

Analysis of SMEs performance based on innovation practice, market orientation, and innovation barriers

Sarli Rahman¹, Suyono¹, Onny Setyawan¹, and Mimelientesa Irman¹

¹Business Department, Institut Bisnis dan Teknologi Pelita Indonesia, Indonesia

Abstract

This study focuses on factors that can improve the business performance of SMEs from the theoretical perspective of Market Base View, i.e. market orientation, and from the perspective of Resource Base View theory, i.e. innovation resources. In addition, this study also aimed to investigate the factors that may prevent SMEs from implementing innovation practices and how these barriers affect SMEs' innovation practices and performance. Using an online survey answered by 352 respondents, an analysis was conducted using the structural equation method. From the results of the AMOS SEM analysis, it appears that market orientation directly affects SME performance, with no mediating role of innovation practices found. However, innovation practices can mediate the effect of innovation barriers on SME performance in a negative direction. The result of this study has theoretical and practical implications that are also discussed.

Keywords

market orientation; innovation barriers; innovation practice; SMEs; performance; Indonesia

INTRODUCTION

Small and medium enterprises (SMEs) have an important impact on a country's economic growth (Ayyagari et al., 2007; Eniola & Entebang, 2015), especially in terms of employment, increasing the value of exports, and their contribution to gross domestic product (GDP). A publication by the Asian Development Bank (ADB) Institute shows that SMEs in Asian countries employ about 60 to 90 percent of the total labour force, generate 15 to 40 percent of export value, and contribute about 25 to 60 percent of GDP (ADB Institute, 2016). Meanwhile, more than 95 percent of companies worldwide are still classified as SMEs (Edinburgh Group, 2012). However, the survivability of SMEs remains relatively low, especially for new firms. According to Burke et al. (2008), more than half of start-ups fail before the age of five, and less than half fail before the age of three. This statement is confirmed by data from Eurostat in 2016, which shows that in European countries 82.38% of new businesses survived in the first year, 58.75% survived to the second year, and 43.95% survived to the third year. In other words, 17.62% of companies did not survive the first year, 41.25% did not survive the second year, and more than half did not survive the third year. Of course, the survivability of SMEs is closely

related to their performance, and the low survivability of SMEs is a sign of poor enterprise performance.

According to the literature, there are several aspects that can affect the performance of a company. Gavrea et al. (2011) argue that firm performance can be affected by both the external environment (consumers, suppliers, competitors, and business uncertainty) and the internal environment (structure, leadership, quality, information technology, human resources, strategy, innovation and development, and governance). Garavito et al. (2016) argue that there are six levels that can affect a company's business performance in order to survive, namely the individual level, the company/organisation, the location, the market, the industry, and the environment. However, the factors believed to have the greatest impact on SME performance today are market and industry factors, characterized by an increasingly competitive business environment and an uncertain market. This observation is supported by Ropega (2011), who claims that the behavior of consumers, competitors, and suppliers is the main reason for the failure of many SMEs. Therefore, one solution that SMEs can implement is market orientation, which consists of three components: customer

orientation, competitive orientation, and interfunctional collaboration.

Several previous scholars have studied the impact of market orientation on firm performance (Charles et al., 2012; Šályová et al., 2015). Brik et al. (2011) found that a firm's market orientation is favorably related to firm performance, whether it is financial performance, reputation, or employee engagement. Similarly, Hilman & Kaliappen (2014) found that the two components of market orientation, namely customer orientation and competitive orientation, have a positive relationship with performance, with the customer orientation component having a stronger effect than the competitive orientation component. According to the research findings of Jyoti and Sharma (2012), Lee et al. (2015), and Rodrigues & Pinho (2016), there is a positive relationship between market orientation and organizational performance, both financial and non-financial performance, as well as operational performance. However, Alizadeh et al. (2013) found in their study that one component of market orientation, namely customer orientation, has a positive effect on firm performance, while the other component (competitor orientation) has no effect on firm performance. Morgan et al. (2009) found that market orientation has no effect on firm performance as judged by managers (subjective), but has an effect on objective performance as measured by return on assets (ROA). Nwokah (2008) concluded in his study that the individual components of market orientation do not contribute to the success of the companies studied, as did the findings of Shehu & Mahmood (2014).

Due to the fierce controversy caused by the results of previous research, it is necessary to find a solution that can mediate the link between the two variables, which is assumed in this study is innovation practice, which is one of the novelty in this study. Although there are numerous studies in the literature that simultaneously address market orientation, innovation, and firm performance, there are few that explicitly analyze the role of innovation in mediating the impact of market orientation on firm performance. At least, there are several studies in the literature that analyze the mediating role of innovation (Anim et al., 2018; Mahmoud et al., 2016; Baker & Sinkula, 1999). There are at least two reasons why the practice of innovation can be used to fill the existing research gap. First, some studies have found

that market orientation can influence a firm's innovation strategies (Liu & Su, 2013; Zhang & Duan, 2010). Second, previous studies have also found that innovation practices can influence performance (Ar & Baki, 2011; Atalay et al., 2013; Jimenez & Valle, 2011; Tajeddini, 2016; Van Hemert et al., 2013; Wright et al., 2005).

Thus, the objective of this study is to reconfirm this relationship from the perspective of SMEs in Indonesia that are multi-sectoral, using a relatively large sample to adopt propositions while addressing some of the shortcomings of previous studies (Hilman & Kaliappen, 2014; Rodrigues & Pinho, 2010). In addition, this study aims to investigate the factors that may prevent SMEs from pursuing innovation strategies and the impact of these barriers on SMEs' innovation practices and performance. This is because when talking about innovation, although many researchers recognize the importance of innovation for companies to be able to compete (D'Attoma & Pacei, 2016; Eggert et al., 2014), not all practitioners in companies want to do it. The reason is clear, because it takes a fairly large resource to do so. Unlike the case with large companies that have all the necessary resources to innovate, this obstacle will be very difficult for SMEs to innovate. Unfortunately, there are relatively few studies in the literature that explore the direct effect of innovation barriers on innovation practices and company success, which is also one of the study's novelty.

