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Original Research Article

The Influence of Entrepreneurial and Market Orientation on Business Performance through Mediation of Innovation Capability: Implementation of SMEs in Indonesia

Kresna Dameshifa[1*], Anwar Azazi[1], Erna Listiana[1], Helma Malini[1], Heriyadi[1]

[1]Faculty of Economics and Business, Universitas Tanjungpura, Indonesia

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Abstract: This study aims to determine the effect of entrepreneurial and market orientation on business performance and test the ability to mediate innovation between entrepreneurial orientation and market orientation on business performance in SMEs in Indonesia. Small and medium enterprises (SMEs) play a significant role in a country's economy. It makes SMEs very interesting to study. The form of research used in this study is a descriptive quantitative research method with a causal approach. The data collection method used a questionnaire with a sample of 219 respondents who owned SMEs through a purposive sampling technique—using Structural Equation Modeling (SEM) with AMOS 24 tools. The results of this study indicate that Entrepreneurial Orientation and Market Orientation have a positive and significant effect on Business Performance. The Ability to Innovate also has a positive and significant effect on Business Performance. It plays a significant mediating role in the Entrepreneurial Orientation and Market Orientation of SMEs in Indonesia.

Keywords: Ability to Innovate, Entrepreneurial Orientation, Market Orientation, Business Performance, SMEs, Innovation Capability, Business.

1. INTRODUCTION

Small and medium enterprises (SMEs) are considered a powerful engine for economic performance and the development of most economies (Islam, Khan, Obaidullah, and Alam, 2011 in Alexander Muzenda, 2014: 30). according to (Swerczek and Ha, 2003 in Alexander Muzenda, 2014: 30), industrial development policy authorities in most developing countries have realized the considerable contribution made by SMEs to achieving sustainable local economic development and poverty alleviation through job creation. The development of SMEs in Indonesia requires SMEs to survive and be ready to compete with other SMEs. It has spurred SMEs to create new and different businesses, of course, with good performance. Most SME owners do not have broad views and knowledge, so they are short-term oriented. Efforts to improve performance tend to be conventional due to a need for more knowledge in management. In determining product prices, it is often only oriented to general conditions in the industrial environment, and labor is rarely considered. Thus, they often need to be more accurate in measuring business productivity which ultimately leads to business performance (Yusni *et al.*, 2009).

Innovation capability is one of the core value creation capabilities (Maydeu-Olivares, 2001), Han *et al.*, (1998) suggest that market orientation has a positive impact on organizational innovation. The rationale is based on the fact that market-oriented companies can develop learning environments. Also, market-oriented companies can introduce innovation activities. The degree of openness and involvement in decision-making will facilitate managers' commitment to innovation. Likewise, sharing information and resources will also increase the company's acceptance of new ideas and innovation.

Entrepreneurial orientation is a company orientation that focuses on efforts to identify and exploit opportunities (Lumpkin & Dess, 1996). Miller (1983) defines an 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 towards changes in the market. Miller and Friesen (1983) stated that companies with strong entrepreneurial orientations would have a more vital ability to innovate than other companies. Meanwhile, Lumpkin and Dess (1996) stated that companies with a robust entrepreneurial orientation would be more willing to take risks and not

***Corresponding Author:** Kresna Dameshifa
Faculty of Economics and Business, Universitas Tanjungpura, Indonesia

just stick to past strategies. In a dynamic environment, entrepreneurial orientation is significant for the company's survival.

According to Kohli & Jaworski (1990), market orientation is a company's ability to generate information about consumers and competitors. According to Prakorsa (2005), market orientation is a single-dimensional construct consisting of 3 behavioral components, 1) customer orientation, namely, a company focusing on customers is an essential element in market orientation, including obtaining information about customer needs and wants, taking action based on intelligence market, strategy based on customer understanding (Kohli & Jaworski, 1990), 2) competitor orientation, namely, understanding of the strengths, weaknesses, and capabilities of competitors (Narver & Slatter, 1990), 3) inter-functional coordination, namely, elements in a business can contribute to creating customer value (Narver & Slatter, 1990).

