition, market orientation is needed to see the business context in the relationship process to improve business performance by adapting to changing consumer needs and the market economy (Curado et al., 2018).

Market orientation is an organizational perspective that drives three main aspects, namely

1. Systematic market intelligence gathering efforts with the primary sources of customers and competitors;
2. Deployment of market intelligence to all units or departments in the organization;
3. Coordinated and comprehensive organizational response to market intelligence.

Market orientation will help companies ensure better performance as top executives know customer needs and competitors' strategies and are motivated to give the best for customer satisfaction (Kaur & Mantok, 2015). Jhonson et al., (2009) revealed that market orientation has consideration in the literature over the last two decades; much work has focused on the impact of market orientation on firm performance on firm performance.

Business performance from several studies has increased significantly from market orientation to synergising with environmental changes and monitoring market needs and consumers. However, several studies state that market orientation has little to business performance (Kocak et al., 2017).

Three components of market orientation can be developed: consumer orientation, an organizational culture that continuously seeks information about consumer needs and wants and tries to fulfil them. Furthermore, competitor orientation is a corporate culture that constantly seeks information about the strategies and products offered by competitors to be superior to the competition. Finally, inter-functional coordination is demonstrated by

disseminating market information to organizational members and HR involvement in marketing activities and new product development (Widiastuti & Santoso, 2012).

Suliyanto and Rahab (2012) state indicators for measuring market orientation variables, namely creating products value, understanding consumer needs, providing after-sales service, providing customer satisfaction, assessing customer satisfaction level, information about competitors, responding to competitors' actions, responding to strategies that applied by competitors, setting targets to increase competitiveness, coordinating between parts of the company, sharing information between parts, cooperation between divisions, and participating in creating added value.

- H1: Market orientation has a positive and significant effect on business performance
- H2: Market orientation has a positive and significant effect on innovation

Innovation

The current paradigm of consumer needs and purchasing requires people in business to be supported by information, relevant knowledge, and innovation to synergize in improving business performance (Anwar, 2018). According to Mejri et al. (2018), relevant knowledge and product innovation activities can improve business performance. Suliyanto and Rahab (2012) stated that innovativeness is a change that occurs within an organization. This is adapting to environmental changes or as an effort to anticipate environmental influences, achieve a competitive advantage, and improve company performance.

Gozali and Nugraha (2015) stated that innovation is a company or a person that makes money from creativity. By innovating, companies can face competitors, and innovation challenges are significant for the business world in line with increasing competition and consumer demands. Product innovation (PI) is an effort made by people in business who produce products to improve, enhance and develop the products produced to become superior products (Jeong et al., 2019). Products that are developed in product form, with innovation in line with developments by applying science and technology to a product. This product innovation can occur due to several things, including the economics of customers that affect needs, a combination of modes and needs, and reasonable prices (Falahat et al., 2020).

In carrying out innovation, paying attention to principles such as analyzing opportunities, what to do to satisfy opportunities, simple and directed, starting from small things, and leadership is necessary. Innovation is an essential factor in the business world. Some of the reasons that are used as the basis for the importance of innovation are that technology changes quickly along with new products, processes, and services from competitors, encouraging entrepreneurial businesses to compete and succeed. The important action is adjusted with new technological innovations. The following reason is that the effect of environmental changes on product life cycles is getting shorter, which means that old products or services must be replaced with new ones in a short time, and this can happen because there is creative thinking that gives rise to innovation. In addition, now today's consumers are more intelligent and demand fulfilment. Expectations in demand fulfilment expect more quality, renewal, and price. Therefore, innovative skills are needed to satisfy consumer needs while retaining consumers as customers. Markets and technologies are changing fast, and good ideas are becoming more accessible to copying, and this requires new and better methods of using products, processes, and services

that are continuously faster. Innovation can lead to faster growth, increase market segmentation, and create better corporate position.