When mainstream studies focus only on financial resources (Fombang & Adjasi, 2018; Jakimowicz & Rzeczkowski, 2019) and lack qualified human resources (Hartono & Kusumawardhani, 2018) to measure the constructs of barriers to innovation, this study uses other indicators. The indicators used in this study to measure the construct of obstacles to innovation are barriers to creativity to answer the question of why certain SMEs are successful in overcoming their barriers to innovation while others are not. This is another novelty of this study.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Business performance

Performance can be used to assess the efficacy of individual or collective efforts (Corvellec, 1997). Meanwhile, in management science, performance is

defined as the achievement of organizational unity goals that are communicated to stakeholders (March & Sutton, 1997). Furthermore, Moullin (2007) defines organizational performance as an assessment of how effectively an organization is managed and how well its values are delivered and communicated to consumers and other stakeholders. The theory of corporate growth (Penrose, 1959) is the grand theory that underlies the development of the theory of corporate performance, and it claims that every company is created with unique resources to achieve growth through a dynamic process. However, in fact, some companies have succeeded in growing, while others have failed to do so. For this reason, the resource-based view (RBV) theory developed by Wernerfelt (1984) tries to answer it, namely in terms of the company's internal resources (tangible and intangible), and the way companies exploit these internal resources so that they are difficult to imitate by other companies. In order to improve the performance and competitive advantage of the company, the ultimate goal of which is to maximize the company's profit.

Performance measurement is needed by companies to align with their strategy. Therefore, a company needs to find the right performance measurement system for itself. One of the most popular performance measurement systems is the balanced scorecard, which seeks to balance financial and non-financial purposes to achieve strategic alignment (Kaplan and Norton, 1992). In addition, Kaplan and Norton (1992) stated that there are four elements in performance measurement with a balanced scorecard. These elements come from the financial perspective, the consumer perspective, the internal process perspective, and the learning and growth perspective.

Since its introduction, the Balanced Scorecard has become a reference for companies in developing their performance measurement systems. However, Hudson et al. (2001) state that the Balanced Scorecard was designed primarily for use in medium to large companies and is therefore less suitable for SMEs, which have other characteristics. Hudson et al. (2001) also suggested five appropriate elements for performance measurement in the context of SMEs, namely quality, time, finance, customer satisfaction, and human resources.

Market orientation and innovation practices

Currently there has been a dramatic change to global business (Van Hemert et al, 2013). For this reason, in order to adapt to these changes, one way that companies can do to understand these things is to adopt a market orientation. Through its elements, namely customer orientation and competitor orientation (Narver & Slater, 1990), companies are expected to be able to capture every change in consumer needs or interests, as well as strategies undertaken by their competitors. The goal is that the company can respond well. Companies can respond by implementing innovation practices in their companies, such as product and process innovation. In other words, the company's innovation practice is a strategy that prioritizes the ongoing and sustainable development of corporate and customer value, and for the strategy to be effective, it must be founded on and comprehend information about their market. Several prior studies have shown that market orientation may boost a company's innovation activities. Verhees (1999) found a positive relationship between the components of market orientation and product innovation. Lukas & Ferrell (2000) found a positive relationship between competitor orientation and product innovation, especially for products that are relatively new to the company but are well known by the market. Meanwhile, Laforet (2008) found a positive relationship between customer orientation and product innovation. Adis & Jublee (2010) also found a positive relationship between market orientation and new product performance.

H1: Market orientation has a positive effect on SMEs innovation practices

Market orientation and SMEs performance

Market orientation is closely related to a company's understanding of market needs and how to respond to them (Haugland et al., 2007). A good and appropriate response with the proper strategy will undoubtedly provide the company with a competitive advantage (Agarwal et al., 2003), since the right strategy will be able to exploit company resources to increase company performance. In other words, a good understanding of customers and competitors will lead companies to make

more targeted policies to improve their performance. Talking about company or business performance, some researchers use financial and/or non-financial or operational performance as dimensions to measure it (Lee et al., 2015; Jyoti & Sharma, 2012; Rodrigues & Pinho, 2010; Brik et al., 2011) and found that these performances were positively influenced by market orientation. Several other researches found the same results using the terms objective performance and subjective performance based on managers' perceptions to replace non-financial or operational performance (Agarwal et al., 2003; Morgan et al., 2009). Meanwhile, in the context of SMEs, there are also previous studies that have found that market orientation has a positive impact on SME performance (Buli, 2017), although on the other hand, there are also previous studies that have found the opposite (Alizadeh et al., 2013; Shehu & Mahmood, 2014), some have even found that market orientation has a negative impact on SME performance (Irwan et al., 2019).

H2: Market orientation has a positive effect on SMEs performance

Innovation barriers, innovation practices, and SMEs performance

Schumpeter (1934) points out the importance of innovation in the sphere of entrepreneurship, and this statement has been reinforced in many literatures that indicate that innovation is the major key in enhancing competitiveness (D'Attoma & Pacei, 2016) for the development of a company (Eggert et al., 2014). However, not all companies can practice innovation, particularly those with little experience and few resources (Hadjimanolis, 1999), where these limitations might hinder a company's ability to innovate. If these obstacles are increasingly experienced by the company, then by itself it can reduce the practice of innovation in the company, which can also improve the company's performance. This relationship has been demonstrated by Madrid-Guijarro et al. (2009) who found that innovation barriers have a negative relationship with innovation practices. On the other hand, the smaller these obstacles will increase the innovation of a company (Fombang & Adjasi, 2018).