The business performance of a business organization needs to be measured multi-dimensionally. Business performance measurement can be from financial and non-financial aspects (Skrinjar *et al.*, 2008). The financial aspects in measuring business performance include operating income, sales level, profit level, and asset growth. Non-financial aspects can be measured, among others, from marketing aspects such as market share, customer satisfaction, customer loyalty, complaints from consumers, or organizational growth. Performance measurement from non-financial aspects is intended to project the long-term condition of the company. In general, SMEs measure their business performance based on short-term operational achievements. SME business performance is usually measured by sales, profit, and operating income (Wood, 2006). Most SMEs still need a neat recording or documentation mechanism. In addition, SMEs also need more human resources capable of planning business and periodic performance evaluations.

This research is necessary because it can provide information on the effect of entrepreneurial orientation and market orientation on business performance and test the ability to innovate between entrepreneurial orientation and market orientation on business performance in SMEs in Indonesia.

2. LITERATURE REVIEW

2.1 Innovation Capability

According to Pinchot (1985), innovation starts from small and specific things, which means it involves funds and people in small and limited numbers and is shown to reach a small and limited market, which is then reinforced by the opinion of Brimm (1988) who states that most innovation activities are a trial-and-error stage, so the possibility is still there. Furthermore, according to Peters (1989), innovation starts from small things because this activity is uncertain and has a considerable risk of failure. Innovations made by the organization will bring up new behaviors. Therefore, new attitudes or behaviors indicate better creativity or development. There are four cultural variables proposed in innovation activities according to Hurley and Hult (1998): 1. Participation in decision-making 2. Support (support) 3. Self-development 4. Division of tasks from the studies above, understanding the concept of the ability to innovate is ideas or ideas that arise by being shown by attitudes and behavior that lead to creativity in the form of participation in decision-making, support, self-development, and division of tasks.

2.2 Entrepreneurial Orientation

Porter (2008) defines entrepreneurial orientation as a company's benefits strategy to compete more effectively in the same marketplace. Meanwhile, according to Gosselin (2005), a significant relationship exists between defined entrepreneurial orientation and company performance. The findings of Culhane (2003), who conducted research, show that the entrepreneurial spirit partially does not determine company performance. However, through the interaction of strategic processes and changes in economic conditions in each country, the entrepreneurial spirit significantly affects company performance. Meanwhile, Miller and Fneseri (1982) revealed that entrepreneurial orientation is acceptable for explaining business performance. Entrepreneurial orientation refers to processes, practices, and decision-making that leads to new inputs and has three entrepreneurial aspects: daring to take risks, acting proactively, and always being innovative (Lumpkin and Dess, 1996).

2.3 Market Orientation

Market orientation is an essential factor that can affect company performance Jaworski and Kohli (1993). Market-oriented companies always use market information to meet current customer needs and predict/anticipate future needs. The speed of accessing and responding to market information is related to the company's adaptive ability. Narver and Slater (1990) define market orientation as the most effective and efficient organizational culture for creating behaviors that can produce the best for buyers and produce superior performance for the company. Craven (2004) defines market orientation as setting strategic consumer targets and building an organization that focuses on customer service, provides a competitive basis that focuses inward, and provides services that meet consumer expectations so that it succeeds in winning a competition. Based on these two definitions of market orientation, it is a way for organizations to identify markets and use them as a basis for determining corporate strategy. Companies that are successful in controlling the market are referred to as market drive firms, which always place customer orientation and competitor orientation in harmony, resulting in better marketing performance (Alam, 2013). Therefore, the

main concepts in market orientation are a customer and competitor orientation.

2.4 Business Performance

Business performance is an achievement a business organization achieves, and the results can be seen. Researchers have agreed that business performance measurement is insufficient to use a single measure (Dan & Wensley, 1998; Jaworski & Kohli, 1993). In research conducted by Jaworski and Kohli (1993) and Chang (1998), company performance was measured by overall business performance compared to last year and overall performance compared to its main competitors, while Slater and Narver (2000) said the business performance was measured by profitability compared to with a set target. The definition of performance refers to the level of attainment or achievements of the company within a certain period. The company's performance can be seen from the sales, profit level, return on capital, turnover rate, and market share it has achieved. The company's strategy is always directed at producing good marketing performance (such as sales volume and sales growth rate) and sound financial performance. It causes various performance measurements in business sector research to continue to develop based on various indications.

