

Product Innovation as a Bridge between Marketing and Entrepreneurial Orientation: Evidence from SMEs in Surabaya, Indonesia

Achmad Djuraidi¹, Nur Laily^{2*}, Juwita Sari³, Derra Ananda Waluyo⁴,
Ayunda Eka Safitri⁵ .

^{1,2,3}Management Department, Sekolah Tinggi Ilmu Ekonomi Indonesia Surabaya. Indonesia

⁴Management student, Sekolah Tinggi Ilmu Ekonomi Indonesia Surabaya. Indonesia

*Corresponding Author: Nur Laily²

ABSTRACT : This study aims to examine and analyze the effect of Marketing Orientation and Entrepreneurial Orientation on the Marketing Performance of SMEs through product innovation as a mediating variable. The type of research used is quantitative research, using descriptive analysis methods. Data collection in this study used primary data in the form of a questionnaire via Google Form. The sampling technique used a non-probability sampling method with certain criteria and considerations. The population in this study was SME owners in Surabaya, Indonesia, selected according to predetermined criteria. Based on the purposive sampling technique, a sample of 152 respondents was obtained. The data analysis technique used was PLS (Partial Least Square) with SmartPLS 3.0 software. The research results show that Marketing Orientation and Entrepreneurial Orientation have a positive and significant effect on the Marketing Performance of SMEs. Marketing Orientation and Entrepreneurial Orientation have a positive and significant effect on Product Innovation. Product Innovation has a positive and significant effect on the Marketing Performance of SMEs. Product innovation as an intervening variable is able to mediate the effect of Marketing Orientation and Entrepreneurial Orientation on Women's Business Performance positively and significantly. As a practical implication, SMEs need to be more active in understanding customer needs and monitoring market changes. This can be done by utilizing consumer surveys, digital trend analysis, and using customer data in designing marketing strategies. An entrepreneurial spirit such as innovation, courage to take risks, and proactivity must continue to be developed. SMEs can train their marketing and production teams to be more open to new ideas and dare to explore market opportunities, including those arising from digitalization .

KEYWORDS: Entrepreneurial Orientation, Marketing orientation, Marketing performance, Product innovation, SMEs, PLS-SEM

I. INTRODUCTION

Small and Medium Enterprises (SMEs) play a crucial role in the Indonesian economy. SMEs are often faced with the challenges of intense competition, dynamic changes in consumer preferences, and the pressures of globalization [1]. To survive and thrive in this competitive business environment, SMEs need to adopt effective strategies to improve their business performance. Business actors are required to increase their production output without sacrificing the quality of their products. Two strategic approaches considered crucial in boosting the business performance of SMEs are marketing orientation and entrepreneurial orientation.

Marketing orientation, which emphasizes understanding and fulfilling customer needs, has been proven to be a major driver of competitive advantage and organizational performance [2, 3]. Entrepreneurial orientation, characterized by innovation, risk-taking, and proactivity, is also considered a driving force for business growth and success, especially in the context of flexible and adaptive SMEs [4,5]. On the other hand, entrepreneurial orientation emphasizes a proactive, innovative, and calculated risk-taking attitude in facing business opportunities. [21] explains that entrepreneurial orientation is referred to as a spearhead for achieving highly competitive and sustainable company economic growth.

Product innovation, which refers to the introduction of new products or significant improvements to existing ones, is considered a strategic response to market needs and opportunities identified through marketing orientation [3]. Furthermore, an entrepreneurial spirit encourages organizations to continuously seek new ways to create value through the development of unique and differentiated products [8].

The city of Surabaya, Indonesia, is one of the cities that encourages its citizens to implement a people's economy, where all existing needs are met by MSMEs. As an effort to reduce the problems faced in the economic field, Micro, Small and Medium Enterprises (MSMEs) are the right solution to increase economic growth. MSME actors who are market-oriented and entrepreneurially-oriented determine strategies to start

developing their business by prioritizing consumer satisfaction and always accepting suggestions from consumers about the products offered, whether they meet consumer expectations or not [9, 10].