H3: Innovation barriers has a negative effect on SMEs innovation practice

H4: Innovation barriers has a negative effect on SMEs performance

Innovation practices, SMEs performance

It is undeniable that innovation is important to a company's growth and survival (Tuan et al., 2016). A company can protect itself against escalating competition by using innovative practices (Otieno & Omwanza, 2018), allowing it to sustain or even increase its performance on its own. This is due to the fact that by practicing innovation, particularly product innovation, a company benefits an innovation premium (Helmets & Rogers, 2010) in the form of a monopoly on the sale of new products (Fontana, 2009), hence increasing its profitability. In other words, the innovation practice of a company, whether product or process can have a significant positive effect on the company's performance in general (Van Hemert et al., 2013; Manu & Sriram, 1996) and the company's financial performance (Karabulut, 2015; Nguyen et al., 2016; Eggert, 2014; Mensah & Acquah, 2015) as well as non-financial/operational dimensions based on managers' perceptions of their perceived performance (Varis & Littunen, 2010; Ar & Baki, 2011; Madrid-Guijarro et al., 2013; Tajeddini, 2016; Atalay et al., 2013; Jimenez & Valle, 2011; Mensah & Acquah, 2015). In addition, this study also wanted to prove whether the innovation practices carried out by SMEs can mediate the respective relationship between market orientation, innovation barriers and SME performance. This needs to be done to answer and be a solution to the research gap that occurs.

H5: Innovation practice has a positive effect on SMEs performance

H6: Market orientation has a positive effect on SMEs' performance through the innovation practice

H7: Innovation barriers has a positive effect on SMEs' performance through the innovation practice

METHODS

This study is quantitative research. Quantitative research is a study that aims to prove the assumptions reflected in the research hypothesis using certain statistical

Table 1.
Demographic profiles of respondents

Demographic variables	Category	Frequency	Percentage
Gender	Male	187	53.1%
	Female	165	46.9%
Age	Under 30	194	55.1%
	30-50	122	34.7%
	Over 50	36	10.2%
Business sector	Trade	104	29.5%
	Culinary	99	28.1%
	Financial services	8	2.3%
	Other services	44	12.5%
	Fisheries, Plantations, and Livestock	23	6.5%
	IT & communications	15	4.3 %
	Construction	14	4.0%
	Elementary school	3	0.9%
	Middle School	5	1.4%
	High school	128	36.4%
	Undergraduate	23	6.5%
	Bachelor	148	42.0%
	Graduate	40	11.4%
	Postgraduate	5	1.4%
	Education & Training	14	4.0%
	Age of the firm	Manufacture	10
Transportation		9	2.6%
Health		6	1.7%
Printing		4	1.1%
Property		2	0.6%
under 3 years		89	25.3%
3 – 5 years		71	20.2%
5 – 10 years		68	19.3%
> 10 years		124	35.2%
Business income per year (IDR)		300 million – 2.5 billion	218
	2.5 Billion – 50 Billion	134	28.1%

analysis methods based on numerical data from related research variables.

Analysis techniques

The analytical techniques used was Structural Equation Modeling (SEM). The Structural Equation Modeling (SEM) method is a combination of factor analysis and regression or path analysis (Hox & Bechger, 1999). There are two types of SEM

approaches (Hair et al., 2011): Covariance-based technique (CB-SEM), it is used for confirmative purpose, and Variance-based SEM (VB-SEM) for predictive purpose. As previously explained, this study aims to re-confirm the relationship of market orientation with business performance, both directly and through the practice of innovation. For this reason, CB-SEM is more suitable for this study. In addition, this study also uses a relatively large sample size, which is more

Table 2.
Direct effect test result

	Path	Coef.	C.R	p-value	Results summary
H1	Market Orientation → Innovation Practice	-0.042	-0.353	0.724	Not supported
H2	Market Orientation → SME Performance	0.331	2.838	0.005	Supported
H3	Innovation Barriers → Innovation Practice	-0.424	-3.591	0.000	Supported
H4	Innovation Barriers → SME Performance	0.107	0.884	0.377	Not supported
H5	Innovation Practice → SME Performance	0.177	2.996	0.003	Supported

appropriate to be analyzed using CB-SEM (Mohamad et al., 2019). LISREL and AMOS are the most popular for CB-SEM (Jaya et al., 2019), for that the data analysis technique used in this study is SEM-AMOS.

Data collection method

Siddiqui (2013) stated in his study that the usual sample size for many studies using structural equation models is generally between 200 and 400 samples. Based on this opinion, we used a sample size of 400 respondents for this study. Each SME unit is represented by a single respondent who is the owner or manager of the SME from a multi-sector company. For sampling, this

study uses non-probability sampling, i.e., accidental sampling. This technique focuses on population members who are easy for researchers to reach (Etikan et al., 2016).

Measurements

This study used a 5-point Likert scale questionnaire as a research instrument to obtain relevant data or information related to the topic of the study to be conducted. For a positive statement, the number 1 indicates a scale that is not very appropriate, and the answer number 5 indicates a scale that is very appropriate. Meanwhile, for the negative statement on the innovation barrier variable, the number 1 indicates a very appropriate

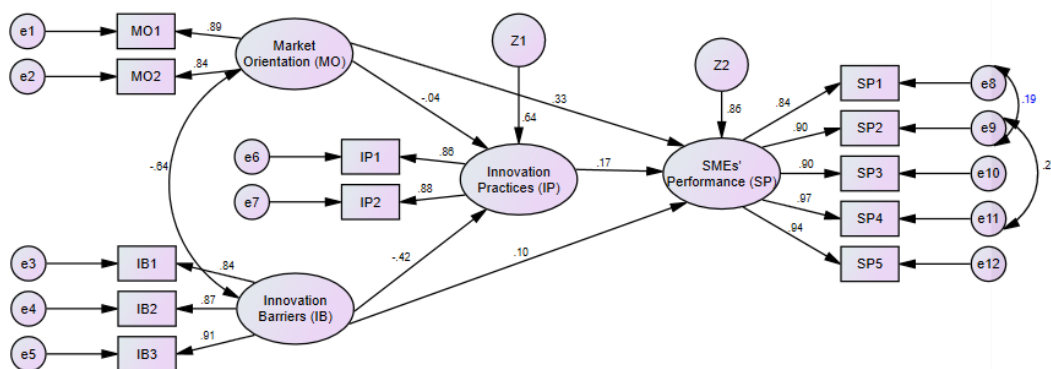


Figure 1.
Research model

Table 3.
Indirect effect test result

	Path	t - statistics	p-value	Results summary
H6	Market Orientation → Innovation Practice → SME Performance	-0.351	0.723	Not supported
H7	Innovation Barriers → Innovation Practice → SME Performance	-2.301	0.021	Supported