3. Empirical Model & Hypotesist

3.1 Market Orientation – Entrepreneurial Orientation

SMEs with an entrepreneurial orientation have skills in assessing consumer needs and are likely to be the first to offer products and services in the market and make line and brand extensions to new business market segments. Previous research conducted by Affendy *et al.,* (2015) found that entrepreneurial orientation has a positive and significant relationship with market orientation in Small and Medium Enterprises in Malaysia. The higher the development of entrepreneurial orientation in SMEs, the higher the market orientation. Research conducted by Ma *et al.,* (2012) found that being proactive and courageous in taking risks (risk taking) influences the market orientation of social enterprises in South Korea. Thus the hypothesis proposed is as follows:

H1: Market Orientation has a positive and significant effect on Entrepreneurial Orientation.

3.2 Market Orientation – Innovation Capability

Narver and Slater (1990) define market orientation as an organizational culture that is most effective in creating behaviors essential for superior value creation for buyers and performance in business. Han *et al.,* (1998) found that market orientation has a positive influence on innovation, both technical innovation and administrative innovation. Thus the hypothesis proposed is as follows:

H2: Market Orientation has a positive and significant effect on Innovation Capability.

3.3 Entrepreneurial Orientation – Innovation Capability

Research Parkman *et al.,* (2012) found that Entrepreneurial Orientation had a positive and significant effect on the ability to innovate in a creative industry. The research was conducted at architectural firms in the western region of America. (Galindo & Picazo, 2013; Hafeez *et al.,* 2012) also researched entrepreneurs and found that entrepreneurial orientation has a significant positive effect on a company's innovation ability and can positively impact a country's economic growth, especially for developing countries. Thus, the hypothesis proposed is as follows:

H3: Entrepreneurial Orientation has a positive and significant effect on Innovation Capability.

3.4 Market Orientation – Business Performance

Research conducted by Li *et al.,* (2008) found that market orientation dimensions, including customer orientation, competitor orientation, and inter-functional coordination, affect SMEs' performance in several provinces in China. Jaworski and Kohli (1993), as quoted by Adinoto (2013), state that market orientation is an essential factor affecting company performance. Market-oriented companies always use market information to meet current customer needs and predict/anticipate future needs. The speed of accessing and responding to market information is related to the company's adaptive ability. Thus, the hypothesis proposed is as follows:

H4: Market Orientation has a positive and significant effect on Business Performance.

3.5 Entrepreneurial Orientation – Business Performance

Entrepreneurial orientation can be determined based on four dimensions, namely need for achievement, internal locus of control, self-reliance, and extroversion (Lee and Tsang, 2001), while Wiklund (1999) states that a higher entrepreneurial orientation can increase a company's ability to market its products towards better business performance. Previous research by Andwiani (2013) showed a significant effect of entrepreneurial orientation on company performance. Moreover, the study of Baum *et al.,* (2001) stated that entrepreneurship has a direct effect on business performance in terms of entrepreneurial elements such as internal locus, need for achievement, extroversion, educational experience, and self-reliance influencing business growth. Thus, the hypothesis proposed is as follows:

H5: Entrepreneurial Orientation has a positive and significant effect on Business Performance

3.6 Innovation Capability – Business Performance

Lewrick *et al.,* (2010) stated that both entrepreneurs who had run their businesses from 1996 to 2007 and newly established businesses in the United States needed innovation to improve a company's business performance. Companies that have learned to

improve their innovation capabilities can increase their business growth actively. Chaston & Scott (2012) found that the performance of a product from a company in Peru will increase if a company involves innovation and learning in it. It is because companies that implement innovation are believed to extend their product life cycle. Thus, the hypothesis proposed is as follows:

H6: Innovation Capability has a positive and significant effect on Business Performance.

