

# **ANALYSIS OF MARKET ORIENTATION AND ENTREPRENEURSHIP ON SME PERFORMANCE THROUGH PRODUCT INNOVATION**

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## **ABSTRACT**

**Aims:** This study aims to analyze market orientation, entrepreneurial orientation, and their impact on SME performance with product innovation as an intervening variable.

**Study design:** Quantitative descriptive.

**Place and Duration of Study:** South Celebes, between January 2023 and Oktober 2023.

**Methodology:** The population in this study were SMEs managing crabmeat in South Sulawesi. The research method used is a quantitative approach using a questionnaire as a data collection instrument. The collected data were analyzed using regression analysis to test the relationship between the variables studied with the SmartPLS 3.2.9 application.

**Results:** The results showed that Market Orientation has a positive and significant effect on Product Innovation, Entrepreneurial Orientation has a positive and significant effect on Product Innovation, Product Innovation has a positive and significant effect on SME Performance, Market Orientation has a negative and insignificant effect on SME Performance, and Entrepreneurial Orientation has a positive and significant effect on SME Performance. In addition, Market Orientation has a positive and significant effect on SME Performance through Product Innovation, Entrepreneurial Orientation has a positive and significant effect on SME Performance through Product Innovation.

**Conclusion:** through product innovation efforts, SMEs can optimize the benefits of entrepreneurial orientation in achieving better performance.

*Keywords: market orientation, entrepreneurial orientation, product innovation, SME performance*

## **1. INTRODUCTION**

The globalization and economic integration of this century is a very decisive factor from the point of view of international business in all regions of the world. Followed by an improved work specialization system, is a condition that allows an increase in the production of goods and services needed to meet the needs of consumers. Because the supply of goods and services needed can not only be met by the domestic market, trade between countries occurs very quickly. This makes every company try to develop and maintain the company's position and market opportunities for the better and that might be achieved. Thus, every company must develop its marketing activities so that the desired goals or objectives can be

achieved properly. Similarly, small industries in Indonesia as the wheels of the economy, develop their products through the activities of SMEs in Indonesia.

Along with the development of the economy in Indonesia cannot be separated from the existence of Small and Medium Enterprises (SMEs). The majority of regions in Indonesia have their economic structure supported by SMEs that embrace the populist economic system and populist businesses. This type of business has proven to be resistant to all disturbances, including being able to survive the severe economic crisis that hit Indonesia in the 1998s. Businesses in this category play a very important role in improving the economy of the community and the country. This important role is mainly shown in aspects such as increasing employment opportunities, income distribution, playing a role in reducing the rate of urbanization and equitable rural economic development. The SME sector has in fact been able to show a more resilient performance in facing critical times during the economic crisis. SMEs are flexible and can easily adapt to the ebb and flow of market demand.

In recent decades, SMEs have been the most important sector of the economy both nationally and globally. In the national economy, SMEs have a tremendous contribution, because it is a stronghold of an economy in the face of various dynamics that occur in the economy. One of the main factors for the increase in the number of SMEs in recent years is due to the fact that the population of productive age is more than the availability of jobs, so this encourages young people to create their own job opportunities by entering the Small and Medium Enterprises (SMEs) sector. SMEs also show a vital role in terms of quantity and employment. In 2021, the number of SMEs was recorded at 64.2 million units with a contribution to GDP of 61.07% or IDR 8,573.89 trillion. SMEs absorb 97% of the total workforce and can raise up to 60.42% of total investment in Indonesia. (Ministry of Finance.go.id). The role of Small and Medium Enterprises (SMEs) in Indonesia is very important, because SMEs are the main economic drivers in economic development in rural and urban areas. This role is primarily as a provider of employment opportunities and income for small communities.

Despite the various positive benefits of SMEs to the national economy, various problems are still faced by SMEs in the country. The main problem of national SMEs today is the weak performance of SMEs. According to data from the Ministry of National Development Planning Agency (Bappenas), the competitiveness of Small and Medium Enterprises (SMEs) in Indonesia is still very low at around 3.5 out of a score of 1-10 compared to ASEAN countries. The competitiveness of Indonesian SMEs is still below countries such as the Philippines, Thailand, and Malaysia. This must be resolved immediately considering the dynamics of the market and the national and global economy will be higher. If SMEs in Indonesia do not immediately improve and innovate more vigorously, it will almost certainly sink in the arena of global competition. The challenges of SMEs in Indonesia will certainly be more severe with the implementation of the ASEAN Economic Community (AEC).

The development and empowerment of small businesses still face obstacles such as the level of ability, skills, expertise, human resource management, entrepreneurship, marketing and finance. Various government efforts have been made to maintain the growth and sustainability of small businesses, given their enormous contribution to economic growth and proven resilient in the economic crisis, because most small businesses are only able to produce without the ability to market products.

Another factor other than money capital that affects the development and performance of small businesses, which is related to entrepreneurship, namely market orientation and entrepreneurial orientation in SMEs in Indonesia is the entrepreneur himself in managing his business management, because generally in SMEs. Because most SMEs have various

weaknesses that are external, such as the lack of ability to adapt to strategic environmental influences, less dexterous in business opportunities, lack of creativity and innovation in anticipating various challenges as a result of the economic recession, in addition to internal factors of some SMEs, namely the lack of managerial capabilities and skills, lack of access to technological information, capital and markets. This internal weakness is due to the lack of qualified human resources in adapting to the various problems being faced. Therefore, to be able to develop SME business factors, it is necessary to first improve the skills that support the entrepreneur's ability to run his business. For this reason, in addition to the need for capital funds to improve technical, managerial and entrepreneurial skills, market orientation and entrepreneurial orientation are also needed.

(Al Hakimi, 2020) says that SMEs are required to develop and implement the concept of market orientation into their companies to deal with the problem of changing business environments. Given the enormous role of SMEs in the national economy, it is not surprising that the government continues to try to mobilize the role of SMEs in efforts to alleviate poverty and unemployment and drive the economy. One of them is by maximizing and promoting market orientation and entrepreneurial orientation, so that the performance of SMEs will increase even more and the impact will increase the pace of the Indonesian economy.