In their study, Widiastuti and Santoso (2012) used several measurements for innovation variables, namely design innovation, different products, and product cost innovation. Meanwhile, Salman (2015) has a different measurement, namely 1). There are several line extensions (products that are new to your organization but new to your market); 2). Several product bandwagons (products new to your organization but not new to your market); 3). Some new-to-the-world products (products new to your organization and new to your market). Wicaksono and Nuvriasari (2012) proposed two conceptions of innovation: innovativeness is a mind open to new ideas as a corporate culture. The second, the capacity to innovate, is the company's ability to successfully use or implement new ideas, processes, or products.

Product innovation can be categorized more concisely into three categories (Lukas and Ferrell, 2000 quoted from Puspitasari, 2015), namely 1). Product extensions (line extensions) are products that are still familiar to business organizations but new to the market; 2). Product imitation (me-too products) is a product that is considered new by the business but is familiar to the market; 3). New products (new-to-the-world products), new products are products that are considered new both by businesses and by companies.

This study uses indicators to measure innovation variables developed by Sulyanto and Rahab (2012), namely releasing products every year, looking for new ways to run a business, trying to find new ideas, trying to be the first to market products, and implementing innovation too risky.

- H3: Innovation has a positive and significant effect on MSME business performance.

Business Performance

Every company has a goal that can improve company performance. This is an important area and is always considered because it relates to the company's sustainability. Performance is a continuous and flexible process that involves managers and human resources as a unit or team within a framework that determines how they can coordinate to achieve goals (Armstrong, 2006).

Wicaksono and Nuvriasari (2012) argue that business performance is a function of the results of existing activities within a company that are influenced by internal and external factors in achieving the goals set for a specific time. Some function activities related to organizational performance include corporate strategy, marketing, operations, finance, and human resources. Prakosa (2005) added that company performance is a measure of the success of a company that is measured every predetermined period, these results can be referred to as the value of each activity that has been prepared and implemented to be able to identify whether the strategy made, and its implementation is fixed or not.

Salyova (2015) argues that performance measurement can be done by looking at it from a financial and non-financial perspective. The two measurements have different ways of analyzing them. Wicaksono and Nuvriasari (2012) stated that organisational performance is generally measured by one or more measurements, namely 1). New product performance; 2). Profitability; 3). Market share; 4). Overall final organizational performance (profitability, sales,

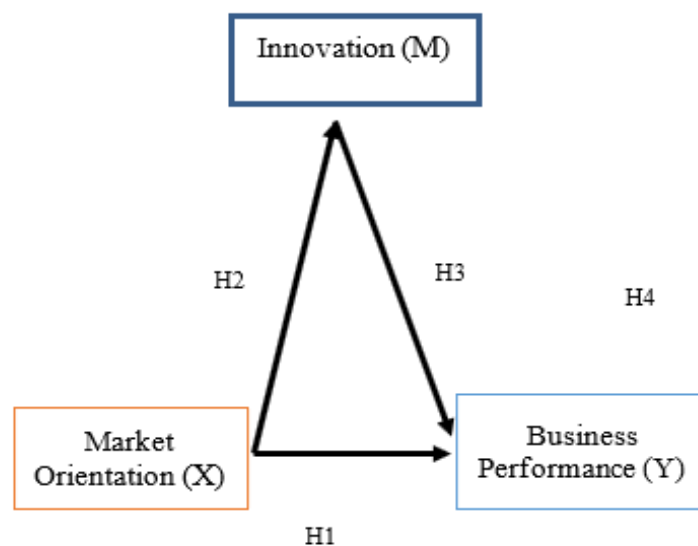
sales growth, Return on Investment [ROI], new product success, market share); 5). Overall organizational performance (customer satisfaction, employee satisfaction, customer retention, customer service, perceived product quality).

Meanwhile, according to Suliyanto and Rahab (2012), performance can be measured using indicators, namely 1). Reach a broader market; 2). Increased sales; 3). Profits increase; 4). Consumer complaints decreased; 5). Employee recruitment; 6). Increasing consumers' number.

- H4: Effect of Market Orientation on MSME Business Performance Through Innovation.