scale, and the answer to the number 5 indicates a very inappropriate scale. Performance factors were measured using the five measurement items proposed by Hudson et al. (2001), namely quality, time, finance, customer satisfaction, and human resources. Jimenez & Valle (2011) and Karabulut (2015) used two assessment items to measure innovation practice variables: product innovation and process innovation. The market orientation variable used 2 measurement items adopted from Narver & Slater (1990), namely customer and competitor orientation. Finally, the innovation barrier variable used 3 measurement items, namely creativity barriers (Sohn & Jung, 2010), organizational barriers (Piatier, 1984; Comtesse et al, 2002; Galia & Legros, 2004), and environmental barriers (Fombang & Adjasi, 2018 ; Madrid-Guijarro et al., 2009; Madeira et al., 2017; Hadjimanolis, 1999; Van Hemert et al., 2013).

RESULTS AND DISCUSSION

In this study, questionnaires were distributed to 400 SMEs using convenience sampling technique, but just 352 questionnaires (88%) is valid to used. The remaining 48 questionnaires, or 12%, were classified as invalid because respondents had not answered several questions in the questionnaires. The characteristics of the respondents who gave valid answers can be seen in Table 1.

Most of the respondents representing SMEs selected were young entrepreneurs/managers aged 30 and under (55.1%), with the education level dominated by bachelor degree (42.00%). Meanwhile, from the business side, it is known that SMEs are dominated by trade (29.5%), culinary (28.1%), and the remaining 45.4% from other sectors. In addition, from the business demographics, it is also known that the SMEs

that are the research sample are mostly small businesses (61.9%), then medium business (38,1%).

Validity and reliability

The validity and reliability tests in this study were carried out on 30 first-respondent data. A validity test was conducted to measure the accuracy of research instruments or questionnaires. The validity test is calculated by comparing the value of the corrected item-total correlation (CIT) with the r table value. At the 5% significance level, the r table is 0.30. The CITC value has to be greater than 0.3. The CITC values obtained for all statement items in this research questionnaire ranged between 0.355 and 0.976. So it can be concluded that the research instrument used is valid. Meanwhile, the reliability test was carried out to measure the consistency of the respondents' answers. The reliability test was carried out using the Cronbach alpha statistical test, with the required Cronbach alpha test value being greater than 0.70. The Cronbach alpha values obtained in this study for all research constructs were between 0.839 and 0.942. Thus it can be concluded that the research instrument used is reliable.

Research model analysis

Structural Equation Modeling (SEM) was composed of two models: the measurement model and the structural model, both of which must be tested for feasibility. The feasibility test for the measurement model was performed using reliability and internal validity.

The measurement model's reliability and internal validity were assessed using loading factor, composite reliability (CR) and average variance extract (AVE). The loading factors for all indicators greater than 0.7 meet the

requirement. The composite reliability value obtained for each construct is between 0.866 to 0.963, which is greater than the required limit, which is 0.60 (Bagozzi & Yi, 1988; Hair et al., 2010). While the variance extracted value obtained is between 0.501 to 0.728, which is a value greater than 0.50 (Bagozzi & Yi, 1988). The test results for discriminant validity are also met, in which all quadratic correlation coefficients are smaller than the variance extract (VE) as stated by (Fornell & Larcker, 1981). Thus it can be concluded that the measurement model is feasible. Meanwhile, to test the feasibility of the structural model, the goodness of fit test was used, the results of which met the values required by Hooper et al. (2008) and Hair et al. (2010), with the following index values: chi-square = 126,412, df = 494, p = 0.05, GFI = 0.856, AGFI = 0.826, TLI = 0.945, CFI = 0.952, NFI = 0.912, IFI = 0.952, RMSEA = 0.055.

Results of direct effect test

This study has 5 hypotheses related to the direct effect test, starting from H1 to H5. The results shows that the market orientation variable has a negative effect on the practice of innovation (Coefficient = -0.042), with a significant value (p value) of 0.724 ($p > 0.05$). Since the test is a two-way test (two tailed), it is possible to infer that H1 is rejected or not supported. Similarly, in H4, the outcomes of innovation barriers have a non-significant positive effect on SMEs' performance. With a p value of 0.05 and positive coefficients for H2 and H5, it may be argued that both hypotheses are accepted or supported. This implies that barriers of innovation and market orientation have a positive and significant impact on SME performance. Meanwhile, if a negative coefficient with a p value of 0.05 is achieved for H3, then H3 is accepted or supported, meaning that innovation barriers have a significant negative effect on innovation practice.

Results of indirect effect test

The indirect effect test (H6 and H7) was carried out using the Sobel test. According to the Sobel calculator calculation results, the p value was 0.723 for the indirect effect of market orientation on the performance of SMEs. Because the p value is greater than 0.05, it can be concluded that there is no mediating role of innovation practices on the

influence of market orientation on the performance of SMEs, and thus H6 is rejected or not supported. Furthermore, we obtain a p value of 0.021 for the indirect effect of innovation barriers on the performance of SMEs, and because p value < 0.05 , we can conclude that there is a mediating role of innovation practices on the influence of innovation barriers on the performance of SMEs, and thus H7 is accepted or supported.