Because these two things have a significant impact on the success and survival of an organization as well as SMEs, thus creating new areas of study and research in the management of business activities in the organization. Thus, if a company is less or even does not pay special attention to the assessment of market orientation and entrepreneurial orientation in taking into account the effectiveness and efficiency of SME performance, then it can lead to less optimal companies in facing business competition in this free market era.

Companies that still use conventional-based practices internally can cause a lack of appreciation for the innovation and creativity of their employees in generating new ideas and new solutions to improve company performance so that profits are not optimal. This can cause the level of prosperity of the company and employees is not maximized because it does not accommodate the great potential of the company.

In reality, as is often stated that the efforts made by SMEs in developing their business emphasize the presence of financial capital, human capital, natural capital, and technological innovation. The presence of these variables is believed to be very instrumental in increasing productivity. The high level of business productivity is often used as the basis for the interpretation of the company's ability to improve its culture, which is certainly inseparable from the role of market orientation and the role of entrepreneurship.

SME performance which is one measure of the achievement of a business obtained through production and marketing activities as a whole derived from business organizations. SME performance can be viewed as a concept used in measuring the extent of market achievement that has been achieved by a product produced by a business organization. The performance of Small and Medium Enterprises (SMEs) can also be interpreted as a measure of the achievement of a business run by a person or group that manages a business unit based on predetermined targets or standards, where the business is included in the Small and Medium Enterprises (SMEs) category. The performance of SMEs is a very important thing to be considered by all circles. Coaching and training in order to achieve sustainable improvement and growth of SME business performance is a priority for the government through relevant agencies so that these SMEs continue to exist in the midst of global economic competition.

With the growth of good and sustainable performance, it is possible that businesses that were originally categorized as SMEs can develop into large businesses or even go public, because it concerns the existence and sustainability of their business in the future. Without a good performance, then the SMEs that have been run means considered unable to make a profitable contribution to the manager and others who are involved in it. SME business performance is determined by how much SMEs provide benefits felt by the people involved in it and those they serve. SME business performance can be reflected in the production and marketing capacity that has been done. SME business performance is interesting to study further because there are studies on business performance that find different results.

Basically, there are many factors that can affect the performance of SMEs. Factors that can affect the performance of SMEs include effectiveness and efficiency, if a certain goal can finally be achieved, we can say that the activity is effective but if the consequences are not sought activities assess the importance of the results achieved so as to result in satisfaction even though effective is called inefficient. (Chege & Wang, 2020), said that innovation is at the heart of business processes. Innovation allows companies to offer products or services with features that customers want. Product innovation (technological invasion) is understood as an approach that provides a competitive advantage for companies by assisting in market diversification and generating new commercial opportunities. Innovation is conceptualized as the acceptance of new ideas or behaviors in organizations. Furthermore, Rogers in (Chege & Wang, 2020), argues innovation is the extent to which organizations apply new ideas or technologies in conjunction with their competitors to gain a competitive advantage relative to time, cost, and service quality. Innovation is not only a tool for survival in the economy but also an important driver of growth, productivity, and competitiveness. Thus it can be said that overall innovation is very important in a competitive business environment.

SMEs are increasingly considered an important source of new product development and new technologies. Amid today's dynamic business environment, an ongoing challenge for business stakeholders and policymakers is to identify and support the factors that motivate SMEs in economic growth. Performance improvement is key to motivating SMEs, while innovation is important and even essential in driving SME performance (Chege & Wang, 2020). By focusing more on innovation, SMEs are likely to have more ability to gain performance. Innovation can also be used as one of the strategies in achieving competitive advantage. It is not enough for small businesses to have a comparative advantage but most importantly to have a sustainable competitive advantage.

Innovation is also an important factor in the formation of optimal performance (Price et al., 2013). Market orientation and entrepreneurial orientation are very important variables to be studied with regard to their influence on SME performance. While the entrepreneurial orientation found in business organizations can determine the direction in which the competitive advantage will be focused. Entrepreneurial orientation is one of the key elements for gaining competitive advantage and financial rewards.

SMEs in South Sulawesi have an important role, especially in economic development, namely job creation and increasing South Sulawesi's GRDP, South Sulawesi's economic growth throughout 2019 reached 7 - 7.4%. SMEs in South Sulawesi according to the Office of Cooperatives and MSMEs of South Sulawesi Province reached 916,232 units. As many as 86 percent or 797,081 units of which are still in the micro business category. MSME players in South Sulawesi are dominated by the trade sector. Most of them are actors engaged in the culinary sector. The percentage of numbers for MSMEs engaged in the food and beverage sector reached 65 percent. (Muin, 2019)

SMEs were chosen as the object of research to be analyzed in more depth in this study, because SMEs are considered to have a significant contribution in terms of their contribution to the economy, employment, and empowerment of local natural resources and Indonesian culture more optimally. Rapid changes in technology cause problems for the business world and SMEs. Technological advances in a product will be further developed, where the product will be able to compete with similar products that are the result of SMEs as a result of crabmeat and crab products in South Sulawesi with various variants.

SME managers play a critical role in ensuring the success of any SME program aimed at achieving product and performance excellence. To achieve this, a corporate culture is needed that is able to implement the concepts of market orientation, entrepreneurial orientation and product innovation which have been seen as the key to achieving SME success in the future so as to increase understanding of the market and will generate responses from customers that match SME expectations. The following list of SME activists in South Sulawesi can be seen in the following table:

Table 1. List of Crabmeat Processing SMEs in South Sulawesi

No.	SME	Location	Status
1	Mambue	Nisombalia, Marusu, Maros	Active
2	Sikuyu Balasa	Nisombalia, Marusu, Maros	Active
3	Bina Pesisir	Bonto Bahari, Bontoa, Maros	Active
4	Jaya Pesisir	Bonto Bahari, Bontoa, Maros	Active
5	Karya Mandiri	Ampekale, Bontoa, Maros	Active
6	Ujung Parappa	Ampekale, Bontoa, Maros	Active
7	Usaha Baru	Pajukukang, Bontoa, Maros	Active
8	Usaha PengolahanKepiting	Ampekale, Bontoa, Maros	Active
9	Fiantika Jaya	Ampekale, Bontoa, Maros	Active
10	SumberRezeky	AmpekaleBontoa, Maros	Active
11	Baji adae	Tekolabbua, Kab. Pangkep	Active
12	77 Uli	Pundata Baji, Kab. Pangkep	Active
13	MP Fauzan	Pundata Baji, Kab. Pangkep	Active
14	Muhammad Yssir	Pundata Baji, Kab. Pangkep	Active
15	Bawasalo	Pundata Baji, Kab. Pangkep	Active
16	UPI Solo	Mappasaile, Kab. Pangkep	Active
17	Poklashar Asrul Jaya	Bulu Cindea, Kab. Pangkep	Active
18	Padaidi	Pitusungguh, Kab. Pangkep	Active
19	Amran	Borimasunggu, Kab. Pangkep	Active
20	Crab Bahagia	Pitue, Kab. Pangkep	Active
21	Kasiani Dg Ngai	Borimasunggu, Kab. Pangkep	Active
22	Saharuddin Malli	Sanrobone, Kab. Takalar	Active
23	H Salle Tamasaju	Galesong Utara, Kab. Takalar	Active
24	MandiriSejati	Mappakasunggu, Kab. Takalar	Active
25	Sipakaenre	Barebbo, Kab. Bone	Active
26	Bone Ayu	Tonra, Kab. Bone	Active
27	Maulana	Mare, Kab. Bone	Active
28	Mare Pantai	Mare, Kab. Bone	Active
29	Seroja	Sibulue, Kab. Bone	Active
30	Melati	Lantebung, Kota Makassar	Active
31	Ocean Champ Seafood	Kima, Kota Makassar	Active
32	Nuansa Cipta Magelo	Kima, Kota Makassar	Active
33	Kemilau Bintang Timur	Kima, Kota Makassar	Active

From table 1 above, it can be explained that there are 10 SMEs located in Maros Regency, 11 SMEs from Pangkep Regency, 3 SMEs from Takalar Regency, 5 SMEs from Bone Regency, and 4 SMEs from Makassar City. All 33 SMEs have the same type of business, namely the crabmeat business and are still active in running their business.

(Seo, 2019) states Entrepreneurial orientation is associated with managerial practices, methods, and decision-making styles that include a strategic posture to rejuvenate market offerings, take risks to try products, services, and markets, and be more proactive than rivals in entering new markets, because entrepreneurial orientation is the key to improving marketing performance. Companies whose leaders are entrepreneurially oriented have a clear vision and dare to take risks so as to create good performance. In addition to entrepreneurial spirit, market orientation is a source of inspiration for SMEs in doing innovative ways and a source of competitive advantage in improving SME performance for the better. An entrepreneurial and market-oriented entrepreneur in building a strategy to develop SMEs will prioritize customer satisfaction, and always monitor whether the product has met or exceeded consumer expectations.

According to (Kohli A, 2010) Market orientation is a corporate culture that can lead to improved marketing performance. (Narver J, 2007) Presents findings that market orientation has a positive effect on marketing performance. Companies that have a high level of market orientation will have high marketing performance. This is because companies that have a high degree of market orientation will have a competitive advantage in terms of; product quality, service quality, innovation, product and cost. In addition to market orientation, entrepreneurial orientation, product innovation can also be used as one of the strategies in achieving SME performance. SMEs are not enough to have the orientation mentioned above but have other orientations that are based on customers on an ongoing basis. SMEs are also required to produce innovative products that have high competitiveness, among others, with the criteria: products sold are available regularly and continuously, products sold must be of good quality, and product variations must be provided according to market needs and demands.

In terms of marketing management, the majority of SMEs in the coastal areas of Maros, Pangkep, Bone, Makassar and Takalar districts have not been able to fulfill the wants and needs of consumers, so their products have not been able to satisfy customers optimally. SMEs have not been able to analyze the condition of their competition in similar businesses, even in a simple way. This gives the impression that the processed crab and crab products in this district have no uniqueness that can make them an advantage in competition and have not been able to meet consumer needs. Another evidence of marketing management problems in these SMEs is the lack of online marketing. Because of the monotony of production, it results in terms of quality, the product is still below the competitors. Because of the low product quality, the target market share is only in the lower middle class in traditional markets. This has resulted in reduced business performance as seen from the growth of business turnover.

Entrepreneurial orientation is a company orientation that has principles on efforts to identify and exploit opportunities. (Lumpkin & Dess, 1996). (Miller, 2011) defines entrepreneurial orientation as an orientation to be the first in terms of innovation in the market, have an attitude to take risks, and be proactive to changes in the market.

Small and Medium Enterprises (SMEs) with a strong entrepreneurial orientation will develop new product or service concepts that lead to existing customer needs. The implication of this result is the need to further foster the spirit and spirit of entrepreneurship, so that there is always a spirit to develop new products or services that are in accordance with the needs and desires of customers. Market orientation according to (Slater & Narver, 1995) "is the most effective and efficient organizational culture to create the behaviors needed to create superior value for buyers and produce superior performance for the company". Companies that have made market orientation an organizational culture will be based on external basic

needs, desires and market demands as the basis for formulating strategies for each business unit in the organization and determining the company's success.

The phenomenon described provides an opening for further research using product innovation variables as intervening variables that can be expected to mediate the influence between market orientation and entrepreneurial orientation with SME performance. The rationale is the importance of SMEs considering product innovation in the development of SME products, in addition to market orientation and entrepreneurial orientation, the need to increasingly foster the spirit and spirit of entrepreneurship, so that there is always a spirit to develop new products or services that are in accordance with the needs and desires of customers can also improve SME performance.

## **2. METHODS**

### **2.1 Type of Research**

The type of research used in this research is quantitative descriptive research with a Quantitative approach. Quantitative research method is one type of research whose specifications are systematic, planned and clearly structured from the beginning to the making of the research design.