Research Framework

A research framework between the independent and dependent variables is illustrated in Fig.1



RESEARCH METHODS

Research Design

This study used explanatory research, namely research that is used to determine whether there is an influence of a variable in a particular situation (Sekaran, 2015). The type of investigation used is causal, where the researcher wants to know that the independent variable (free) affects the dependent variable (tied). This research used quantitative methods. The quantitative method is research that can be counted using statistical methods (Sekaran, 2015). Data collection is done by distributing questionnaires. This study uses a cross-sectional time horizon study conducted with data collected only once (Sekaran, 2015). The data collection was carried out in 2017.

Data Collection

The population in this study is 285 *Kerupuk MSME* Payakumbuh. At the same time, the object of research is the owner and manager of *Kerupuk MSME*. This study used a probability sampling method because the probability of a population element being selected as a sample subject can be known (Sekaran, 2015). The unit of analysis in this study was *Kerupuk MSME* in

Payakumbuh, while the observation unit was the owner or manager of *Kerupuk* MSME in Payakumbuh.

To determine the number of samples in this study will use the Slovin sampling formula:

$$n = N / 1 + N(e)^2$$

So,

$$\begin{aligned} n &= 285 / 1 + 285 (0.05)^2 \\ &= 166.4 \Rightarrow 167 \text{ Respondents} \end{aligned}$$

So based on the Slovin formula, the number of samples used in this study is 167 respondents. To stratify the distribution of the questionnaire, it will be adjusted to the Payakumbuh District, which has the largest number of *Kerupuk* MSMEs. Payakumbuh has five districts: West Payakumbuh District, East Payakumbuh District, North Payakumbuh District, South Payakumbuh District, and Latina (Lampasi Tiga Nagari). The West Payakumbuh District is a centre for snacks; more distribution will be carried out in the West Payakumbuh District.

Data Analysis and Findings

Description of Respondent Characteristics:

The characteristics of the respondents or some information about the respondents from the owner or manager of MSME *Kerupuk* in Payakumbuh, there are 10 question items, where 1 item is the name of the business owner or manager presented in Table 1.

Table 1: Characteristics of Respondents

No	Characteristics	Description	Frequency	Percentage
1	Age	a. 16-25	14	8.4%
		b. 26-35	39	23.4%
		c. 36-45	59	35.3%
		d. >45	55	32.9%
2	Gender	a. Man	56	33.5%
		b. Woman	111	66.5%
3	Marital status	a. Married	152	91%
		b. Not married yet	15	9%
4	Education	a. Not completed in primary school	4	2.4%
		b. Elementary school	4	2.4%
		c. Junior high school	14	8.4%
		d. Senior high school	117	70.1%
		e. Diploma	8	4.8%
		f. Bachelor	18	10.8%
		g. Postgraduate	2	1.2%
5	Profession Before Entering This Business	a. Student	24	14.4%
		b. Employees in companies that have the same business	12	7.2%
		c. Employees in companies that have different businesses.	6	3.6%
		d. other business owners with the same line of business	12	7.2%

		e. Another business owner with a different business	8	4.8%
		f. Professional	5	3%
		g. Other	100	59.9%
6	Position Within the Company	a. Owner	133	79.6%
		b. Manager	34	20.4%
7	Have You Ever Received an Award as An Entrepreneur	a. Yes	20	12%
		b. No	147	88%
8	Have You Ever Attended Training?	a. Yes	107	64.1%
		b. No	60	35.9%
9	Was Ever a Member of the Association	a. Yes	52	31.1%
		b. No	115	68.9%
10	Do You Own Establish a Business	a. Yes	116	69.5%
		b. No	51	30.5%

Source: 2017 Primary Data Processing Results

Table 1 shows that the respondents who owned or managed *Kerupuk* MSME in Payakumbuh were dominated by women with a percentage of 66.5% and men only 33.5%. When viewed from the age of the respondents, the age range of 36-45 years is the highest at 35.3%, and age > 45 years with a number that is not much different at 32.9%. Next is the marital status of the respondents, who stated that the majority had married status. This is in line with most respondents aged over 30 years. Married respondents have a percentage of 91%, while those who are not married are 9%.