The results of this study find that the practice of innovation is not a strategy chosen and used by SMEs in Indonesia to respond to the actions of their customers and competitors. One of the reasons is that SMEs do not care and realize that their business needs to have a competitive advantage. So that their response to the information they have regarding their customers and competitors is only spontaneous and incidental. Of course this is not in accordance with the theory of market orientation which is a culture to create competitive advantage for companies, where many studies also explain that innovation is one strategy to create competitive advantage (Nuryakin, 2018; Distanont & Khongmalai, 2018). The results of this study are in line with or strengthen the results of research by Haryanto & Haryono (2015), and Laforet (2008). There are several things that can be identified why the results of this study are in line with the two studies. First, this study with the study of Haryanto & Haryono (2015) both take the object of research in companies operating in Indonesia, where perhaps sustainable innovation is not the main choice for companies in Indonesia in responding to competition in an industrial environment. The second is for the study conducted by Laforet (2008), which has the same object as this study, namely SMEs from across sectors in South Yorkshire, England. Although it cannot be generalized in general to all countries, at least the results of this study and Laforet (2008) indicate that typical SMEs do tend to ignore innovation strategies in responding to consumer needs, and the actions of their competitors.

Furthermore, the results of this study prove that it is true that SMEs in Indonesia experience barriers to implementing innovation practices in their businesses, thus preventing them from practicing innovation. The obstacles in question include barriers to creativity, namely in finding varied, unique

and original ideas, as well as organizational barriers in the form of organizational resistance in making changes. This is one of the reasons why innovation barriers affect innovation practices negatively, which means that the greater the barriers to innovation in an effort to innovate, the more difficult it will be for the business to innovate. Another reason is the lack of awareness of SMEs in Indonesia about the importance of adopting innovation strategies in their businesses. From the results of this study, it is also known that this obstacle is more experienced by small businesses. This is understandable because small businesses are mostly run individually and as a family, so it will be difficult for them to increase their creativity, given the limited sources of ideas they have.

Concerning the relationship between market orientation and SME performance, there is a lot of literature in strategic management that states that market orientation is an important factor in improving a company's performance (Filatotchev et al., 2017; Yu et al., 2017), and the findings of this study support this. Although SMEs in Indonesia's response to information about their customers and competition is simply spontaneous and accidental, it turns out that this response can improve their performance. However, if analyzed by item of performance, the performance of SMEs in terms of turnover is not encouraging, while turnover is a reflection of sales figures, which is the main goal of marketing activities. This is the reason why the need for market orientation must be based on careful planning and concepts on how to have a competitive advantage over their competitors, one of which is by practicing innovation.

The essential idea from the beginning of the development of Schumpeter's (1934) innovation theory is to increase entrepreneurial competitiveness, which makes innovation the foundation of a company's life. Companies that innovate have the chance to benefit from the innovation premium (Helmets & Rogers, 2010), which takes the form of a monopoly on the sale of innovative products (Fontana, 2009). This suggests that by implementing more innovative methods, SMEs will be able to increase their company performance, as evidenced by the findings of this study. This study's findings support this. This shows that by implementing innovative practices, it is possible to improve the performance of SMEs in Indonesia. The findings of this study are

consistent with or reinforce the findings of Van Hemert et al. (2013) and Jimenez & Valle (2011), both of which employ cross-sectoral SMEs as their research objectives, namely each SME in different European countries and Spain.

Given the research gap caused by previous studies that investigated the effect of market orientation on company performance, this study attempts to give a solution by using the innovation practice variable as a variable that mediates the relationship between the two variables. This is supported by Gruber-Muecke & Hofer (2015), who argue that the relationship between market orientation and firm performance is mediated by a range of variables including strategy, economic volatility, supplier relations, and innovation. The study's findings, however, revealed that the practice of innovation could not mediate the relationship between market orientation and SME performance. The results of this study support and strengthen several studies which state that market orientation directly affects the performance of SMEs (Hilman & Kaliappen, 2014; Charles et al., 2012; Brik et al., 2011), without needing to be mediated by innovation practices. What was identified as the cause was because SME actors in Indonesia did not make innovation practice their strategic choice to respond to all the information they have regarding their customers and competitors, in order to help improve their business performance.

CONCLUSION

The purpose of this study is to reconfirm the relationship between market orientation and SME performance from the perspective of SMEs in Indonesia. The results of this study confirm that market orientation affects the performance of SMEs in Indonesia directly in a positive direction. In other words, the mediating role of the innovation practice variable was not found in the relationship between the two. However, the results of the study found that the innovation practice variable could mediate the relationship between innovation barriers and SME performance, but in a negative direction. Referring to Baron & Kenny (1986), it is known that the mediation role is full mediation. The results of this study reaffirm the importance of market orientation and innovation practices in improving the performance of SMEs, and the increase will

be even more significant if SMEs are able to synergize all the information they have from the results of adopting market orientation with innovation practices as a strategy to respond. However, in order to do so, SMEs must first focus on gaining a competitive edge over their competitors. Another conclusion from this study is the significance of creativity in helping SMEs overcome some of their hurdles to innovation. This is evident from the comments of individuals that face little creativity hurdles yet have the potential to implement improved innovation practices in their business.

In theory, the results of this study contribute to helping the resource-based view (RBV) theory answer the phenomenon of why some SMEs succeed in growing and others do not, which is due to the gap in their internal resources, which in this study focuses on resources, market knowledge and innovation resources. In addition, this study has also proven that the limited innovation resources owned by the company can reduce the ability of SMEs to practice innovation in their business. The limited resources referred to are in terms of creativity, resources related to the Organization (HR) which tend to resist change and avoid risk. Another contribution of the results of this study to the theory is the variable barriers to innovation, which need to consider factors from the entrepreneur's perspective in measuring innovation barriers. This needs to be done considering that these barriers are unique for each entrepreneur, and can also be fully controlled by the company. Instead of concentrating only on hurdles such as insufficient financial resources, a lack of access to public research institutes, a lack of access to financial or banking institutions, and a lack of government advice or assistance that is not entirely within the company's control.

