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Market Orientation and Business Performance: The Mediating Networking and Innovation

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Abstract

This study aims to identify and develop the concept of market orientation on business performance both directly and through networking and innovation. Questionnaires and interviews were conducted with SME owners in the creative craft industry, especially textile-based crafts (IKK), as well as non-textile creative Craft Industries in Malang, Indonesia, whose marketing has spread to various countries. The sampling technique was purposive sampling with certain respondent criteria. The data analysis technique was carried out using the Partial Least Square method. The study revealed that while market orientation positively influences networking and innovation, it has a negative impact on business performance when directly measured. However, networking and innovation, when considered together, can positively impact performance. Additionally, networking and innovation can both mediate the relationship between market orientation and business performance. This study offers a comprehensive model of the determinants of business performance success by considering aspects of networking and innovation in improving business performance.

Keywords: *Market Orientation, Networking, Innovation, Business Performance, Creative Craft Industry*

INTRODUCTION

The internet, science and technology have developed rapidly today. These developments encourage changes in the direction of the dynamics of mapping globally to form a new economy, namely the creative economy. This concept has previously been predicted by Toffler in *Future Shock* (1970) which states that the wave of human civilization is divided into three waves, including the phase of the agricultural century, the second wave of the industrial century, and the third wave of the information century. While Toffler's views did not stop here, theories continued to develop in line with the development of human civilization in the global era, which ultimately led to the emergence of a new era of the fourth wave of civilization. This new era of economic civilization is called the knowledge-based economy (creative-oriented economy).

The development of creative industries in Indonesia systematically began with Presidential Instruction Number 6 of 2009 and has also formulated the Indonesian Creative Economy Development Master Plan 2009-2025. The government's seriousness was strengthened by the establishment of the Ministry of Tourism and Creative Economy (2011). The creative industry in Indonesia is divided into 16 sub-sectors, one of which is the main focus of this research is the creative industry of crafts. The creative industry is a new economic concept that prioritizes skills and creativity as the main capital in creating added value. The existence of creative industries is important for shaping economic prosperity, and making human creativity the main economic resource (Florida, 2002). Creative industries will increasingly rely on knowledge through the emergence of creativity and innovation (Landry & Bianchini, 1995).

The craft industry is a work of art made using hand skills, with attention to functional aspects (physical needs) and beauty (emotional needs). Creative craft products are categorized as Indonesian applied artworks, which include all craft materials such as wood, metal, leather, glass, ceramics and textiles. This industry is experiencing uneven growth at the moment, so it is necessary to conduct further studies on its performance, although the perpetrators do not have research and development (R/D) like large companies, they are finally able to show

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their innovation performance as evidenced by the various products offered by the company. Based on the results of discussions and observations, this process is obtained from networking with customers and fellow industry players in the same industry and other industries in the network community. Shamsudin & Hassim (2020)stated that the chain of network relations and innovation to improve business performance begins with the implementation of a market-oriented culture. Market orientation is important for companies along with increasing competition and the dynamics of customer needs.

It is known that market orientation is a corporate culture that can encourage all parts of the organization to be sensitive to customer orientation, competitors and create cohesiveness between parts so that there is strong coordination within the company. This market-oriented culture will lead the company to actively network with consumers and other stakeholders to increase access to resource control. Market orientation culture is also a driving force for companies to continue to innovate in realizing products that meet market needs and ultimately can improve company performance.

Company performance is a concept used to measure the extent to which market performance has been achieved by a product produced by the company. Good company performance shows the success and efficiency of the company's behaviour. Augusty (2000) states that business performance is a factor that is often used to measure the impact of strategies implemented by companies. Camisón & Villar-López (2014) measure the performance of small and medium enterprises concerning three aspects, namely profitability, productivity, and market. Market orientation as a corporate culture will be a driving force so that all parts are sensitive to customer orientation, competitors and create cohesiveness between parts so that there is strong coordination within the company.

The results of empirical studies show that market orientation has a direct effect on business performance (Acosta et al., 2018; Affendy, 2015; Lee et al., 2015; Mahmoud, 2010; Rohmaniyah & Nurhayati, 2017; Udriyah et al., 2019).Different results show that market orientation does not affect performance (Harjadi & Gunawan, 2022; Shehu & Mahmood, 2014).