For respondents' educational background, most of them graduated from senior high school with 70.1%. The lowest level of education is not graduating from elementary school, and the highest is postgraduate. As for the profession or work before entering this business, there are other options 59.9%. Most of the respondents studied were owners, with a percentage of 79.6%, while the respondents were managers, 20.4%. Respondents who had received an award only had a percentage of 12%, compared to 88% who had never received an award. The award came from the Payakumbuh government, such as the KOPERINDAG department or the provincial and national governments. Several awards also came from BUMN, such as Mandiri Bank, Semen Padang, and BNI. While most respondents had received training related to their business sector, around 64.1%.

Many respondents are not affiliated with an association, 68.9%. Related to the enterprise establishment, founded by the enterprise owner with a percentage of 69.5%. Then 30.5% of respondents did not set up their own company cause of limited financial capital, so they need financial assistance from others.

Description of Business Characteristics:

The number of respondents in Payakumbuh is 167, divided into five districts. 64 *Kerupuk* SMEs, or as much as 38.3%, are in West Payakumbuh District; this District is also the centre of snacks in Payakumbuh. Therefore, there are more *Kerupuk* companies in this sub-district than in other sub-districts in Payakumbuh. At the same time, North Payakumbuh is as much as 21% or as many as 35 MSMEs and Latina 18% or as many as 30 *Kerupuk* MSME producers. East

Payakumbuh District only has 13.2% or 22 the *Kerupuk* company, as well as South Payakumbuh District only has 9.6% or as many 16 *Kerupuk* MSMEs. However, in the East and South Payakumbuh Districts, several *Kerupuk*-producing associations are compact and mutually supportive, which will help the development of *Kerupuk* SMEs in these two districts.

Business Characteristics Based on Total Workforce:

This study uses data regarding business characteristics based on the number of workers as a reference for business grouping based on micro, small, and medium business groups. Based on the classification of the number of small-scale business workers, it has a large portion, namely 50.9% of the total *Kerupuk* MSMEs in Payakumbuh. For the Micro Scale of 38.9% and Medium of 10.2%.

Business Characteristics Based on the Company's Years of Operation:

Based on data, businesses with a long operating period of 1-10 years dominate *Kerupuk* SMEs in Payakumbuh. Companies belonging to the 1-10 long operating period consist of micro and small businesses because they are relatively new companies and are still collecting profits so they can develop. Some companies are classified as medium scale, some have been operating for more than 20 years, and some are less than 20 years old. These businesses have been operating for a long time, accumulating a lot of profits and having a large workforce.

Business Characteristics Based on Marketing Area:

Regarding the marketing area, *Kerupuk* SMEs are still dominated by the local marketing area because some companies still sell their products only in their shops. Also, based on research in the field, some companies sell *Kerupuk* only at traditional markets or outlets around Payakumbuh. However, several companies have a vast market for *Kerupuk* in neighbouring countries, such as Malaysia and Singapore.

Business Characteristics Based on Company Assets:

Based on the characteristics of company assets, many companies have assets of less than IDR 50,000,000. For company assets above 50 million, they usually process their factories and have vehicles to distribute the products, so they can reduce costs which ultimately affect product prices.

Business Characteristics Based on Businesses That Have Received Awards:

The characteristics of the *Kerupuk* MSME business that received an award were only 10.8%, while the other 89.2% had yet to receive an award. The portion that most received awards was medium business scale. Based on research in the field, businesses that have received more awards from both the Government and BUMN are *Kerupuk* SMEs from West Payakumbuh and Latina Districts because, indeed, in these Districts, there are many medium-scale companies.

Characteristics Business Based on Business License Ownership:

The majority of MSME *Kerupuk* in Payakumbuh already have a business license; in other words, MSME *Kerupuk* owners have the awareness to complete a business license. This business license is urgently needed so that the company has halal products as well as toOM; the identification number issued must be included on the packaging.

Business Characteristics Based on Products Sold in Own Stores:

Small companies still sell to traditional markets and cooperating outlets, so 58.1% of MSME *Kerupuk* do not sell in their shops. However, 41.9% of MSMEs already have their shop so that they can sell directly. Based on research in the field, those who sell in their stores also sell to other outlets and can support product sales.