Several previous studies have shown mixed results. Research [11] shows that entrepreneurial orientation has a positive effect on innovation and SME performance. Meanwhile, another study [12] shows that the effect of marketing orientation on performance is highly dependent on the level of innovation within the organization. This indicates that the mediating role of product innovation is not yet fully clear, especially in the context of SMEs in Indonesia, particularly in Surabaya.

Research Gap: There are inconsistent results regarding the direct influence of marketing and entrepreneurial orientation on business performance. Some studies show a significant direct relationship, while others state the need for the role of a mediating variable (innovation). Therefore, a study titled "The Role of Product Innovation in Mediating the Effect of Marketing Orientation and Entrepreneurial Orientation on the Business Performance of SMEs " is worthy of being conducted. This study aims to examine and analyze the effect of Marketing Orientation and Entrepreneurial Orientation on the Marketing Performance of SMEs through product innovation as a mediating variable.

II. LITERATURE AND HYPOTHESES

2.1 Marketing Orientation

Marketing orientation is a strategic approach that emphasizes understanding the needs and wants of customers, as well as a rapid response to market changes. [3] state, "Market orientation refers to the organization-wide generation, dissemination, and responsiveness to market intelligence." According to Kohli and Jaworski (1990), market orientation is "the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it." Marketing orientation focuses on the company's philosophy and actions in identifying and meeting consumer needs and wants to achieve organizational goals. Kotler and Keller (2016) define the marketing concept as "a marketing management philosophy which holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors." Indicators of marketing orientation according [3, 2,] are Customer Orientation, Competitor Orientation, Interfunctional Coordination, and Market Intelligence.

2.2 Entrepreneurial Orientation

Entrepreneurial orientation reflects the managerial processes, practices, and decision-making that lead to entrepreneurship, such as innovation, proactivity, and risk-taking. Lumpkin & Dess (1996) state, "Entrepreneurial orientation is the strategic orientation capturing specific entrepreneurial aspects of decision-making styles, methods, and practices." Entrepreneurship is the ability to create something new and different by people who dare to take risks, spend time and energy, and create various products or services that then generate money, satisfaction, and personal freedom (14). Indicators of entrepreneurial orientation are Innovativeness, Proactiveness, and Risk-taking.

2.3 Product Innovation

Product innovation is the introduction of a new product or a significant improvement in the design and features of an existing product to meet market needs. According to the OECD (2005), "Product innovation refers to the development of new products or significant improvements in existing products in terms of quality or function." Product innovation is a form of innovation that focuses on the development and commercialization of new products or significant improvements to existing ones [16]. Product innovation plays a crucial role in business growth and sustainability as it allows companies to meet changing customer needs, create new markets, and maintain a competitive advantage [17]. The dimensions of product innovation [20] are: Novelty level, Product feature development, and Market acceptance.

2.4. Business Performance

Business performance is a measure of a business's success in achieving its objectives, encompassing both financial and non-financial aspects. [18] state, "Business performance encompasses both financial outcomes such as profit and sales, and non-financial metrics like customer satisfaction." Performance is the achievement or work result obtained by a person in carrying out their job. Marketing performance is a factor used by companies to measure the impact of the strategies that have been implemented as a product's market achievement, where every company is interested in knowing its product's position [19].

2.5. Hypotheses

H1: Marketing orientation has a positive effect on product innovation.

H2: Entrepreneurial orientation has a positive effect on the marketing performance of SMEs.

H3: Marketing Orientation has an effect on Product Innovation

H4: Entrepreneurial orientation has a positive effect on product innovation.

H5: Product innovation has a positive and significant effect on marketing performance.

H6: Product innovation mediates the effect of marketing orientation on the business performance of SMEs

H7: Product innovation mediates the effect of entrepreneurial orientation on the business performance of SMEs.