This gap triggers researchers to conduct further research to find the cause of the inconsistency in the hope that researchers can find the possible role of other variables in the relationship between market orientation and firm performance. The motivation for this research was also triggered by Wilkinson's (2005) observations and studies that identified a number of possible biases in market orientation research that resulted in the relationship between market orientation and business performance not all being positive, and some findings were also negative but still lacking explanation. Market orientation tends to be tested directly on firm performance without considering other factors. According to researchers' observations, market orientation should also be reviewed from other perspectives, such as networking and innovation, because the results of empirical studies show that networking in business is an important part of improving business performance (Andrevski, 2009; Mu & Di Benedetto, 2012; Naudé et al., 2014; Nyangarika, 2016; Surin & Wahab, 2013; Walter et al., 2006).

Another important variable to include is innovation. Innovation can be seen as the improvement of technology and better methods (Weerawardena et al., 2006), the creation of added value(Kuratko & Hodgetts, 2007), the process of idea creation, the development of inventions from products and processes to customer service (Thornhill, 2006). Tuan et al. (2016) state that innovation as a process of channeling ideas for performance, innovation can be measured from the results obtained by innovation has a positive and significant impact on business performance, innovation will direct the company to use resources effectively and efficiently so as to achieve optimal business performance (Daft, 2010; Rosli & Sidek, 2013).

Based on theoretical studies and empirical results as well as phenomena and problems that exist in the Creative Craft Industry (IKK) of Malang City, it is proposed to develop a new model that is not only market orientation and performance variables, but includes network and innovation variables. The objectives of this study are: 1. Analyse and explain the effect of market orientation on business performance. 2. Analyse and explain the effect of market orientation on networking.3. Analysing and explaining the effect of market orientation on innovation Analysing and explaining the effect of networks on innovation Analysing and explaining the effect of networks on business performance. 6. Analyse and explain the effect of innovation on business performance.7. Analyse

and explain the effect of market orientation on business performance through networking.8. Analyse and explain the effect of market orientation on business performance through innovation.

LITERATURE REVIEW

Resource-Based View (RBV)

The resource-based view is seen as a strategy in achieving organizational competitive advantage through the identification of heterogeneous organizational resources. This resource-based approach aims to classify the organization's strategic resources that have the most potential to create competitive advantage (Akio, 2005). RBV theory states that internal and external factors affect the performance of the company, which depends on the context of the competitive environment and industry context (Makhija, 2003). In the RBV view, performance is the result of the work of all resources within the company, organizational capabilities and uniqueness owned by the company or the performance of all internal resources and filling opportunities and challenges from the external company (Menguc, et al. 2010). RBV sometimes ignores important aspects such as heterogeneous resources and homogeneous resources. If these aspects are combined in RBV, it can produce heterogeneous and specific resources, thus becoming a source of competitive advantage and also having an impact on performance (Forcadell et al. 2017).

Business Performance

Business performance is a measure of achievement obtained from the overall business activities of a company or organization. Business performance is an indicator of the level of success in achieving company goals. Good company performance shows the success and efficiency of company behaviour. Augusty (2000) states that business performance is a factor that is often used to measure the impact of strategies implemented by companies. Camisón & Villar-López (2014) measure the performance of small and medium enterprises by referring to three aspects, namely profitability, productivity, and market. Most SMEs are not willing or object to providing company performance data with financial-related data, so it is possible to use the owner's perception approach (Dess and Beard, 1984). Don. Y. Lee & Tsang (2001) stated that the real conditions in SMEs are not yet available records that meet the applicable financial accounting standards, therefore performance measurement uses the owner's perception. Gin and Chong, (2008) revealed that SME performance can be measured in various ways, including financial performance (e.g., profitability, return on investment), product performance (e.g., product reliability, number of unique product features), and market performance (e.g., market share, customer satisfaction). SME performance measurement prioritizes the financial and non-financial aspects perceived by the SME owner/manager in relation to the appropriateness of the measure to the business achievement, as well as the degree of satisfaction of the measure with the performance achievement.