Validity Test

The validity test aims to measure the quality of the instrument used. It shows the validity or validity of an instrument and how well a measure can define a concept (Hair et al., 2010). The instrument is said to be valid if the instrument can measure what is desired and disclose the data studied appropriately. The test results are evaluated based on *the convergent* and *discriminant validity* indicators, which are measured from the *outer loading value* through the algorithm process. *Convergent validity* is assessed based on the correlation (*outer loading*) between the item or indicator score (*component score*) and the construct score.

Convergent validity is highly categorized if the loading value or correlation between the indicator and construct scores is above 0.7 (Ghozali, 2014). However, if the loading score is between 0.5-0.6, the researcher should keep the indicator with the *loading score* if the AVE score and *the commonality of the indicator* are > 0.5. In this study, indicators whose loading is less than 0.6 will be *dropped* on the instrument validity test and then *re-estimated*.

The initial *outer loading* values of the indicators on the variables of business performance (BP), market orientation (MO), and innovation (IN). The data processing results using PLS 2 are shown in Table 4.10 below, producing *outer loading* for each indicator of each variable studied. The results of *the outer loading* values show that several indicators that measure market orientation, innovation, and business performance variables have a *loading value* below 0.6. The *outer loading* value indicates that there are ten invalid indicators as a reflection of the variables, namely MO1 (0.243147), MO2 (0.399708), MO3 (0.412415), MO4 (0.462582), MO5 (0.432982), MO6 (0.495048), MO9 (0.203105), IN4 (0.590296), IN5 (0.117798) and BP4 (0.534672).

The ten invalid indicators will be *dropped* in this study because the *outer loading value* is <0.6, and the AVE score and *communality* are also <0.5. Therefore, variable indicators in *outer loading* that do not meet the requirements are *dropped* and then run again.

Table 2: Outer Loading (after re-estimation)

Indicator	Market Orientation	Innovation	Business Performance
MO7	0.753857		
MO8	0.841643		
MO10	0.662703		
IN1		0.688080	
IN2		0.775859	
IN3		0.725769	
BP1			0.691516
BP2			0.768446
BP3			0.773127
BP5			0.687584

Table 3: AVE (End of re-estimation)

Variable	AVE
Market Orientation	0.571946
Innovation	0.534041
Business Performance	0.534834

Table 2 describes that each indicator has an outer loading value above 0.6 after re-estimation. As for the AVE value in Table 3 after re-estimating twice, the result also fulfils requirements where the AVE value is above 0.5.

Table 4: AVE Quadratic Root with Correlation Values Between Constructs

Construct	BP	IN	MO
BP	0.756		
IN	0.229	0.731	
MO	0.406	0.235	0.731

Source: 2017 Primary Data Processing Results

In Table 4, the comparison values of the AVE root values show that each of these values is greater than the correlation between other variables. Thus, it can be concluded that all latent variables have good *discriminant validity* and *convergent validity*.

Reliability Test

To find out the extent to which the measurement tool has consistent measurement accuracy and precision in current times, a reliability test is carried out. Instrument reliability in this study was measured by two criteria, namely the value of *composite reliability* and *Cronbach's alpha* for each indicator block on the reflective construct. *The rule of thumb is that the composite value must be greater than 0.7, even though 0.6 is still acceptable* (Hair et al., 2010).

The composite reliability of each variable studied can be seen in Table 5. After re-estimating the *composite reliability test*, the results met the requirements where *the composite reliability value* was more than 0.7. Table 6 shows that the values of several variables have a *Cronbach value* below 0.7 but have a high *composite reliability value*. Therefore, the indicators used in this research variable are reliable.

Table 5: Composite Reliability Test

Construct	Composite Reliability
Market Orientation	0.798835
Innovation	0.774267
Business Performance	0.820945

Table 6: Cronbach Alpha Reliability Test

Construct	Cronbach's Alpha
Market Orientation	0.625411
Innovation	0.562009
Business Performance	0.709698

Analysis of Research Results

Analysis of the *inner model or structural model* is carried out to ensure that the structural model built is robust and accurate. Using the bootstrapping function, structural model testing produces significant values of path relationships between latent variables. It will be evaluated using *R-Square* for the dependent construct, *path coefficient values*, or *t-values* for each path to test the significance between constructs in the structural model. Where the *R-Square value* is a *goodness-fit model test*. The *R-Square value* in this study can be seen in Table 7.