### **2.2. Operational Definition of Variables**

The variables studied consist of four, namely Market Orientation, Entrepreneurial Orientation, Product Innovation and SME Performance. Market Orientation, Entrepreneurial Orientation as an independent variable or exogenous variable, SME Performance is a dependent variable or endogenous variable and Product Innovation is an intervening variable between Market Orientation, Entrepreneurial Orientation and SME Performance. The operational definitions of variables are as follows:

1. Market Orientation, is the attitude and efforts of crab management SMEs to understand the needs, wants and preferences of consumers and direct business strategies and decisions based on relevant market information.
2. Entrepreneurial Orientation, the tendency and ability of crab SMEs to take risks, identify new business opportunities, and innovate in product or service development.
3. Product Innovation, The development and implementation of new ideas or changes in the products or services offered by crab SMEs, with the aim of increasing added value and meeting consumer needs.
4. SME Performance, The results of the achievement and effectiveness of the operational activities of SMEs managing crab crab in achieving their business objectives.

### **2.3. Research Population and Sample**

#### **2.3.1. Population**

The population in this study were all SMEs managing crabs and king crab in South Sulawesi Province, all SMEs managing crabs and king crab in South Sulawesi Province consisting of 24 districts / cities only 12 districts / cities producing crabs and king crab. Then by using Cluster Sampling obtained 5 districts / cities (Pangkep, Maros, Bone, Makassar and Takalar) which became the population in this study. The population in this study amounted to 33 SMEs managing crab crab, with a total number of employees as many as 395 people.

#### **2.3.2. Sample**

According to Sugiyono (2017: 81) the sample is part of the number and characteristics possessed by the population. Samples are carried out because researchers have limitations in conducting research both in terms of time, energy, funds and a very large population. So the researcher must take a sample that is truly representative (can represent).

In the study using purposive sampling technique in sampling each SME. According to Sugiyono (2017) the definition of purposive sampling is a sampling technique with certain considerations, namely employees and owners in SMEs, with the following criteria:

- a) The entire Owner
- b) Marketing Department 1 person
- c) Finance Section 1 person
- d) Production Section 1 person

Based on the criterias, therefor the total sample size is 132 people from a population of 395 people.

## **2.4. Data Analysis**

The data analysis technique uses Partial Least Square (PLS). PLS is a Structural Equation Modeling (SEM) equation model with a variance-based or component-based structural equation modeling approach. PLS-SEM analysis consists of two sub models, namely the measurement model or outer model and the structural model or inner model.

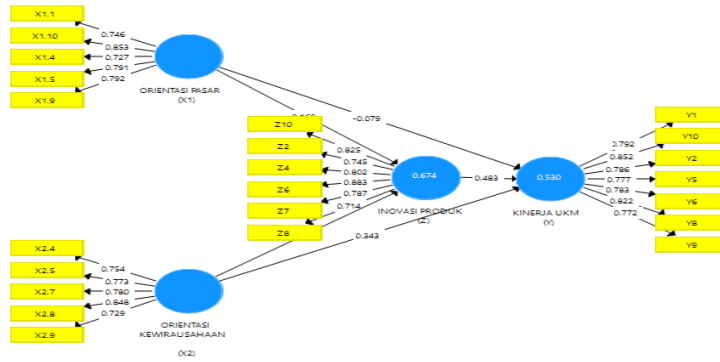
1. Descriptive Statistical Test, is a statistic that serves to describe or describe the object under study through sample or population data as it is, without analyzing and making conclusions that apply to the public (Sugiyono, 2016).
2. Measurement Model Test or Outer Model, shows how each indicator block relates to its latent variable. Evaluation of the measurement model through confirmatory factor analysis is to use the MTMM (MultiTrait-MultiMethod) approach by testing convergent and discriminant validity. While the reliability test is carried out in two ways, namely with Cronbach's Alpha and Composite Reliability (Ghozali, Imam & Latan, 2017).
3. Test the Structural Model or Inner Model, the relationship or estimation strength between latent variables or constructs based on substantive theory.
4. Indirect Influence Test, this test is conducted to see the magnitude of the indirect influence value between variables. This test was carried out using the bootstrapping method using smartPLS 3.0. Intervening variables are said to be able to mediate the influence of exogenous (independent) variables on endogenous (dependent) variables if the T statistical value is greater than the T table and the P value is greater than the T table. If the T statistical value is greater than the T table and the P value is smaller than the significant level used (5%).

## **3. RESULTS AND DISCUSSION**

### **3.1. DATA ANALYSIS MODEL**

Data processing techniques using Partial Least Square (PLS) 3.2.9 to design a model that describes the relationship between indicators and their variables, each variable has an indicator designated by an arrow. The following are the stages of data analysis:

1. Evaluation of Measurement Model (Outer Model)  
There are several criteria in using data analysis techniques with SmartPLS to assess the outer model, namely:
  - a) Convergent validity. An individual reflexive measure is said to be high if it's loading factor value correlates more than 0.70 with the measured construct.



**Fig. 1 PLS Algorithm Test Results**

Average Variance Extracted (AVE). The validity criteria can also be high validity if the value is above 0.50 for all variables.

**Table 2 Construct Reliability and Validity**

Variabel	Average variance extracted (AVE)
Product Innovation	0.631
SME Performance	0.637
Entrepreneurial Orientation	0.605
Market Orientation	0.613

Source: Results of Data Processing Using SmartPLS 3.2.9 (2023)

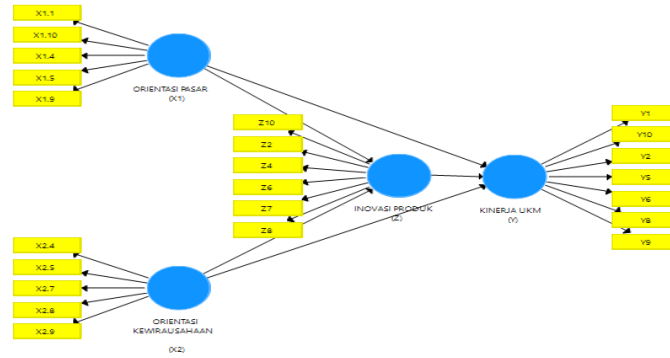
- b) Cross Loading. Measurement of discriminant validity using the criteria Cross loading indicators on related constructs must be greater than cross loading on other constructs.
- c) Reliability Test (Composite Reliability & Cronbach's Alpha), Reliability criteria can also be seen from the Composite Reliability value of a construct and the Cronbach's Alpha value of each construct has high reliability if the value is > 0.70.