3.7 Entrepreneurial Orientation - Innovation Capability – Business Performance

Hafeez *et al.,* (2012) found that innovation is a missing link that connects entrepreneurial orientation with the performance of small and medium enterprises in Pakistan. The relationship between innovation and performance is said to have a crucial relationship in business growth and is one of the factors that can distinguish the advantages of a business. In line with Ndubisi & Ikhtifar (2012), who found that innovation mediates between risk-taking and proactivity, which is an indicator of entrepreneurial orientation with the performance of small and medium enterprises, a business with more excellent innovation capability when combining existing resources will be more successful in responding to change. Happening in the business environment. Thus, the hypothesis proposed is as follows:

H7: Innovation Capability is able to mediate Entrepreneurial Orientation to Business Performance significantly

3.8 Market Orientation - Innovation Capability – Business Performance

Research conducted by Johnson *et al.,* (2009) stated that innovation can mediate between market orientation and performance. In line with the research of Altuntas *et al.,* (2013) stated that innovation is highly dependent on market orientation and will play a role as a mediator to drive organizational performance in private healthcare organizations in Turkey. Thus, the hypothesis proposed is as follows:

H8: Innovation Capability is able to mediate Market Orientation toward Business Performance significantly.

4. METHODOLGY

4.1 Measurements

Causal research is the design chosen in this study. This study used questionnaires distributed to respondents considered to meet predetermined criteria. The questionnaire uses a 5-point Likert scale (1 = strongly disagree, 5 = strongly agree). Market orientation is measured using two items adapted from (Uncles, 2000). Entrepreneurial orientation is measured using two items adapted from (Lee & Tsang, 2001). The ability to innovate is measured using two items adapted from (Liao *et al.,* 2007). While Business Performance is measured using two items adapted from (Kotabe, 1991).

4.2 Sampling and Data Collection

The number of samples collected and examined in this study was 219 respondents. The sample involved is a respondent who owns a UKM. Sampling locations were distributed in various cities in Indonesia, such as Jakarta, Pontianak, Bandung, Medan, Surabaya, Semarang, Makassar, Denpasar, Manado, and various other regions of Indonesia, through online questionnaires.

4.3 Data Analysis

This study was analyzed using the Structural Equation Modeling (SEM) method through AMOS 24. By using SEM, three types of analysis activities can be carried out simultaneously, namely testing the model of the relationship between variables associated with the measurement model, obtaining an appropriate model for predictions related to structural model analysis, as well as checking the validity and reliability of the instrument related to confirmatory factor analysis. The overall fit of the model was measured using chi-square (ÿ2), root means squared residual (RMR), goodness of fit index (GFI), Tucker Lewis Index (TLI), Incremental Fit Index (IFI), Comparative Fit Index (CFI), Normed Fit Index (NFI). Furthermore, SEM analysis aims to determine whether the research hypothesis is accepted or rejected. SEM analysis displays the t-score value for each coefficient. The hypothesis can be influential if the t-score value is t-table (1.96) with a significance level (generally = 0.05). Meanwhile, the indirect effect of the mediating variable is determined by carrying out the Sobel test.

5. RESULT AND DISCUSSION

5.1 Respondent Characteristics

The analysis of the respondents' profiles in this research was based on the following demographic characteristics:

Table 1: Characteristics of Respondents

Category	Item	f	%
Gender	Male	116	53%
	Female	103	47%
	Total	**219**	**100%**
Domicile	Jakarta	43	19,6%
	Pontianak	40	18,1%
	Bandung	23	10,5%
	Surabaya	26	11,9%

Category	Item	f	%
	Medan	17	7,8%
	Semarang	20	9,1%
	Makassar	13	5,9%
	Denpasar	7	3,2%
	Manado	13	5,9%
	Palembang	7	3,2%
	Bali	2	0,9%
	Bogor	2	0,9%
	Singkawang	1	0,5%
	Banjarbaru	1	0,5%
	Surakarta	1	0,5%
	Solo	1	0,5%
	Purworejo	1	0,5%
	Bojonegoro	1	0,5%
	Total	**219**	**100%**
Age	Under 21 Year	7	3,2%
	21 – 30 Year	101	46,1%
	31 – 40 Year	81	37%
	41 – 50 Year	29	13,2%
	Above 50 Year	1	0,5%
	Total	**219**	**100%**
Last Education	Elementary	0	0%
	Junior High School	5	2,3%
	Senior High School	71	32,4%
	Diploma	48	21,9%
	Undergraduate	86	39,3%
	Graduate (master/doctoral)	9	4,1%
	Total	**219**	**100%**
How long have you been running this business?	Less than 1 year	37	16,9%
	1 – 5 years	126	57,5%
	6 – 10 years	41	18,7%
	11 – 15 years	13	5,9%
	More than 15 years	2	1%
	Total	**219**	**100%**