Table 7: Square

Construct	R-Square
BP	0.216
IN	0.055

Table 7 shows the testing of the *structural model*, which was carried out by looking at the *R-Square value* which is a *goodness-fit model test*. The table shows the model of the influence of market orientation on business performance giving an *R-square* value of 0.216, which can be interpreted that the variability of the constructs of business performance can be explained by the variability of the market orientation construct of 21.7% while the rest (78.3%) is explained by other variables outside those studied and the model of the effect of market orientation on innovation and business performance gives an *R-square* value of 0.055 which means that the variability of the market orientation constructs that can be explained by the innovation construct is 5.5%, while the rest (94.5%) is explained by other variables outside the study.

Next, testing the *inner model* can be done by looking at the value of *Q-Square (Q²)* or *predictive relevance*. To calculate *Q²*, the formula can be used:

$$Q^2 = 1 - (1 - R_1^2) \cdot (1 - R_2^2) \cdot \dots \cdot (1 - R_p^2)$$

So,

$$Q^2 = 1 - (1 - 0.215) \cdot (1 - 0.055) = 0.647$$

The *Q²* value of the performance latent variable is 0.647, indicating that the model has good predictive relevance because the *Q-Square* value is almost close to 1. It indicates that business performance modelling provides good results and has relevant predictions. From the results of the *R²* and *Q²* tests, the model formed is *robust*, so hypothesis testing can be applied. To find out the significant effect of market orientation and innovation on business performance, it looks out by the value of the parameter coefficient and the significance value of the *t-statistic*. The significance level in hypothesis testing is indicated by the value of the *path coefficient* or the *inner model*. The path coefficient score indicated by the *t-statistic value* of 1.96 for the *two-tailed hypothesis* for testing the hypothesis at an alpha of 5% (Hair et al., 2010).

Table 8: Path Coefficients (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Means (M)	Standard Deviation (STDEV)	T Statistics (O/STERR)
IN → BP	0.229069	0.230302	0.046879	4.886401
MO → BP	0.352283	0.357334	0.041087	8.574179
MO → IN	0.234991	0.240069	0.046088	5.098702

The next step is to compare the calculated t values with t tables. The hypothesis will be said to be significant if it has a t count value greater than the t table ($t \text{ count} > t \text{ table}$) with a significant *alpha* of 0.05, where it will be known that the statistical value is 1.96. The significant value of the effect of market orientation on business performance is $8.574179 > 1.96$; It means that hypothesis 1 can be accepted. While the significance value of the influence of market orientation on innovation is $5.098702 > 0.96$, It means that market orientation has a significant influence on innovation, so Hypothesis 2 can be accepted. Then the effect of innovation on business performance is $4.886401 > 1.96$, which means that there is a significant influence between innovation variables on business performance so hypothesis 3 can be accepted.

Furthermore, The procedure for testing the mediating effect is applied in two steps (Hair et al., 2010), namely first estimating the direct effect of the independent variable on the dependent variable, the path coefficient c is $10.675 > 1.96$ which means it is significant (Fig. 1).