Innovation

Pervaiz and Shepherd (2010) state that innovation is not only limited to objects or goods produced, but also includes attitudes of life, behavior or movement towards the process of change in all forms of community life. So, in general, innovation means a new idea, product, information technology, institution, behavior, value, and practice that is not yet widely known, accepted, and used or applied by most members of society. Innovation can be used or encourage changes in all aspects of community life in order to realize the improvement of the quality of each individual and all members of the community concerned (Armstrong 2009). Innovation is a process that begins at the market stage, which is based on an assessment of customer needs, leading to idea generation, development and production or introduction of new products. Innovation is based on the internal environment, which emphasizes the ability of human resources to find new ideas and creativity that enable the development of innovation, in addition to innovation based on the external environment in the form of market needs assessment, so it can be said that optimal utilization of human resources can build competitive advantage.

Rogers (2003) states that innovation not only deals with new knowledge and new ways, but also with values, because it must be able to bring better results, so that in addition to involving new science and technology, innovation also involves perspective and social change. . Lesakova (2009) states that SME innovation is not only a very important determinant for the successful development of SMEs. SMEs are required to innovate

because they are under the pressure of market competition. From this point of view, the ability to compete in innovation plays a very important role as a factor of SME competitiveness. Atalay et al. (2013) in measuring innovation uses indicators of product innovation, process innovation, and marketing innovation.

Network

Networks are closely related to business activities, intertwined and interdependent as a consequence of these relationships, so they are naturally ubiquitous (Jamsa, et al., 2011). Networks include both hidden and active relationships, how individuals organize and determine these relationships, both consciously and unconsciously in various ways to reflect their needs (Jack, 2010). This reflects that networking in SMEs is an effort made by SME actors in achieving business goals as a reflection of the need for business continuity carried out by establishing relationships with constituents in related industries both vertically and horizontally.

Jamsa et al. (2011) see networking in SMEs as a view of competence in SMEs in conducting marketing activities. The competency view highlights skills and learning in networking and sees the activity as something that can be developed through investment of time and resources. In addition, relationships are also considered a source of social capital for SMEs. Social capital is understood as a system of individual relationships within a network (Ratten & Suseno, 2006). Members in a jugal network can provide the skills needed and required by the entrepreneur (Bosworth, 2009). Therefore, the relationships between SMEs in a network can even be seen as a resource in itself (Street & Cameron, 2007).

Networks can also have an impact on a firm's bargaining power and help identify new market opportunities, and make SME marketing activities more interactive and informal, as networks are seen as a more people-oriented marketing approach (Carson et al., 2004). Parida et al. (2017) suggested five components of network capability consisting of, (1) the company's ability to organize/coordinate collaborating partners, (2) the company's interpersonal relationship ability to influence partners, have information or knowledge about the company's partners and competitors, (3) the company's internal communication capability in channeling knowledge gained from partners, (4) the company's ability to build new relationships. Walter et al. (2006) revealed network indicators, namely coordination, relationship skills, partner knowledge, and internal communication. Meanwhile, Papastamatelou et al. (2016) state that the important parts of the network are network characteristics, network orientation and network resources.

Market Orientation

Market-oriented companies retain existing customers by maintaining customer satisfaction and loyalty, attract new customers, achieve the desired growth rate and market share, and consequently are able to achieve the desired level of business performance (Tsiotsou & Vlachopoulou, 2011). Wang et al. (2012) stated that the main concept of market orientation still involves generating disseminating, sharing information, and reacting well to changes in market needs to achieve organizational goals, ensuring customer needs and wants, while considering the interests of all stakeholders. Afsharghasemi et al. (2013) state that companies must ensure that the strategies developed must not be preceded by competitors in making new and better innovations in meeting the needs and desires of their consumers.

The application of Market Orientation in a business will have far-reaching consequences, including business performance, consumers, employees, and business innovation (Kirca et al., 2005). Afsharghasemi et al. (2013) state that companies must ensure that the strategies developed must not be preceded by competitors in making new and better innovations in meeting consumer needs and desires. Market-oriented organizations are required to be superior, can feel the needs and desires of the market and be able to respond to changing market needs (Rong et al., 2014).