Based on table 1, male respondents have a percentage of 53%, a total of 116 respondents from 219 respondents, so men are more dominant in this study. Respondents aged 21-30 years had the highest percentage of 46.1%, with 101 out of 219 respondents, so respondents aged 21-30 were more dominant in this study. Respondents who live in Jakarta have the highest percentage of 19.6%, with 43 out of 219 respondents, so respondents who live in Jakarta are more dominant in this study. Respondents whose last education was D4/S1 had a percentage of 39.3%, 86 out of 219 respondents, so their last education, D4/S1, was more dominant in this study. Respondents who have run their businesses within 1 -5 years have the highest percentage of 57.5%, several 126 respondents from 219 respondents, so respondents who have run their businesses within 1 -5 years are more dominant in this study.

5.2 Measurement and Structural Models

The results regarding the validity and reliability tests, as well as the goodness of fit, can be presented as follows:

Table 2: Measurement Model Results

Variabel	Indikator	Item	SLF	AVE	CR
Market Orientation	Customer Orientation	MO1	0,735	0,556246	0,929984
		MO2	0,742		
		MO3	0,777		
		MO4	0,743		
	Competitor Orientation	MO5	0,730		
		MO6	0,747		
Entrepreneurial Orientation	Potential Development	EO1	0,723	0,549211	0,893242

Variabel	Indikator	Item	SLF	AVE	CR
		EO2	0,748		
	Risk Taking	EO3	0,753		
		EO4	0,740		
Innovation Capability	Product Innovation	IC1	0.702	0,540065	0,912169
		IC2	0,720		
		IC3	0,759		
		IC4	0,748		
	Innovation Managerial	IC5	0,744		
Business Performance	Sales Performance	BP1	0,738	0,554593	0,866337
	Sales Growth	BP2	0,756		
		BP3	0,740		

Table 2 is the result of testing the validity and reliability of the overall model. The standardized loading factor (SLF) value of all indicator variables in the full model is above 0.50. It means that all indicators are declared valid and are believed to be able to measure the construct of the entire model being built. The results of the reliability test present relevant results. All instruments are declared reliable and can consistently measure the constructs of the entire model built. It is shown from the AVE value of all indicator instruments, which obtains a value of ≥0.50, and the value of construct reliability (CR), which obtains a value of ≥0.70.

Table 3: Goodness of Fit Index

Goodness of Fit Index	Cut off Value	Results
CMIN/DF	≤ 3.00	1,236
RMSEA	≤0,08	0,033
RMR	≤0,05	0,017
GFI	≥0,90	0,927
TLI	≥0,90	0,987
IFI	≥0,90	0,989
CFI	≥0,90	0,989
NFI	≥0,90	0,946

Table 3 is the result of the fit test model. The model fit test results show that the model suitability requirements can be accepted and declared fit. Eight measurements display the degree of good fit. Hair *et al.*, (2014: 583) state that a research model construct can be declared fit and accepted if three to four measurements obtain a degree of good fit or above the cut-off value.