The results of this study reveal that the most important factors that can improve the performance of SMEs in Indonesia are market orientation and innovation practices. Of course, this has implications for SME owners or managers to constantly improve their understanding of customers and competitors. The goal is to be able to determine the right strategy to respond to this, so that it can help them improve their business performance. Similarly, SME owners and managers must increase their abilities to implement new methods in their businesses. It would be even better if their innovation processes were based on

information they possessed about their consumers and competition, allowing them to carry out targeted innovations that were based on a strategy to gain a competitive edge over their competitors. Another aspect for SME owners and managers is the necessity to boost their creativity in order to come up with diverse, distinctive, and original ideas. The goal is to make it easier for them to make changes, updates, and improvements to their business so that they can improve their business performance in the future. Including later in terms of selecting the workforce to be employed, it is also necessary to prioritize choosing creative workers in addition to the skills needed.

We acknowledge that this study has several limitations that can be refined in future research. This is a cross-sectional study, as the questionnaire was delivered post-COVID-19 pandemic. As a result, it is plausible to believe that the respondents' responses were influenced by the emotional milieu during the pandemic, resulting in a significant fall in SME business performance. For that, we recommend that future research do longitudinal investigations. Second, in terms of sample size, we do not utilize a sample size proportionate to the number of SMEs in Indonesia. As a result, it is advised that future research employ a sample size appropriate to the number of SMEs in Indonesia. For the next study on assessing the construct of innovation obstacles in SMEs, we propose focusing on the internal barriers of entrepreneurs and organizations over which they have complete control to do something.

REFERENCES

- ADB Institute. (2016). SMEs in Developing Asia New Approaches To Overcoming Market Failures. Asian Development Bank Institute.
- Adis, A. A., & Jublee, E. (2010). Market Orientation and New Product Performance: The mediating role of product advantage. *Afr. J. Mark. Manage.*, 2(5), 91-100.
- Agarwal, S., Erramilli, M. K., & Chekitan, S. D. (2003). Market orientation and performance in service firms: Role of innovation. *Journal of Services Marketing*, 17, 68-82.
- Alizadeh, A., Alipour, H., & Hasanzadeh, M. (2013). Market Orientation and Business Performance Among Smes Based In Ardabil Industrial City-Iran. *Kuwait Chapter of Arabian Journal of Business and Management Review*, 2(7), 38-47.
- Anim, P. A., Agbemabiese, G. C., Acheampong, G., Adams, M., & Boakye, E. (2018).

- Market Orientation, Innovation and Business Performance: Insight from Womenpreneurs in the Fashion Industry in Ghana. *Journal of Creativity and Business Innovation*, 4, 5-27.
- Ar, I. M., & Baki, B. (2011). Antecedents and performance impacts of product versus process innovation: Empirical Evidence from SMEs located in Turkish science and technology parks. *European Journal of Innovation Management*, 14(2), 172-206.
- Atalay, M., Anafarta, N., & Sarvan, F. (2013). The relationship between innovation and firm performance: An empirical evidence from Turkish automotive supplier industry. *Procedia - Social and Behavioral Sciences*, 75, 226 – 235.
- Ayyagari, M., Beck, T., & Kunt, A. A. (2007). Small and Medium Enterprises Across the Globe. *Small Business Economics*, 29, 415-434.
- Bagozzi, R. P., & Yi, Y. (1988). On the evaluation of structural equation models. *J Acad Mark Sci.*, 16(1),74 – 94.
- Baker, W. E., & Sinkula, J. M. (1999). Learning Orientation, Market Orientation, and Innovation: Integrating and Extending Models of Organizational Performance. *Journal of Market Focused Management*, 4(4), 295–308.
- Baron, R. M., & Kenny, D. A. (1986). The Moderator–mediator Variable Distinction in Social Psychological Research: Conceptual, Strategic, and Statistical Considerations. *Journal of Personality and Social Psychology*, 51(6), 1173.
- Brik, A. B., Ben, A., & Mellahi, K. (2011). Market Orientation, Corporate Social Responsibility, and Business Performance. *Journal of Business Ethics*, 99 (3): 307–324.
- Buli, B.M. (2017). Entrepreneurial orientation, market orientation and performance of SMEs in the manufacturing industry. *Management Research Review* 40(3), 292–309.
- Burke, A., Gorg, H., & Hanley, A. (2008). The Impact of Foreign Direct Investment on New Firm Survival: Static v. Dynamic Industries. *Small Business Economics*, 31(4), 395-407.
- Charles, L., Joel, C., & Samwel, K.C. (2012). Market Orientation and Firm Performance in the Manufacturing Sector in Kenya. *European Journal of Business and Management*, 4(10), 20-28.
- Comtesse, X. L., Hodgkinson, A., & Krug, E. (2002). Success factors and barriers to innovation in Switzerland. *Avenir Suisse and Enterprise Forum of Switzerland. Business Review*, 82(7/8), 86-91.
- Corvellec, H. (1997). *Stories of Achievements: Narrative Features of Organizational Performance*. New Brunswick: Transaction Publishers.
- D'Attoma, I., & Pacei, S. (2016). Evaluating the Effects of Product Innovation on the Performance of European Firms by Using the Generalised Propensity Score. *German Economic Review*, 19(1), 94-112.
- Distanont, A., & Khongmalai, O. (2018). The role of innovation in creating a competitive advantage. *Kasetsart Journal of Social Sciences*, 41(1), 15–21.
- Edinburgh Group. 2012. *Growing The Global Economy Through SMEs*. www.edinburgh-group.org.
- Eggert, A., Thiesbrummel, C., & Deutscher, C. (2014). Differential effects of product and service innovations on the financial performance of industrial firms. *J Bus Mark Manag.*, 7(3), 380–405.
- Eniola, A. A., & Entebang, H. (2015). SME Firm Performance-Financial Innovation and Challenges. *Procedia - Social and Behavioral Sciences*, 195, 334-342.
- Etikan, I., S.A. Musa, and R.S. Alkassim. 2016. Comparison of Convenience Sampling and Purposive Sampling. *American Journal of Theoretical and Applied Statistics* 5(1): 1-4.
- Filatotchev, I., Su, Z., & Bruton, G. (2017). Market Orientation, Growth Strategy, and Firm Performance: The Moderating Effects of External Connections. *Management and Organization Review*, 13(3), 575-601.
- Fombang, M. P. S., & Adjasi, C. K. (2018). Access to finance and firm innovation. *Journal of Financial Economic Policy*, 10(1), 73-94.
- Fontana, R., & Nesta, L. (2009). Product innovation and survival in a high-tech industry. *Review of Industrial Organization*, 34(4), 287–306.
- Fornell, C., & Larcker, D. F. (1981). Evaluating structural equation models with unobservable variables and measurement error. *J Mark Res.*, 18(February), 39 – 50.
- Galia, F., & Legros, D. (2004). Complementarities between obstacles to innovation: evidence from France. *Research Policy*, 33, 1185-1199.
- Garavito, Y., Uribe-Bermúdez, & Marcela, J. (2016). Analysis Of The Determinants Of Firm's Survival. 10.13140/RG.2.1.1354.4569.
- Gavrea, C., Ilieș, L., & Stegorean, R. (2011). Determinants Of Organizational Performance: The Case Of Romania. *Management & Marketing Challenges For The Knowledge Societ*, 6(2), 285-300.
- Gruber-Muecke, T., & Hofer, K. M. (2015). Market Orientation, Entrepreneurial Orientation, and Performance in Emerging Markets. *International Journal of Emerging Markets*, 10(3), 560-571.
- Hadjimanolis, A. (1999). Barriers to innovation for SMEs in a small less developed country (Cyprus). *Technovation*, 19, 561-570.
- Hair, J. F. JR., Anderson, R. E., Tatham, R. L. & Black, W. C. (2010). *Multivariate Data*