**Table 3 Value of Composite Reliability & Cronbach's Alpha**

Variabel	Cronbach's Alpha	Composite Reliability	rho_A
Product Innovation	0.882	0.911	0.886
SME Performance	0.907	0.925	0.922
Entrepreneurial Orientation	0.836	0.884	0.835
Market Orientation	0.844	0.888	0.874

Source: Data Processing, (2023)

2. Evaluation of Structural Model (Inner Model), Testing the structural model (inner model) evaluates the relationship between latent constructs by looking at the results using R<sup>2</sup> for endogenous variables and path coefficient values for exogenous variables which are then assessed for significance based on the t-statistic value of each path of the structural path parameter coefficient. The structural model of this study can be seen in the following figure:



**Fig. 2 Inner Model Path Diagram**

There are 3 (three) categories in grouping the R Square value. If the R Square value is  $> 0.75$  including the Strong category, the R Square value  $> 0.50$  including the Moderate category and  $> 0.2$  including the Weak category (Hair et al, 2010) The R Square value of the endogenous variables can be seen in the following table:

Table 4 R Square

Variabel	R Square	R Square Adjusted	Model Prediction
Product Innovation	0.674	0.669	Moderate
SME Performance	0.530	0.519	Moderate

Source: Data Processing, (2023)

The Product Innovation variable has an R Square value of 0.674 after calculation through SmartPLS 3.2.9, this means that the ability of variance that can be explained by the Market Orientation and Entrepreneurial Orientation variables to the Product Innovation variable is 66.90%, and for the Market Orientation and Entrepreneurial Orientation variables to SME Performance is 51.10%. The significance value of the parameter coefficient can be calculated using the bootstrapping method, Bootstrapping in this test is carried out using a sub-sample with a significance level of 0.1.

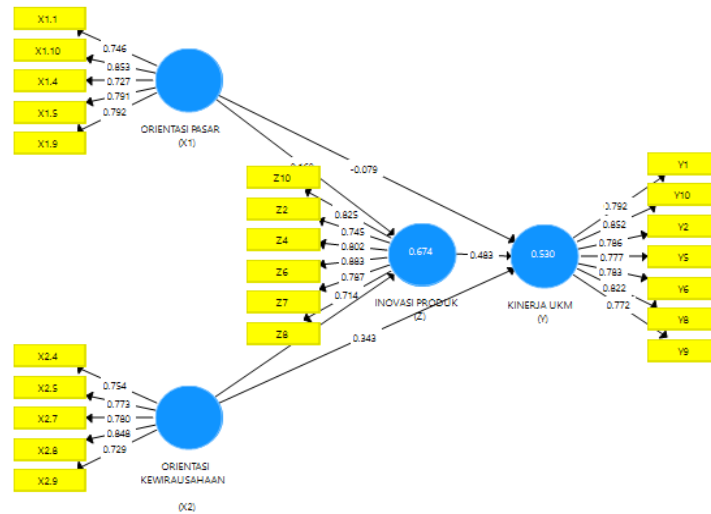


Fig 3 Bootstrapping Result

Table 5 Path Coefficients

Variabel	Original Sample (O)	T Statistics (O/STDEV)	P Value	Status.
Market Orientation (X1) → Product Innovation (Z)	0,168	4,987	0,000	Accepted
Entrepreneurial Orientation (X2) → Product Innovation (Z)	0,682	12,020	0,000	Accepted
Product Innovation (Z) → SME Performance (Y)	0,483	4,987	0,000	Accepted
Market Orientation (X1) → SME Performance (Y)	-0,079	0,526	0,300	Rejected
Entrepreneurial Orientation (X2) → SME Performance (Y)	0,343	1,852	0,033	Accepted

Source: Data Processing, (2023)

### 3. Research Hypothesis Testing Results.

#### a. Direct Effect

H1: Market Orientation has a positive and significant effect on Product Innovation. That the value of the effect of the Market Orientation variable on Product Innovation, Original Sample 0.168, which is positive and the resulting T-statistic is  $4,987 > 1.96$  with p-values of  $0.000 < 0.05$ . It can be concluded that the First Hypothesis is accepted, namely that Market Orientation has a positive and significant effect on Product Innovation.

H2: Entrepreneurial Orientation has a Positive and Significant Effect on Product Innovation. That the value of the effect of the Entrepreneurial Orientation variable on Product Innovation is the original sample of 0.682, which is positive and the resulting T Statistic is  $12.020 > 1.96$  with P Values of  $0.000 < 0.05$ . It can be concluded that the Second Hypothesis is Accepted, namely that Entrepreneurial Orientation has a Positive and significant effect on Product Innovation.

H3: Product Innovation has a positive and significant effect on SME Performance. That the value of the effect of the Product Innovation variable on SME Performance is the original sample of 0.483 which is

positive and the resulting T Statistic is  $4.987 > 1.96$  with P Values of  $0.000 < 0.05$ . It can be concluded that the third hypothesis is accepted, namely that product innovation has a positive and significant effect on SME performance.

H4: Market Orientation has a negative and insignificant effect on SME Performance. That the value of the effect of the Market Orientation variable on SME Performance, Original Sample  $-0.079$ , which is negative and the resulting T Statistics is  $0.526 < 1.96$  with P Values of  $0.300 > 0.05$ . It can be concluded that the Fourth Hypothesis is rejected, namely that Market Orientation has a negative and insignificant effect on SME Performance.

H5: Entrepreneurial Orientation has a positive and significant effect on SME Performance. That the value of the effect of the Entrepreneurial Orientation variable on SME Performance, Original Sample  $0.343$  which is positive and the resulting T Statistics is  $1.852 > 1.96$  with P Values of  $0.033 < 0.05$ . It can be concluded that the Fifth Hypothesis is accepted, namely that Entrepreneurial Orientation has a positive and significant effect on SME Performance.