Conceptual Framework

Based on phenomena, theoretical studies, and empirical studies, the conceptual framework of this research is as follows:

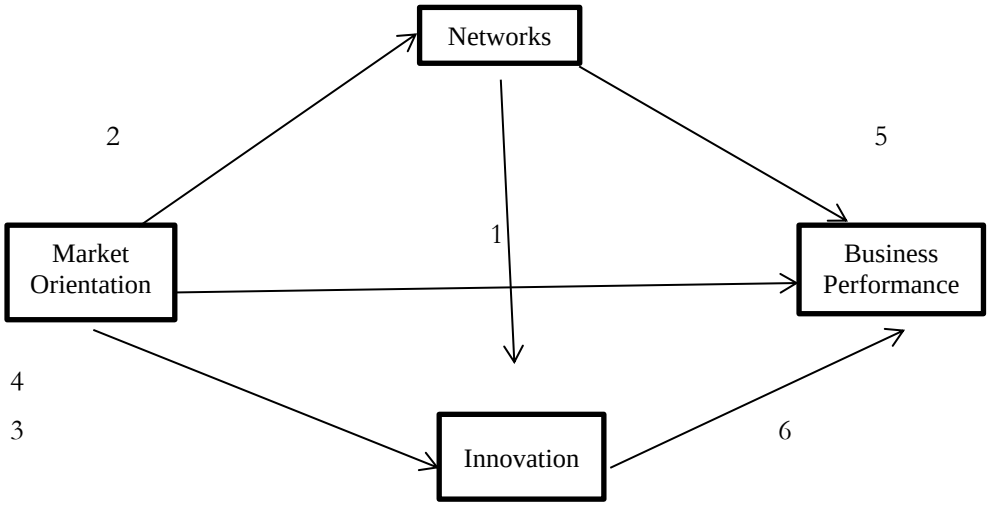

Figure 1 Conceptual framework

Hypothesis Development

Market Orientation has a significant effect on Business Performance

The development of the creative industry is characterized by improved business performance. In relation to business performance, the underlying theoretical study is the Resource Based View (RBV) explaining that performance is the result of the work of all resources within the company, the organizational capabilities possessed by the company or the performance of all internal resources and filling opportunities and challenges from external companies (Barney, 1991; Menguc et al., 2010). The importance of resources that have certain characteristics, can implement strategies to meet customer needs, a source of competitive advantage and in turn improve business performance. A number of researchers have concluded that improved business performance is due to the application of market orientation. Applied market orientation will form better customer relationships that can improve sales performance results, growth, market share and profits (Shehu & Mahmood, 2014). Empirical evidence shows that market orientation has a direct impact on SME business performance in Ghana (Mahmoud, 2010), SME business performance in Malaysia (Affendy, 2015), business performance of seaweed processing SMEs in South Sulawesi (Abdullah et al., 2017), and business performance of textile SMEs in Selangor, Malaysia (Udriyah et al., 2019). Based on these findings, the following research hypotheses are proposed:

H1: Market orientation has a significant effect on business performance

Market Orientation has a significant effect on Network

Cadogan & Diamantopoulos (1995) state that with market orientation, companies will try to learn market knowledge, disseminate market knowledge and take actions that are classified based on customer and competitor orientation based on a good marketing network mechanism. The results of Rohmaniyah and Nurhayati's (2017) research concluded that market orientation has a positive and significant effect on networking, meaning that the higher the market orientation, the company can know, uenderstand and answer customer needs and expectations, so good networking is needed in dealing with others. Based on these findings, the following research hypothesis is proposed:

H2: Market orientation has a significant effect on networking

Market Orientation has a significant effect on Innovation

The ability of craftsmen to innovate is influenced by market orientation. Pinho (2008) states that market orientation has a positive and significant effect on innovation creation. Lukas & Ferrell (2000) state that by innovating a person will make positive changes that lead to progress, and better conditions. Agarwal et al. (2003)

also state that market orientation has a positive and significant relationship to product innovation. Suliyanto & Rahab (2011)stated that SMEs that have a market orientation have a positive and significant effect on product innovation. Based on these findings, the following research hypothesis is proposed:

H3: Market orientation has a significant effect on innovation

Network has a significant influence on Innovation

Networking is done in order to increase knowledge and the ability to innovate. By networking, businesses assess the competence of external network partners including universities, companies, and government (Varrichio, 2012). Networking with various partners will increase innovation due to knowledge sharing (Tsai, 2009). The results of research by Nima et al. (2020) showed that the relationship between networking skills, interorganizational knowledge mechanisms and interorganizational learning outcomes has an impact on corporate innovation performance. Based on these findings, the following research hypotheses are proposed:

H4: Networking has a significant effect on Innovation

Network has a significant effect on Business Performance

Walter et al. (2006) research reveals that networking is defined as the company's ability to initiate, develop and utilize internal organizational and external organizational relationships. Building new relationships is important to build innovative orientation to build higher performance (Parida et al., 2017). Network capabilities are not only about finding and managing external networks from the company, network capabilities are also about network relationships within the company itself. Naudé et al. (2014) concluded that the performance of SMEs in Iran is influenced by network structure and external network behavior. Surin & Wahab (2013) also concluded that network centrality has a positive and significant effect on SME performance in Malaysia. Nyagarika (2016) stated that networking through ICT utilization among SMEs in Dares Salaam City, Tanzania contributes positively to SME performance. Based on these findings, the following research hypotheses are proposed:

H5: Networking has a significant effect on business performance

Innovation has a signrohmificant effect on Business Performance

Tuan et al. (2016) state that innovation is the process of channeling ideas to achieve performance, innovation can be measured by the results obtained by the company. This innovation has a positive and significant impact on performance. Rosli & Sidek (2013) concluded that product innovation and process innovation affect the performance of SMEs in Malaysia. Abdilahi et al. (2017) concluded that innovation has a significant effect on the performance of SMEs in Hargeisa Somaliland. Kijkasiwat & Phuensane (2020) also concluded that innovation has a significant effect on SME performance in Eastern Europe and Central Asia. Based on these findings, the following research hypothesis is proposed:

H6: Innovation has a significant effect on business performance

Market Orientation has a significant effect on Business Performance through Networks

The application of market orientation forms better relationships with customers and can improve sales performance results, growth, market share and profits (Shehu & Mahmood, 2014). This business performance will be even better if the company does networking, because networking helps the creative craft industry expand its market share, Walter et al. (2006) revealed four components of network capabilities, namely coordination, relationship skills, partner knowledge, and internal communication. A dense network structure will reinforce the positive effects for the tendency to improve the firm's performance strategy (Andrevski, 2009). Naudé et al. (2014) concluded that the performance of SMEs in Iran is influenced by network structure and external network behavior. The effect of market orientation on business performance becomes stronger and has many advantages because it is supported by a good network. Based on these findings, the following research hypotheses are proposed:

H7: Market orientation has a significant effect on business performance through networking

Market Orientation has a significant effect on Business Performance through Innovation

If the creative craft industry has a good market orientation, then the company will know well about the product innovations that must be produced to gain a competitive advantage and will further improve its business performance. That is the relationship between market orientation and product innovation to business performance in the creative industry. Hurley & Hult (1998) state that market orientation is the key to the success of product innovation that will be produced by the company. These innovations can make the company improve its business performance. Based on these findings, the following research hypotheses are proposed:

H8: Market orientation has a significant effect on business performance through innovation

Validity and Reliability Test

This study investigates the relationship between market orientation, innovation, networking, and business performance. Market orientation has 7 indicators, innovation has 6 indicators, networking has 6 indicators, and business performance has 9 indicators. Research instrument validity test.