- Analysis. Seventh edit. New Jersey: Prentice Hall International.
- Hartono, A., & Kusumawardhani, R. (2018). Innovation Barriers and Their Impact on Innovation: Evidence from Indonesian Manufacturing Firms. *Global Business Review* 20(5): 1196–1213.
- Haryanto, A. T., & Haryono, T. (2015). The Influence of Market Orientation on Innovation Type and Enterprise Performance. *Polish Journal of Management Studie*, 11(1), 68-78.
- Haugland, S. A., Myrveit, I., & Nygaard, A. (2007). Market orientation and performance in the service industry: A data envelopment analysis. *Journal of Business Research*, 60(11), 1191–1197.
- Helmers, C., & Rogers, M. (2010). Innovation and the Survival of New Firms in the UK. *Rev Ind Organ*, 36(3), 227–248.
- Helmers, C., & Rogers, M. (2010). Innovation and the Survival of New Firms in the UK. *Rev Ind Organ.*, 36(3), 227–248.
- Hilman, H., & Kaliappen, N. (2014). Market Orientation Practices and Effects on Organizational Performance: Empirical Insight From Malaysian Hotel Industry. *SAGE Open*, 4(4), 1-8.
- Hooper, D., Coughlan, J., & Mullen, M. R. (2008). Structural Equation Modelling: Guidelines for Determining Model Fit. *Electronic Journal of Business Research Methods*, 6(1), 53-60.
- Hox, J. J., & Boeije, H. R. (2005). Data Collection, Primary vs. Secondary. *Encyclopedia of Social Measurement*, 1, 593 – 599.
- Hudson, M., Smart, A., & Bourne, M. (2001). Theory and practice in SME performance measurement systems. *International Journal of Operations & Production Management*, 21(8), 1096-1115.
- Irwan, Ch., Andari, T. T., & Mukmin, M. N. (2019). The Effect of Market Orientation and Entrepreneurship on Performance in Customer Perspectives. 3rd International Conference for Social Science. Ho Chi Minh City, Vietnam. 14-15 October.
- Jakimowicz, A., & Rzekowski, D. (2019). Do barriers to innovation impact changes in innovation activities of firms during business cycle? The effect of the Polish green island. *Equilibrium. Quarterly Journal of Economics and Economic Policy* 14(4): 631–676.
- Jaya, G. N. M., Hermina, N., & Sunengsih, N. (2019). CB-SEM and VB-SEM: Evaluating Measurement model of Business Strategy of Internet Industry in Indonesia. *International Journal of Scientific & Engineering Research*, 10(10), 878-993.
- Jimenez, D. J., & Valle, R. S. (2011). Innovation, organizational learning, and performance. *Journal of Business Research*, 64(4), 408–417.
- Jyoti, J., & Sharma, J. (2012). Impact of Market Orientation on Business Performance: Role of Employee Satisfaction and Customer Satisfaction. *Vision*, 16(4), 297–313.
- Kaplan, R.S., & Norton, D.P. (1992). The balanced scorecard: the measures that drive performance'. *Harvard Business Review* 70(1), 71-79.
- Karabulut, A. T. (2015). Effects of Innovation Types on Performance of Manufacturing Firms in Turkey. *Procedia - Social and Behavioral Sciences*, 195, 1355 – 1364.
- Laforet, S. (2008). Size, Strategic, and Market Orientation Affects On Innovation. *Journal of Business Research*, 61, 753-764.
- Lee, Y. K., Kim, S. H., Seo, M. K., & Hight, S. K. (2015). Market orientation and business performance: Evidence from franchising industry. *International Journal of Hospitality Management*, 44, 28–37.
- Liu, J., & Su, J. (2013). How does market orientation affect product innovation in China's manufacturing industry: The contingent value of dynamic capabilities. *Proceedings of International Conference on Education Technology and Management Science (ICETMS 2013)*, 165-169.
- Lukas, B. A. & Ferrel, O. C. (2000). The Effect of Market Orientation On Product Innovation. *Journal of The Academy of Marketing Science*, 28(2), 239-247.
- Madeira, M. J., Carvalho, J., Moreira, J., Duarte, F., Pedro, F. & Filho, F. (2017). Barriers to Innovation and the Innovative Performance of Portuguese Firms. *Journal of Business*, 9(1), 2-22.
- Madrid-Guijarro, A., Garcia, D., & Auken, H. V. (2009). Barriers to innovation among Spanish manufacturing SMEs. *Journal of Small Business Management*, 47 (4), 465-488.
- Madrid-Guijarro, A., Garcia, D., & Auken, H. V. (2013). An investigation of Spanish SME innovation during different economic conditions. *Journal of Small Business Management*, 51(4), 578-601.
- Mahmoud, M. A., Blankson, C., Owusu-Frimpong, N., Nwankwo, S., & Trang, T.P. (2016). Market orientation, learning orientation and business performance. *International Journal of Bank Marketing*, 34(5), 623–648.
- Manu, F. A., & Sriram, V. (1996). Innovation, Marketing Strategy Environment and Performance. *Journal of Business Research*, 35, 79-91.
- March, J. G., & Sutton, R. I. (1997). Organizational performance as a dependent variable. *Organization Science*, 8(6), 698–706.
- Mensah, F. B., & Acquah, I. S. K. (2015). The Effect of Innovation Types on the