Table 6 Indirect Effect

Variabel	Original Sample (O)	T Statistics (O/STDEV)	P Value	Status.
Market Orientation → Product Innovation → SME Performance	0,081	2,751	0,003	Accepted
Entrepreneurial Orientation → Product Innovation → SME Performance	0,330	3,855	0,000	Accepted

Source: Data Processing, (2023)

b. Indirect Effect

H6: Market Orientation has a positive and significant effect on SME Performance through Product Innovation. That the value of the influence of the Market Orientation variable on SME Performance mediated by Product Innovation is with an original sample of  $0.081$  which is positive and the resulting T Statistic is  $2.751 > 1.96$  with P Values of  $0.003 < 0.05$ . It can be concluded that the sixth hypothesis is accepted, namely that market orientation is able to improve SME performance through product innovation as an intervening variable.

H7: Entrepreneurial Orientation has a positive and significant effect on SME Performance through Product Innovation. That the value of the effect of the Entrepreneurial Orientation variable on SME Performance mediated by Product Innovation is with an original sample of  $0.330$  which is positive and the resulting T Statistic is  $3.855 > 1.96$  with P Values of  $0.000 < 0.05$ . It can be concluded that the seventh hypothesis is accepted, namely that entrepreneurial orientation is able to improve SME performance through product innovation as an intervening variable.

### 3.2. Discussion

#### 1. The Effect of Market Orientation on Product Innovation of Crabmeat SMEs in South Sulawesi Province

The results showed a direct positive and significant influence between market orientation and product innovation in SMEs managing crab crab in South Sulawesi

Province. This finding indicates that market orientation owned by SMEs can have a positive and real influence on the product innovation they produce.

This research shows that a strong market orientation allows SMEs to understand customer needs and wants, identify market opportunities that have been able to be utilized, and be able to respond quickly to market changes. This becomes the basis for SMEs to develop product innovations that are relevant and attractive to customers.

In the context of the crab industry in South Sulawesi Province, SMEs with a strong market orientation tend to be more active in conducting market research, collecting customer feedback, and involving customers in the new product development process. Thus, they can produce product innovations that meet customer needs and differentiate themselves from competitors.

The discussion should not repeat the results, but provide detailed interpretation of data. This should interpret the significance of the findings of the work. Citations should be given in support of the findings. The results and discussion part can also be described as separate, if appropriate.

This research is consistent with research conducted by Aydin (2020), which found that market orientation has a positive effect on product innovation. Similarly, research conducted by Laforet (2007) suggests that to succeed in a fierce competitive environment, manufacturing SMEs must be proactive towards market opportunities, accept innovation and lead in new product innovation. Wahyuni. (2019), found that market orientation affects innovation directly and the effect is significantly positive. Carbonell (2010), research shows that the effect of market orientation components on new product innovation performance, shows a positive relationship between responsiveness and new product performance. Ali (2021), the findings of the study show that the synergy between market capabilities has a positive impact on product innovation. Aydin (2020), found that market orientation has a positive effect on product innovation,

Leng (2015), the results of his research show that new products with new product innovation activities are significantly related to the market and product quality. Companies have the highest new product performance that have a market with new products and the best quality for new product quality in the market.

The results of this study provide practical implications for SMEs managing crab in South Sulawesi Province. It is important for these SMEs to maintain the development that has been done on a strong market orientation as an effective strategy in encouraging product innovation. This can be done by improving market and customer understanding, strengthening customer relationships, and adopting systematic market research practices.

In addition, local governments and related institutions can also provide support in the form of training and mentoring to further sustain the existence of SMEs in developing product innovations. This will help SMEs improve their competitiveness in the market and increase their contribution to economic growth in the crab sector in South Sulawesi Province.

## **2. The Effect of Entrepreneurial Orientation on Product Innovation of Crabmeat SMEs in South Sulawesi Province**

The results showed a positive and significant influence between entrepreneurial orientation and product innovation in SMEs managing crab in South Sulawesi Province. This finding shows that the stronger the entrepreneurial orientation possessed by SMEs managing crab, the higher the level of product innovation they produce. A strong entrepreneurial orientation can encourage SMEs to have a proactive attitude in seeking new opportunities, taking measured risks, and having an orientation towards innovation and new product development.

This research is consistent with research conducted by Eriste et al. (2020), which found that entrepreneurial orientation towards innovation has a higher effect. Rofiaty(2019), found that entrepreneurial orientation has a significant and positive effect on increasing innovation. This means that the higher the entrepreneurial orientation, the better the innovation in business competitiveness will be. Srivastava et al. (2021), found that there is a positive relationship between entrepreneurial orientation and innovation, as well as customer involvement in mediating the relationship between entrepreneurship and innovation.

In the context of the crab industry in South Sulawesi Province, a strong entrepreneurial orientation enables SMEs to identify untapped market opportunities, conduct innovative product research and development, and maintain their competitiveness in the market. This can help SMEs improve the quality and variety of crab products they offer to consumers.

The results of this study provide important practical implications for SMEs managing crab in South Sulawesi Province. These SMEs need to pay attention to the importance of developing a strong entrepreneurial orientation as an effective strategy in improving their product innovation. This can be done by adopting a proactive attitude in seeking new market opportunities, involving employees in the innovation process, and encouraging a culture of innovation within the organization.

In addition, local governments and related institutions can also provide support in the form of training and mentoring to assist SMEs in developing a strong entrepreneurial orientation and improving their innovation capabilities. Such support can help SMEs face increasing competition and increase their contribution to the development of the crab industry in South Sulawesi Province.

### **3. The Effect of Product Innovation on the Performance of Crabmeat SMEs in South Sulawesi Province**

The results showed a positive and significant influence between product innovation and the performance of SMEs managing crab in South Sulawesi Province. This finding shows that the higher the level of product innovation owned by SMEs, the higher their performance in the crab industry.

This research shows that product innovation can be an important factor in improving SME performance. Product innovation carried out by SMEs managing crab in South Sulawesi Province includes developing new products, improving existing products, or combining different products into one package that is attractive to consumers. This product innovation can provide a competitive advantage for SMEs, increase market share, increase sales, and increase profitability.

In the context of the crab industry in South Sulawesi Province, SMEs that have a high level of product innovation tend to be better able to adapt their products to changing consumer needs and preferences. By continuously innovating their products, SMEs can meet consumer expectations, increase product added value and create higher consumer satisfaction.