METHODOLOGY

The population in this study was 275 creative craft industries in Malang City, East Java, Indonesia. This study used a purposive sampling method with the criteria; (1) having received assistance from the City of Malang, (2) having a variety of products produced of more than 2 kinds, (3) being a member and active in the creative craft community, (4) having a minimum of 2 units/sections in the organization. The variables of this study include the exogenous variable of market orientation, the intervening variables of networking and innovation, and the endogenous variable of business performance. This research tested both directly and indirectly on each construct in the research model. The data collection method used in this study is a personality questionnaire, which is data collected using a personal questionnaire. The data collected includes data on market orientation, networking, innovation, and business performance. The questions in the questionnaire were made using a Likert scale of 1 to 5. The distribution of the questionnaire was carried out through an online questionnaire sent via google form either sent personally or in groups. To get an overview of the object of research, researchers also conducted interviews with several business actors, owners or managers who are considered to understand and know business activities. This effort is needed to enrich the researcher's insight into the object of research.

In this study, the Partial Least Square (PLS) approach was used using Smart PLS software. According to Ghozali (2008) PLS is an alternative approach that shifts from a covariance-based SEM approach to a variance-based approach. Covariance-based SEM generally tests causality/theory, while PLS is more of a predictive model. Evaluate the measurement model or outer model by testing convergent validity, discriminant validity, composite reliability, average variance extract (AVE), and Cronbach Alpha values. The convergent validity value is the loading factor value on the latent variable with its indicator which is expected to be greater than 0.7. Discriminant validity is the value of the cross loading factor value which is useful for determining whether the construct has adequate discriminant. This is done by comparing the loading value on the intended construct with the loading value of other constructs. Data that has composite reliability> 0.8 has high reliability. For AVE, the expected value should be higher than 0.5. The reliability test is strengthened by the Cronbach Alpha value. The expected value of Cronbach Alpha should be higher than 0.6 for all constructs.

Testing on the structural model is carried out to test the relationship between latent constructs. There are several tests for structural models. First, R Square on endogenous constructs. The R Square value is the coefficient of determination on endogenous constructs. According to Chin (1998), the value of R square is 0.67 (strong), 0.33 (medium) and 0.19 (weak). The second is done with the Bootstrap procedure. Third, using the predictive relevance (Q square) or known as Stone-Geisser's. This test is conducted to determine the predictive ability with the blindfold procedure. If the value obtained is 0.02 (small), 0.15 (medium) and 0.35 (large).

RESULTS AND DISCUSSION

Validity and Reliability Test

This study investigates the relationship between market orientation, innovation, networking, and business performance. Market orientation has 7 indicators, innovation has 6 indicators, networking has 6 indicators, and business performance has 9 indicators. The validity test of the research instrument is based on the outer loading value of each indicator. The research instrument is declared to have a high level of validity if the loading value exceeds 0.7. Table 1 shows that all loading values for each indicator have values greater than 0.7. Thus it can be concluded that the indicators that form the basis for preparing the research questionnaire have good accuracy (valid) in measuring the research variables. Cronbach's Alpha as a measure of the reliability of the research instrument has met the criteria if it exceeds 0.7. Table 2 shows the results of the reliability test on all research variables have a value exceeding 0.7. Thus it can be concluded that the research instruments used to measure the research variables have a good level of consistency.

Table 1. Outside Loading Indicators

	Innovation (X3)	Network (X2)	Business Performance (Y2)	Market Orientation (X1)
IN1	0.777			
IN2	0.835			
IN3	0.762			
IN4	0.912			
IN5	0.874			
IN6	0.862			
JJ1		0.833		
JJ2		0.834		
JJ3		0.868		
JJ4		0.821		
JJ5		0.749		
JJ6		0.832		
KB1			0.778	
KB2			0.855	
KB3			0.901	
KB4			0.874	
KB5			0.830	
KB6			0.840	
KB7			0.742	
KB8			0.926	
KB9			0.844	
OP1				0.848
OP2				0.901
OP3				0.893
OP4				0.885
OP5				0.889
OP6				0.884
OP7				0.838

Source: Data processed 2024.

Table 2. Cronbach's Alpha Value and Composite Reliability

	Cronbach's Alpha	Composite Reliability
INNOVATION	0.915	0.934
NETWORK	0.905	0.927
PERFORMANCE	0.949	0.957
MARKET ORIENTATION	0.950	0.959
GOVERNMENT ROLE	0.915	0.940

Source: Data processed 2024.

Hypothesentest

Table 3 below shows the results of the relationship between market orientation, innovation, networking, and business performance.