III. RESEARCH METHOD.

The type of research used is quantitative research, using descriptive analysis methods. Data collection in this study used primary data in the form of a questionnaire via Google Form. The sampling technique used a non-probability sampling method with certain criteria and considerations. The population in this study was SME owners in Surabaya, Indonesia, selected according to predetermined criteria. Based on the purposive sampling technique, a sample of 152 respondents was obtained. The data analysis technique used was PLS (Partial Least Square) with SmartPLS 3.0 software

IV. RESULT AND DISCUSSION

4.1 Description of Respondent Characteristics

Respondents based on gender, The results show that as many as 57% are male and 43% are female. Respondent Characteristics Based on Age, shows that the majority of respondents are aged 30-45 years = 55%. Respondent Characteristics Based on Last Education, the majority of respondents have a high school education = 67%. These results indicate that respondents are mature enough to understand the statements in the questionnaire, so this study is representative.

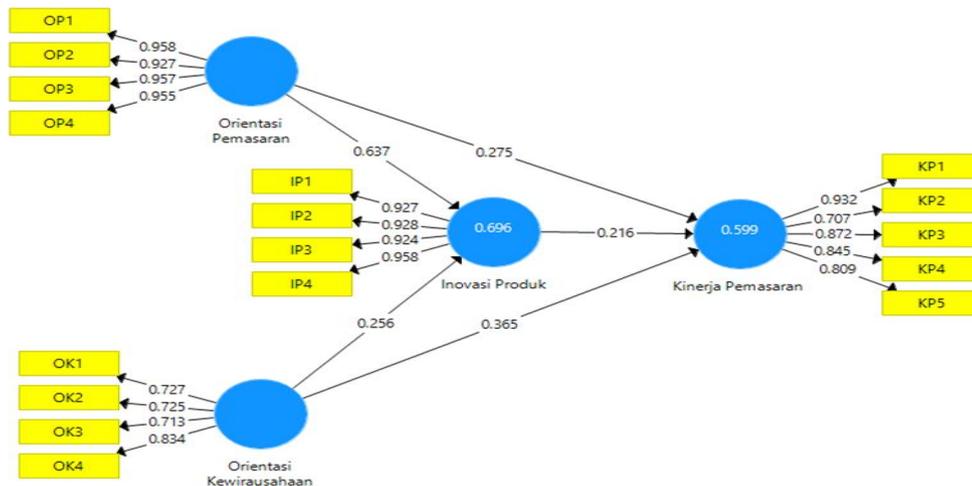


Figure 1. PLS Models

4.2 Outer Model Evaluation

The outer model test results show that all indicators are valid and reliable, with loading factor values > 0.7, AVE values > 0.5, and composite reliability values > 0.7. This indicates that the results of the outer model analysis meet the SEM PLS criteria

4.3 Inner Models Evaluation

Tabel 1. Coefficient of Determination (R2)

	R Square	Adjusted R Square
Product Innovation	0.696	0.692
Marketing Performance	0.599	0.591

Source: Primary data processed in 2025

The R2 value of 69.6% means that the diversity of the Product Innovation variable's values that can be explained by its exogenous variables is 69.6%, while the rest can be explained by other variables not present in the model. The R2 value of 59.9% means that the diversity of the Marketing Performance variable's values that can be explained by its exogenous variables is 59.9%, while the rest can be explained by other variables not present in the model.

Table 2. Path Coefficient Result of Direct Relationship and mediaton Effect

Entrepreneurial Orientation -> Product Innovation -> Marketing Performance,	0.055	0.056	0.030	1.847	0.065	Not Sig
Relationship of Construct Variables	Original sample	Avarage Sample	Standart Deviation	T Statistic	P Values	
Product Innovation ->Marketing Performance,	0.216	0.218	0.088	2.442	0.015	Sig
Entrepreneurial Orientation -> Product Innovation	0.256	0.255	0.077	3.333	0.001	Sig
Entrepreneurial Orientation -> Marketing Performance,	0.365	0.363	0.109	3.365	0.001	Sig
Market Orientation ->Product Innovation	0.637	0.635	0.090	7.106	0.000	Sig
Market Orientation -> Marketing Performance	0.275	0.272	0.128	2.147	0.032	Sig
Market Orientation -> Product Innovation -> Marketing Performance,	0.137	0.139	0.062	2.198	0.028	Sig