5.3 Hypotheses Testing

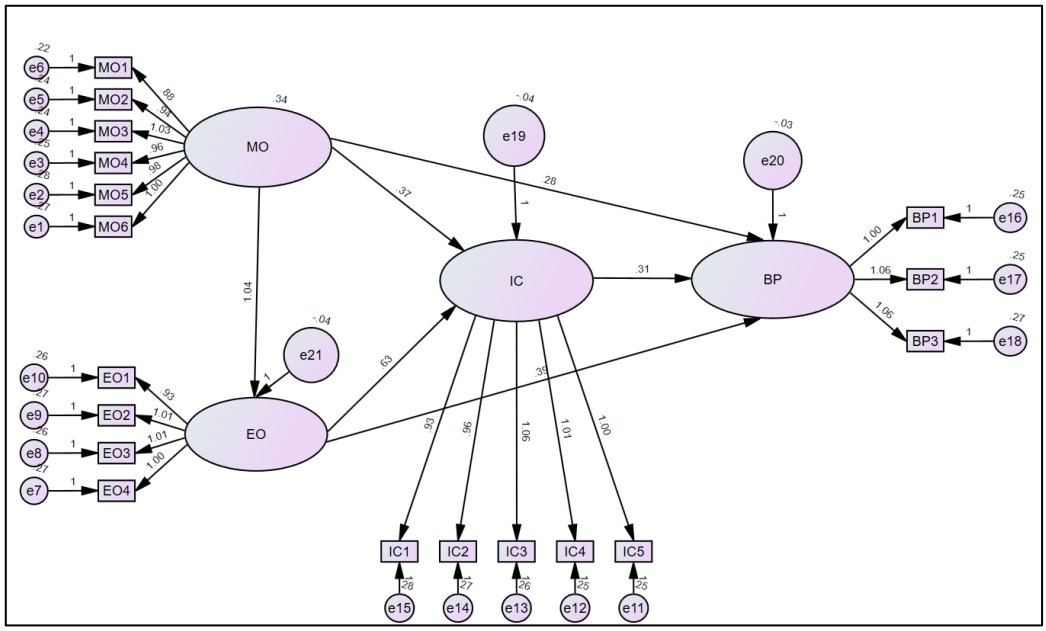

Fig. 1: Full Model Structural Test

The results of testing the effect of the relationship between variables in the research construct built in this study can be presented as follows.

Table 4: Hypothesis Testing

Item			Std Estimate	S.E.	C.R.	p-values	description
Market Orientation	--->	Entrepreneurial Orientation	1,044	0,086	12,111	***	Par_20
Market Orientation	--->	Innovation Capability	0,374	0,129	2,907	0,004	Par_15
Entrepreneurial Orientation	--->	Innovation Capability	0,632	0,130	4,867	***	Par_16
Market Orientation	--->	Business Performance	0,276	0,114	2,432	0,015	Par_17
Entrepreneurial Orientation	--->	Business Performance	0,394	0,170	2,321	0,020	Par_18
Innovation Capability	--->	Business Performance	0,310	0,113	2,752	0,006	Par_19

Based on table 4, in H1, the t-score value of Market Orientation to Entrepreneurial Orientation is 12.111, more significant than the t-table value (1.96), and the p-value is smaller than 0.001; less than 0.05 (α = 0.05). This result is related to H1, where Market Orientation has a positive and significant effect on Entrepreneurial Orientation. In H2, the Market Orientation t-score for Innovation Capability is 2.907, more significant than the t-table value (1.96), and the p-value is smaller than 0.001; less than 0.05 (α = 0.05). This result is related to H2, where Market Orientation positively and significantly affects Innovation Capability. On H3, the t-score value of Entrepreneurial Orientation on Innovation Capability is 4.867, more significant than the t-table value (1.96), and the p-value is smaller than 0.001; less than 0.05 (α = 0.05). This result is related to H3, where Entrepreneurial Orientation has a positive and significant effect on Innovation Capability. In H4, the market orientation t-score on business performance is 2.432; more significant than the t-table value (1.96), and the p-value of 0.015 is less than 0.05 (α = 0.05). These results are related to H4, where Market Orientation positively and significantly affects Business Performance. On H5, the t-score value of Entrepreneurial Orientation on Business Performance is 2.321; more significant than the t-table (1.96), and the p-value of 0.020 is less than 0.05 (α = 0.05). This result is related to H5, where Entrepreneurial Orientation has a positive and significant effect on Business Performance. In H6, the Innovation Capability t-score value for Business Performance is 2.752, more significant than the t-table value (1.96), and the p-value is smaller than 0.001; less than 0.05 (α = 0.05). This result is related to H6, where Innovation Capability positively and significantly affects Business Performance.