- Performance of Small and Medium Size Enterprises in the Sekondi Takoradi Metropolis. *Archives of Business Research*, 3(3), 77-98.
- Mohamad, M., Afthanorhan, A., Awang, Z., & Mohammad, M. (2019). Comparison Between CB-SEM and PLS-SEM: Testing and Confirming the Maqasid Syariah Quality of Life Measurement Model. *The Journal of Social Sciences Research*, 608-614.
- Morgan, N. A., Vorhies, D. W., & Mason, C. H. (2009). Market Orientation, Marketing Capabilities, and Firm Performance. *Strat. Mgmt. J.*, 30, 909–920.
- Morgan, N. A., Vorhies, D. W., & Mason, C. H. (2009). Market Orientation, Marketing Capabilities, and Firm Performance. *Strat. Mgmt. J.*, 30, 909–920.
- Moullin, M. (2007). Performance measurement definitions, Linking performance measurement and organisational excellence. *International Journal of Health Care Quality Assurance*, 20(3), 181-183.
- Narver, J. C., & Slater, S. F. (1990). The effect of a market orientation on business profitability. *Journal of Marketing*, 54(4), 20–35.
- Nguyen, T. P., Phan, A. T. T., & Nguyen, M. T. T. (2016). Knowledge Creation, Innovation and Financial Performance of Firms: Evidence from Vietnam. *International Journal of Business and Management*, 11(6), 95-107.
- Nuryakin. (2018). Competitive Advantage and Product Innovation: Key Success of Batik Smes Marketing Performance in Indonesia. *Academy of Strategic Management Journal*, 17(2).
- Nwokah, N. G. (2008). Strategic Market Orientation and Business Performance: The Study of Food and Beverages Organisations in Nigeria. *European Journal of Marketing*, 42(3/4), 279-286.
- Otieno, M., & Omwanza, C. (2018). Effect of Product innovation on Financial Performance of Private Manufacturing firms in Kenya. *Researchchacies International Journal of Business and Management Studies*, 2(1), 51-67.
- Penrose, E. T. (1959). *The Theory of the Growth of the Firm*. New York: John Wiley.
- Piatier A. (1984). *Barriers to Innovation*. London: Frances Pinter.
- Rodrigues, A. P., & Pinho, J. C. M. R.. (2010). Market orientation, job satisfaction, commitment and organisational performance: The specific case of local public sector. *Transforming Government: People. Process and Policy*, 4(2),172-192.
- Roepa, J. (2011). The Reasons and Symptoms of Failure in SME. *Int Adv Econ Res*, 17(4), 476–483.
- Šályová, S., Táborecká-Petrovičová, J., Nedelová, G., & Dado, J. (2015). Effect of Marketing Orientation on Business Performance: A Study from Slovak Foodstuff Industry. *Procedia Economics and Finance*, 34, 622-629.
- Schumpeter, J.A. (1934). *The Theory of Economic Development*. Harvard University Press. Cambridge.
- Shehu, A. M., & Mahmood, R. (2014). The Relationship between Market Orientation and Business Performance of Nigerian SMEs: The Role of Organizational Culture. *International Journal of Business and Social Science*, 5(9), 159-168.
- Siddiqui, K. (2013). Heuristics for Sample Size Determination in Multivariate Statistical Techniques. *World Applied Sciences Journal* 27 (2): 285-287.
- Sohn, S. Y., & Jung, C. S. (2010). Effect of Creativity on Innovation: Do Creativity Initiatives Have Significant Impact on Innovative Performance in Korean Firms?. *Creativity Research Journal*, 22 (3), 320-28.
- Tajeddini, K. (2016). Financial Orientation, Product Innovation and Firm Performance: An Empirical Study in the Japanese SME. *International Journal of Innovation and Technology Management*, 13(3), 1-30.
- Tuan, N., Nguyen, N., Pham, G., & Nguyen, N. (2016). The effects of innovation on firm performance of supporting industries in Hanoi, Vietnam. *Journal of Industrial Engineering and Management*, 9(2), 413-431.
- Van Hemert, P., Nijkamp, P., & Masurel, E. (2013). From innovation to commercialization through networks and agglomerations: analysis of sources of innovation, innovation capabilities and performance of Dutch SMEs. *Ann Reg Sci.*, 50(2), 425–452.
- Varis, M., & Littunen, H. (2010). Types of innovation, sources of information and performance in entrepreneurial SMEs. *European Journal of Innovation Management*, 13(2), 128-154.
- Wernerfelt, B. (1984). A resource-based view of the firm. *Strat. Mgmt. J.*, 5(2), 171-180.
- Wright, R.E., Palmer, J.C., & Perkins, D. (2005). Types of Product Innovations and Small Business Performance in Hostile and Benign Environments. *Journal of Small Business Strategy*, 5(2), 33-44.
- Yu, Q., Yen, D. A., Barnes, B. R., & Huang, Y. A. (2017). Enhancing firm performance through internal market orientation and employee organizational commitment. *The International Journal of Human Resource Management*, 1–24.
- Zhang, J., & Duan, Y. (2010). The impact of different types of market orientation on product innovation performance Evidence from Chinese manufacturers. *Management Decision*, 48(6), 849-867