This research is consistent with research conducted by Liu et al. (2020), with the result that there is a relationship between new product development (NPD) and the sustainable performance of small and medium enterprises (SMEs) in China. Anning-Dorson, T. (2017), found that product innovation has a positive effect on firm performance, the ability of service companies to build an innovative culture, which supports strategy implementation. Ramirez-Portilla et al. (2017), the findings show that high adoption of the orientation model tends to increase corporate innovation. Similarly, the implementation of OI practices has a positive effect on innovation.

The results of this study have important practical implications for SMEs managing crab in South Sulawesi Province. These SMEs need to pay attention to the importance of developing product innovation as an effective strategy in improving their business performance. This can be done by adopting a proactive attitude in seeking new ideas, conducting market research and consumer needs analysis, and involving employees in the innovation process.

In addition, local governments and relevant institutions can also provide support in the form of training, mentoring, and access to resources needed to develop product innovations. This support can help SMEs managing crab in South Sulawesi Province to improve their innovation capabilities, increase competitiveness, and contribute to economic growth in the crab sector.

#### **4. The Effect of Market Orientation on the Performance of Crabmeat SMEs in South Sulawesi Province**

The results showed no significant influence between market orientation and the performance of SMEs managing crab in South Sulawesi Province. This finding indicates that even though the market orientation owned by SMEs is very strong in activities in marketing products, it does not have an impact on the performance of SMEs in the crab industry in South Sulawesi.

This research shows that even a strong market orientation does not allow SMEs to better understand customer needs and wants, monitor competition with competitors, and respond quickly to market changes. This will certainly not contribute to improved SME performance outcomes in terms of increased sales, market share and customer satisfaction.

In the context of the crab industry in South Sulawesi Province, SMEs with a strong market orientation are able to develop products that match customer preferences through other factors, such as innovating SME products, maintaining good relationships with business partners, and capitalizing on existing market opportunities. Thus, they can achieve better performance in terms of business growth, profitability and sustainability.

This research is not in line with research conducted by Amin, M (2016) which found that market orientation has a significant relationship with SME performance. Aloulou (2018) who found that market orientation affects the performance of new product development and company performance. Okello et al. (2017), suggested that there is a positive and significant interaction effect of the market on the survival of SMEs. Sampaio et al. (2018), the results of his research show that market orientation has a direct positive effect on business performance. In addition, the results show that the effect of market orientation on business performance is mediated across the hotel's ability to provide service quality. Ahmad et al. (2020), this study supports the direct impact of market orientation on performance and which is assumed to have an important role in the performance of SMEs.

Other research that is inconsistent with research conducted by Ahmad et al. (2020), which suggests that market orientation has an important impact and role on the performance of MSMEs directly. Sampaio et al. (2018), research results show that market orientation has a direct positive effect on business performance. The results of this study provide practical implications for SMEs managing crab in South Sulawesi Province. These SMEs need to pay attention to the importance of developing a strong market orientation as an effective strategy in improving their business performance. This can be done by conducting regular market research, increasing interaction with customers, and adapting to changing market trends and demands.

In addition, local governments and relevant agencies can also provide support in the form of training and mentoring to help SMEs improve their market orientation. This will assist SMEs in optimizing their potential in the face of increasing competition and strengthen their contribution to the development of the crab industry in South Sulawesi Province.

#### **5. The Effect of Entrepreneurial Orientation on the Performance of Crabmeat SMEs in South Sulawesi Province**

The results showed a positive and significant influence between entrepreneurial orientation and the performance of SMEs managing crab in South Sulawesi Province. This finding shows that entrepreneurial orientation owned by SMEs is able to influence their performance in the crab industry.

This research shows that entrepreneurial orientation allows SMEs to have an active attitude in seeking new opportunities, taking measured risks, and having an orientation towards innovation and new product development. This of course contributes to improved SME performance in terms of business growth, profitability and adaptation to changes in the business environment.

In the context of the crab industry in South Sulawesi Province, SMEs with a strong entrepreneurial orientation are able to identify untapped market opportunities, develop innovative marketing strategies, and optimize existing resources to achieve competitive advantage. As such, they can achieve even better performance in terms of increased sales, market share and business sustainability.

This research is in line with research conducted by Kyal et al. (2021), found that entrepreneurship has a positive relationship with the performance of micro, small and medium enterprises (MSMEs) in India. In addition, these findings indicate the importance of entrepreneurial values in improving the growth of MSMEs. The importance of entrepreneurial ability in identifying, evaluating, and taking business opportunities for MSMEs. Ngoma et al. (2017) found that, entrepreneurial orientation plays an important role in the internationalization process of SMEs. As well as a major determinant of SME business performance at the international level. Baysak (2023) found entrepreneurial orientation results in higher firm performance. Zhang and Xiu'e Zhang (2012) that small and medium enterprises (SMEs) in Northeast China, found entrepreneurial orientation has a positive effect on business performance. Erista et al. (2020), found that entrepreneurial orientation affects company performance and one of the elements that represent entrepreneurial quality is its orientation. Wahyuni. (2019), found that entrepreneurial orientation affects business performance through knowledge competence directly and the effect is significantly positive.

The results of this study provide practical implications for SMEs managing crab in South Sulawesi Province. Although entrepreneurial orientation in SMEs has an impact on SME performance, it is still necessary to pay attention to the importance of developing a more real entrepreneurial orientation as an effective strategy in improving SME business performance in the future, in order to face increasingly fierce competition. This can be done by improving decision-making skills, innovative initiatives, and adaptability to change.

In addition, local governments and related institutions can also provide support in the form of training and mentoring to help SMEs improve their entrepreneurial orientation. This will help SMEs optimize their potential in the face of increasing competition and strengthen their contribution to the development of the crab industry in South Sulawesi Province.

#### **6. The Effect of Market Orientation on the Performance of Crabmeat SMEs in South Sulawesi Province mediated by Product Innovation**

The results of this study indicate a positive and significant influence between market orientation and the performance of SMEs managing crab in South Sulawesi Province where product innovation acts as a mediator between market orientation and SME performance.

This research reveals that real market orientation in crab SMEs contributes positively to the performance of crab SMEs in South Sulawesi, through product innovation as an intermediary between the two. Strong market orientation through product innovation allows SMEs to better understand consumer needs and preferences, identify untapped market opportunities, and respond quickly to market changes. This can assist SMEs in creating added value desired by consumers and improve SME business performance.