Table 5: Sobel Test - Significance of Mediation

Item					Sobel test statistic	Two-tailed probability	description
Entrepreneurial Orientation	-->	Innovation Capability	-->	Business Performance	2,387	0,016	Accepted
Market Orientation	-->	Innovation Capability	-->	Business Performance	1,982	0,047	Accepted

Based on the results of the Sobel test in Table 5, the H7 Sobel test statistical value was 2.387. The p-value was 0.016. These results indicate that the statistical value of the Sobel test is greater than the t-table (1.96). Likewise, the p-value obtained is smaller than 0.05 (α = 0.05). It shows an indirect effect of Entrepreneurial Orientation on Business Performance through Innovation Capability. The same results were obtained for the H8 Sobel test statistic of 1.982, more significant than 1.96, and a p-value of 0.047, less than 0.05 (α = 0.05). Thus there is an indirect effect of Market Orientation on Business Performance through Innovation Capability.

6. DISCUSSION

This study aims to examine the relationship of variables with each other by creating a new model in Entrepreneurial Orientation and Market Orientation on Business Performance through Mediation of Innovation Capability. Entrepreneurial Orientation has a positive and significant influence on Market Orientation. SMEs with an entrepreneurial orientation have skills in assessing consumer needs and are likely to be the first

to offer products and services on the market and make line and brand extensions to new business market segments. The results of this study show that entrepreneurial Orientation has a positive and significant relationship with market orientation, where the higher the development of entrepreneurial Orientation in SMEs, the higher the market orientation (Affendy *et al.,* 2015).

Market Orientation has a positive and significant influence on the Ability to Innovate. Market Orientation is a process and activity related to the creation and satisfaction of customers by carrying out the latest innovations. The results of this study are in line with previous studies, which concluded that market orientation has a positive influence on innovation, both technical innovation and administrative innovation (Han *et al.,* 1998).

Entrepreneurial Orientation has a positive and significant influence on the Ability to Innovate. The ability to innovate is defined as the capacity to develop new products that can satisfy market needs, apply technological processes that are more suitable for producing these products, develop and adopt new products and processing technologies for future needs, as well as responding to unexpected technological activities and unexpected opportunities created by competitors. This study's results align with previous studies, which concluded that Entrepreneurial Orientation positively and significantly influences the Ability to Innovate (Galindo & Picazo, 2013; Hafeez *et al.,* 2012).

Entrepreneurial Orientation has a positive and significant influence on Business Performance. SMEs with strong entrepreneurial Orientation will develop strong innovation capabilities and generate high business performance. This study's results align with previous research, which concluded that Entrepreneurial Orientation has a positive and significant influence on Business Performance (Baum *et al.,* 2001). Wiklund (1999) states that a higher entrepreneurial orientation can increase a company's ability to market its products toward better business performance.

The Ability to Innovate has a positive and significant influence on Business Performance. Bharadwaj) *et al.,* (1993) argue that the company can continue to innovate its products and keep these products in accordance with the wishes and needs of customers. This study's results align with previous research, which concluded that the Ability to Innovate has a positive and significant influence on Business Performance (Lewrick *et al.,* 2010).

7. CONCLUSIONS

This study shows that entrepreneurial and market orientation positively and significantly impact business performance through innovation capability. The development of SMEs requires SMEs to survive and be ready to compete with other SMEs. It has spurred SMEs to create the ability to innovate new and different businesses with good performance. Most SME owners do not have broad views and knowledge, so they are short-term oriented. Efforts to improve performance tend to be conventional due to a need for more knowledge in management. In determining product prices, it is often only oriented to general conditions in the industrial environment, and labor is rarely considered. Thus, they often need to be more accurate in measuring business productivity, ultimately leading to business performance (Yusni *et al.,* 2009). The results of this study are expected to develop more in-depth and comprehensive research on the effect of entrepreneurial orientation and market orientation on business performance through the ability to innovate.

8. Limitation and Future Research

This study has several limitations that provide direction for further research. First, the sample size used was only 219 respondents in this study, which may need to be revised to represent the population, especially in Indonesia. Therefore, future studies are advised to rely on a larger sample. Second, this research is limited because it is only conducted on SME businesses in Indonesia and only uses entrepreneurial orientation, market orientation, business performance, and the ability to innovate. Further research can take other variables that can affect the ability to innovate to increase generalization. For researchers, the results of this study are expected to become literature and references to develop more in-depth and comprehensive research on business performance.

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