Table 3. Path Coefficient

	Jalur	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistiks (|O/STDEV|)	P Values
H 1	**Market Orientation (X1) -> Business Performance (Y2)**	0.012	0.013	0.032	0.381	***0.703***
H 2	**Market Orientation (X1) ->Network (X2)**	0.756	0.759	0.035	21.354	**0.000**
H 3	**Market Orientation (X1) -> Innovation (X3)**	0.395	0.394	0.120	3.299	**0.001**
H 4	**Network (X2) ->Innovation (X3)**	0.366	0.371	0.112	3.275	**0.001**
H 5	**Network (X2) -> Business Performance (Y2)**	0.110	0.113	0.025	4.353	**0.000**
H 6	**Innovation (X3) -> Business Performance (Y2)**	0.015	0.013	0.029	0.498	***0.619***

Source: Data processed 2022.

Based on Table 3, it can be concluded that the effect of market orientation on business performance is not proven to have an effect with a path coefficient value of 0.012 and a P value of 0.703 which is greater than Alpha 0.05). Market orientation towards networking is statistically proven to have a positive and significant effect with a coefficient value of 0.756 P Values 0.000. This finding indicates that a strong market orientation has encouraged the firm to improve its network. Market orientation towards innovation is statistically proven to have a positive and significant effect with a coefficient value of 0.395 P Values 0.001. This finding shows that a strong market orientation has an impact on the ability to innovate. Network to Innovation is statistically proven to have a positive and significant effect with a coefficient value of 0.366 P Values 0.001. This finding indicates that network capacity enables firms to improve their ability to innovate. Network on business performance is statistically proven to have a positive and significant effect with a coefficient value of 0.110 P Values 0.000. This finding indicates that network capacity allows companies to improve their business performance. Innovation on business performance is statistically proven to have no significant effect with a coefficient value of 0.015 P Values 0.619. This finding indicates that innovation does not directly affect business performance.

The mediating role of network variables on the effect of market orientation on business performance can be seen from the path coefficient and the resulting significance level. As shown in table 4, the paths of market orientation to network and network to business performance are both positive and significant. This indicates that the network has a role as a mediating variable. The mediating role of innovation variables on the effect of market orientation on business performance is not proven. This can be seen from the path coefficient and the resulting significance level in table 3, the path of market orientation to innovation is significant while innovation to business performance is not significant. This shows that innovation is not proven to play a role as a mediating variable.

Table 4. Mediation Testing

Jalur	Path coefficient	Total influence	Sobel test	Description
Market Orientation (X1) -> Network (X2) -> Business Performance (Y2)	0.756 x 0.110	0.083	0.0000	Networking Significantly Mediates
Market Orientation (X1) -> Innovation (X3) -> Business Performance (Y2)	0.395 x 0.015	0.005	0.6093	Innovation Does Not Significantly Mediate

Source: Primary data processed, 2024.

The quality of the research model tested as described in the framework can be seen in the R Square value obtained on each path presented in table 5 below.

Table 5. R Square

Path coefficient	R Square
Innovation (X3)	0.509
Network (X2)	0.572
Business Performance (Y2)	0.975

Source: Data processed 2022.

Based on the results of the R-Square value, the results of the calculation of the Q-Square value in this study are as follows:

$$Q2 = 1- (1-R1) (1-R2) (1-R3)$$
$$= 1- (1-0.509) (1-0.572) (1-0.975)$$
$$= 0.993$$

The results of the calculation of the Q-Square value of 0.993, the research model in this study is categorized as a strong model. This means that 99.3% of variations in endogenous variables (business performance) can be predicted by variations in exogenous variables (market orientation, networking, innovation, government role). While the remaining 0.7% is explained by other variables not included in this research model.

Table 6. Evaluasi Goodness of Fit

Variable	R-Square	Communality
Market Orientation		0.771
Role of Government		0.801
Networking	0.509	0.690
Innovation	0.572	0.731
Business Performance	0.975	0.715
Average	**0.685**	**0.515**

Source: Primary data processed, 2023.