In addition, this study also shows that product innovation is able to mediate the relationship between market orientation and SME performance. In this context, real market orientation affects the level of product innovation produced by SMEs, and the product innovation directly affects SME business performance. In other words, product innovation becomes the mechanism through which market orientation affects the performance of crab SMEs.

This research is in line with research conducted by Putri et al. (2018), which found that Product Innovation significantly mediates the effect of Market Orientation on the Performance of endek craft SMEs in Klungkung Regency. This shows that market orientation in SMEs will have a significant impact on SME performance if mediated by innovation, which means that SME performance is highly dependent on the level of product innovation produced and also the level of market orientation. Asashi and I Putu GdeSukaatmadja (2017), proved that the role of product innovation significantly mediates the effect of market orientation on SME performance. The results of this study mean that if SMEs are well market-oriented such as SMEs are able to quickly respond to competitors' competitive actions, are committed to customer satisfaction and all functional can work together to prioritize customer satisfaction then the market orientation attitude is able to increase product innovation and will ultimately be able to improve performance in SMEs.

Prasetya. (2020), found that the role of product innovation in mediating the effect of market orientation on marketing performance through the use of path analysis and sobel test to show the role of product innovation was found to substantially mediate the effect of market orientation on MSME performance, that is, the effect of market orientation on performance in beverage MSMEs in Medan City can be mediated by product innovation. The greater the product creativity, the greater the market interest to improve performance.

This finding has important implications for SMEs managing crabmeat in South Sulawesi Province. The need for SMEs to maintain existing market strategies and further develop more tangible market orientation strategies by paying more attention to the importance of the role of product innovation as a mediator that can improve SME business performance. Through a deep understanding of the market and consumers, SMEs can produce product innovations that are relevant and meet market needs.

In a practical context, local governments and relevant agencies can provide support in the form of training, mentoring, and resources to help SMEs develop strong market orientation and product innovation capabilities. This support will strengthen SME competitiveness and contribute to the growth of the crab sector in South Sulawesi Province.

## **7. The Effect of Entrepreneurial Orientation on the Performance of Crabmeat SMEs in South Sulawesi Province mediated by Product Innovation**

The results showed a positive and significant influence between entrepreneurial orientation and the performance of SMEs managing crab in South Sulawesi Province. In addition, product innovation also acts as a mediator between entrepreneurial orientation and SME performance.

This study found that a strong entrepreneurial orientation in crab SMEs contributes positively to their business performance. A strong entrepreneurial orientation encourages SMEs to take measured risks, seek new opportunities and develop innovative strategies. This can improve SME performance, such as increased revenue, profitability and market share.

In addition, this study also shows that product innovation mediates the relationship between entrepreneurial orientation and SME performance. A strong entrepreneurial orientation positively affects the level of product innovation produced by SMEs, and the product innovation directly contributes to business performance. In other words, product innovation acts as a mechanism that links entrepreneurial orientation with the performance of crab SMEs.

This research is in line with research conducted by Ramirez-Portilla, A. et al (2017), which found that the results of innovation mediation further indicate that entrepreneurial orientation models and practices can benefit SME performance, in particular, two dimensions of performance - environmental and social performance were found to be strongly influenced by entrepreneurial orientation. Wahyuni and I Made Sara. (2019), found that entrepreneurial orientation affects business performance indirectly through innovation. Kocak et al. (2017), found that entrepreneurial orientation affects performance indirectly through innovation. This suggests that entrepreneurial orientation is a powerful concept and may not depend on other contexts.

These findings have important implications for SMEs managing crab in South Sulawesi Province. SMEs need to pay attention to the importance of developing a strong entrepreneurial orientation as a foundation for creating quality product innovation. This can be done by improving entrepreneurial skills, developing a culture of innovation and involving employees in the innovation process.

Local governments and related institutions can also provide support in the form of training, mentoring, and access to resources needed to develop SMEs' entrepreneurial orientation and product innovation capabilities. This support will help crab-processing SMEs in South Sulawesi Province improve their business performance and contribute to regional economic growth.

#### **4. CONCLUSION**

1. Market orientation has a positive and significant influence directly on product innovation in SMEs managing crab in South Sulawesi Province. This finding indicates that market orientation owned by SMEs can have a positive and real influence on the product innovation they produce. The results also show that market orientation directly contributes to the product innovation of these SMEs.
2. Entrepreneurial orientation has a significant positive influence directly on product innovation. Real entrepreneurial orientation plays an important role in encouraging crab SMEs to create new quality, relevant and innovative products. Through attitudes, skills and behaviors that support creativity and the development of new ideas, entrepreneurs can produce products that meet market needs and provide a competitive advantage.
3. Product innovation has a significant influence directly on the performance of SMEs managing crab. SMEs that are able to produce quality product innovations that are relevant to market needs tend to have better business

- performance. Product innovation can provide a competitive advantage, increase market share, and increase SME profitability.
4. Market orientation does not have a significant influence directly on the performance of SMEs managing crab crab in South Sulawesi Province. This finding indicates that although market orientation owned by SMEs is very strong and has real activities in marketing products, it does not have a significant impact on the performance of SMEs in the crab crab industry in South Sulawesi.
  5. Entrepreneurial orientation has a positive and significant effect directly on the performance of SMEs managing crab crab in South Sulawesi Province. This finding indicates that the entrepreneurial orientation possessed by SMEs managing crab crab in South Sulawesi Province is able to have a real influence on the performance of SMEs in the crab crab industry.
  6. Market orientation has a positive and significant influence on the performance of crab SMEs in South Sulawesi, through product innovation as an intermediary. Real market orientation through product innovation allows SMEs to better understand consumer needs and preferences, identify untapped market opportunities, and respond quickly to market changes.
  7. Entrepreneurial orientation and indirect positive and significant influence on the performance of SMEs managing crab crab in South Sulawesi Province, with product innovation as a mediator. In addition, this study found that real entrepreneurial orientation in crab management SMEs contributes positively to SME business performance. A strong entrepreneurial orientation encourages SMEs to take measured risks, seek new opportunities, and develop innovative strategies.

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