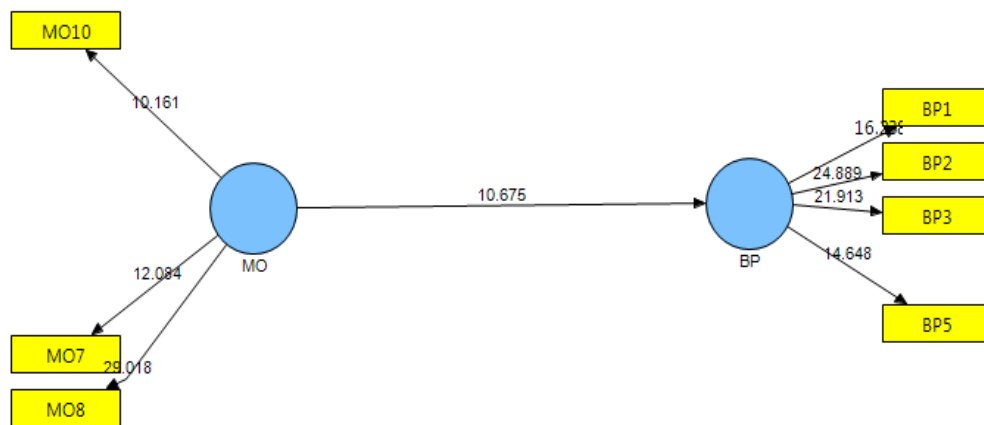


Figure 1: Direct Influence Model

Table 9: Path Coefficients Direct Effect Model (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Means (M)	Standard Deviation (STDEV)	T Statistics (O/STERR)
MO → BP	0.410723	0.419328	0.038474	10.675337

The second is to estimate the indirect effect simultaneously with the PLS-SEM model triangle; the path coefficients a and b must be significant (Fig. 2).

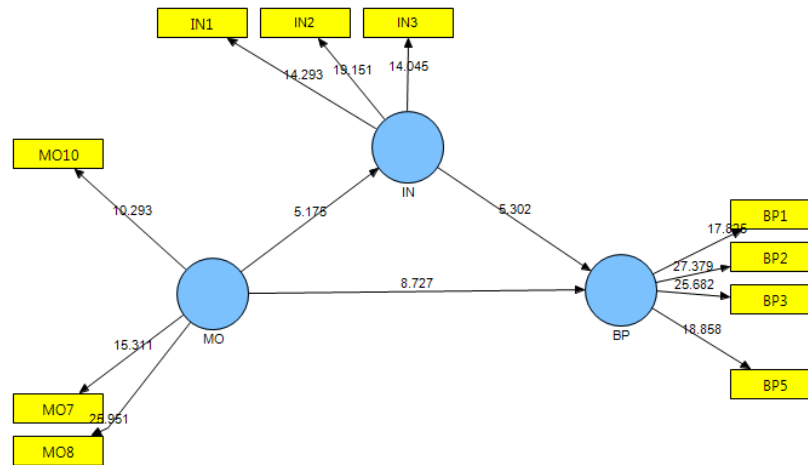


Figure 2: Mediation Model

Table 10: Path Coefficients of the Mediation Model (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Means (M)	Standard Deviation (STDEV)	T Statistics (O/STERR)
IN → BP	0.229069	0.230220	0.043204	5.302002
MO → BP	0.352283	0.360146	0.040369	8.726684
MO → IN	0.234991	0.235080	0.045408	5.175117

Next, calculate VAF with the formula (Hair et al., 2010) as follows:

$$VAF = \frac{\text{Indirect Influence}}{\text{Direct Influence} + \text{Indirect Influence}}$$

$$VAF = \frac{0.410723}{0.053829 + 0.410723}$$

$$= 0.115873$$

$$= 0.115873 \times 100$$

$$= 11.5873\% < 20\%$$

(NON-MEDIATING)

Based on the multiplication of the direct and indirect coefficients, the result is 11.5873% < 20%. This means that the VAF value is less than 20%, so it is concluded that there is no mediating effect. It can be concluded that Hypothesis 4 is rejected because it does not have a mediating effect.

DISCUSSION OF THE FINDINGS

The Effect of Market Orientation on Business Performance

The characteristics results of the respondents show that market orientation affects almost more than half of the business performance, namely 79.9% because they are the owners of the company. Therefore, the owner will be able to directly monitor the state of the market and even the state of the company itself. In this study, market orientation influences market development. The deeper the information obtained from the market, the more acceptable the

product will be in the market. This is also in accordance with Anwar's opinion (2018) that the current paradigm of consumer needs and purchasing power requires business actors to be supported by relevant information, knowledge, and innovation so that they quickly synergize in improving business performance.