Source: Primary data processed in 2025

From Table 2, in the direct effect test results, the p-values are less than 0.05, so it can be concluded that there is a significant direct effect of the exogenous variables on the endogenous variable, thus hypotheses 1 to 5 are accepted. In the indirect effect test results, the p-value is less than 0.05, so it can be concluded that Product Innovation can mediate the effect of Marketing Orientation on Marketing Performance. Therefore, hypothesis 6 is accepted. The p-value of 0.065 is greater than 0.05, so it can be concluded that Product Innovation cannot mediate the effect of Entrepreneurial Orientation on Marketing Performance, thus hypothesis 7 is rejected.

4.5 Discussion:

This study demonstrates that market orientation and entrepreneurial orientation exert a positive and significant influence on the marketing performance of SMEs in Surabaya. Market orientation enables business actors to thoroughly understand consumer needs and adjust their strategies accordingly, thereby enhancing customer satisfaction, sales growth, and loyalty. In parallel, entrepreneurial orientation—characterized by innovativeness, proactiveness, and risk-taking—has been shown to strengthen competitiveness and consistently improve marketing outcomes. The findings further reveal that both market orientation and entrepreneurial orientation are strongly associated with product innovation. Market orientation encourages SMEs to adapt continuously to customer preferences and market dynamics, leading to the development of relevant and innovative products. Likewise, entrepreneurial orientation fosters the willingness to introduce new products or refine existing ones. These results are consistent with prior studies that highlight innovation as the central element of entrepreneurship and a critical driver of modern marketing strategies.

In addition, the study confirms that product innovation significantly contributes to marketing performance. Innovations in product quality, design enhancement, and new product development allow SMEs to build differentiation and strengthen their market competitiveness. Innovative offerings not only attract customers but also foster loyalty and support business growth. Therefore, product innovation serves as a strategic capability that bridges organizational orientation with superior marketing performance. Nonetheless, the mediating role of product innovation shows varying outcomes. Product innovation partially mediates the relationship between market orientation and marketing performance, yet it fails to mediate the relationship between entrepreneurial orientation and marketing performance. This may be attributed to the fact that SMEs’ innovations tend to be incremental, offering limited added value to consumers. Thus, innovation enhances marketing performance only when it provides substantial competitive advantage and is supported by adequate marketing capabilities and resources.

This research highlights the critical role of market orientation, entrepreneurial orientation, and product innovation in enhancing SME marketing performance in Surabaya. The novelty of the study lies in its examination of the mediating role of product innovation, which demonstrates a partial mediation between market orientation and marketing performance but no mediation between entrepreneurial orientation and marketing performance. This distinction provides new insights into the conditions under which innovation contributes to performance outcomes.

From a managerial perspective, the findings suggest that SME owners and managers should strengthen their market orientation by continuously monitoring customer needs and market trends to ensure that innovations address real consumer demands. While entrepreneurial orientation fosters creativity and risk-taking, innovation must move beyond incremental changes to deliver significant value for consumers. Managers should therefore

invest in marketing capabilities, R&D, and customer-driven product development strategies to transform entrepreneurial initiatives into competitive advantages.

V. CONCLUSION

This study confirms that market orientation and entrepreneurial orientation significantly enhance SME marketing performance, with product innovation playing a crucial but differentiated role. While market orientation improves performance both directly and indirectly through product innovation, entrepreneurial orientation influences performance only directly, as innovation fails to mediate the relationship. These findings underscore that innovation must deliver real customer value to effectively support performance, highlighting the need for SMEs to strengthen market orientation, foster entrepreneurial spirit, and pursue meaningful innovation to achieve sustainable competitiveness.

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