The Effect of Market Orientation on Innovation

These results indicate that market orientation significantly affects innovation; the more reflective the market orientation is, the more acceptable the innovation formulation will be applied to *Kerupuk* MSMEs in Payakumbuh. Innovations that can be made are not only limited to products but can penetrate product support elements such as sales networks, distribution systems, advertising media, marketing communications, and even certain events that will provide positive feedback for the company. In addition, increasing product variety, making products unique and different from competitors, and making product packaging more attractive are also necessary for product development. In the innovation process, MSMEs need to increase innovation, for example, by using the latest methods and tools that are more effective and efficient, which can increase productivity (Udriyah, 2019).

In this study, even though most of the respondents were relatively old, they still wanted to innovate and were always looking for new ideas to increase competitiveness or new ways to do business. This is supported by the government's active holding of entrepreneurship training and seminars because it will increase the knowledge and creativity of entrepreneurs. Not only that, based on business characteristics, several companies have spread their products to a wide market and even abroad. Therefore, with the entrepreneur's initiative to continue then update information and develop knowledge about the field being studied, an innovation formulation suitable for the company's circumstances will emerge.

The Effect of Innovation on Business Performance

Based on the hypothesis testing in this study, it was found that innovation has a significant effect on business performance in *Kerupuk* SMEs in Payakumbuh. The significant effect of innovation on performance is because the average respondent is 4.25, which means they agree that they are always looking for new ways to run a business. Not only that, but respondents also answered with a high average of 4.17, meaning that most respondents' opinions agreed that they were always looking for new ideas. This innovation process must be carried out continuously so that products continue to develop, improve, and reach perfection, which can be done by utilizing science and technology. Product innovation capabilities in business relations are the ability to form a variety of organizational capabilities to enhance activities to improve the business performance of new products. Along with the times and needs, the goods created will become increasingly obsolete because they cannot meet current needs. These items provide innovation to meet the needs of today's consumer behaviour (Montiel, 2018).

The Effect of Market Orientation on Business Performance Through Innovation

In this study, it is proven that innovation is not a mediation between orientation to business performance, so the deeper market orientation affects business performance is not affected by innovation. This means orientation can directly affect performance. That is, if market orientation increases, business performance will also increase. However, it has different results from research conducted by Johnson et al. (2009) that orientation will significantly affect business performance if it is driven by innovation. The difference in the results of this study

with previous studies was influenced by different objects, while the object in this study was *Kerupuk* SMEs in Payakumbuh. The *Kerupuk* SMEs in Payakumbuh are not yet large-scale, so research activities have not been planned as in large-scale companies. This research is in line with research conducted by Widiastuti and Santoso (2012), stating that the effect of market orientation on business performance cannot be delivered by innovation, but the performance of marketers can be mediated.

The absence of innovation in delivering market orientation to performance means the lack of application of innovation to *Kerupuk* companies in Payakumbuh. This can be influenced by more respondents over 36 years, who are usually unfamiliar with the technology. So, the information obtained from the internet will be difficult to capture. Not only that, innovation cannot mediate; it is also influenced by the few companies that create new products, so the application of innovation is not visible. In accordance with Christa's opinion (2021), this can be overcome by improving management methods related to customers and knowledge; innovation activities can be input to encourage local product excellence and improve business performance.

THE IMPLICATIONS OF THE RESEARCH

Based on the results of the analysis and discussion, it can be concluded that market orientation has a significant influence on the performance of *Kerupuk* SMEs in Payakumbuh; Market orientation has a significant influence on the *Kerupuk* MSME innovation in Payakumbuh; Innovation has a significant influence on the performance of *Kerupuk* SMEs in Payakumbuh; Innovation does not mediate between market orientation and the performance of *Kerupuk* SMEs in Payakumbuh.

LIMITATIONS OF THE RESEARCH

This research is limited to variables related to improving performance in a company, especially those engaged in SMEs which are carried out in the scope of the city, namely Payakumbuh. In addition, the companies studied focused on *Kerupuk* SMEs in Payakumbuh, with the observed variables, namely market orientation, innovation, and MSME business performance.

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