Based on Table 6, the calculation of Goodness of Fit (GoF) is:

$$GoF = \sqrt{(AR2x\ ACom.)}$$
$$= \sqrt{(0.685x0.515)}$$
$$= 0.352$$

Description: AR2 = mean R-Square

ACom. = mean commonality

From the results of these calculations, it can be concluded that the structural model in this study generally has great predictive properties, meaning that the model has a high ability to explain empirical data.

DISCUSSION

The results of this study show that market orientation and innovation have no significant effect on the business performance of the creative craft industry in Malang, East Java Indonesia. The factor that affects firm performance in this study is networking. Networking in this study is more important than market orientation and innovation. The creative craft industries in this study developed networks to achieve various objectives, including obtaining information and knowledge about the market, as well as obtaining other information for decision-making, obtaining raw materials, specialization, increasing efficiency, and as a vehicle for learning from others. Parties. It can be concluded that market orientation and innovation are included in the network. This

result is very different from the findings of Shehu & Mahmood (2014). Shehu & Mahmood (2014) found that the application of market orientation will form better customer relationships that can improve sales performance results, growth, market share and profits. The results of this study also contradict Abdilahi et al. (2017) who found innovation has a significant effect on the performance of SMEs.

Market orientation in this study has no effect on company performance, but has a significant effect on networks and innovation. This means that with market orientation, companies will try to learn knowledge about the market, disseminate knowledge about the market and take actions that are classified based on orientation to customers and competitors guided by a good marketing network mechanism. Armstrong (2009) states that innovation is a process that begins at the market stage (market orientation) which is based on an assessment of customer needs, then leads to the creation of ideas, development and production or introduction of new products. In addition, innovation is also based on the external environment in the form of market needs assessment or market oriented, so it can be said that optimal utilization of human resources can build competitive advantage.

This study found that networking is able to mediate the relationship between market orientation and firm performance. This means that the performance of the creative craft industry will be better if the company does networking, because networking helps the creative craft industry expand its market share. Finally, innovation is unable to mediate the relationship between market orientation and company performance. This result is very contrary to the results of Hult's research (1998) which found that innovation is able to mediate the relationship between market orientation and firm performance.

This research reveals that market orientation affects innovation by 51%. This means that 49% of innovation is influenced by other factors, such as knowledge. Similar to innovation, only 58% of networks are influenced by market orientation and the other 42% are influenced by other factors, such as government involvement. In this study, 96% of firm performance is influenced by market orientation, innovation and networking. This is a strong influence.

CONCLUSIONS

The conclusion of this study can state that the performance of the creative craft industry in Malang, East Java Indonesia is only influenced by the network and the network is also able to mediate the effect of market orientation on firm performance. Networks have a significant effect on innovation, but innovation is not able to mediate the relationship between market orientation and firm performance.

Market orientation has no direct impact on business performance. Market orientation requires other variables, in this case, mediated by networking and innovation.

The practice of market orientation in the organization will increase the intensity of IKK actors to network. This is because, in the practice of market orientation, there is a need to establish strategic partnerships with customers, suppliers, and stakeholders.

The practice of market orientation in the organization will increase the need to innovate because customer orientation requires companies to always update market needs. Therefore, innovation is something that can increase competitiveness.

Networking capabilities owned by Creative Craft industry players can be a medium for learning. Networking activities are generally accompanied by sharing knowledge so that it can increase creativity capabilities which will have an impact on innovation.

By networking, access to information between UMKM will be a source of new knowledge about the market so that activities related to the marketing mix. For example, price policies, marketing distribution, and promotion will be more in line with market conditions so that marketing programs are right on target and have an impact on their performance.

Innovation has no impact on performance. In a turbulent market situation due to external factors. The results of the company's innovations do not have a significant impact on its performance.

Market orientation practices will have an impact on performance when the market orientation culture is able to increase the ability to network.

Market orientation practices will have an impact on performance when market orientation practices are able to increase the ability to innovate

Moreover, this research has several implications. Theoretically, this research shows that market orientation theory will effectively improve performance when corporate culture can improve the network of the company. Also, market orientation theory will effectively improve performance when corporate culture can increase innovation. Practically, this research proves that business actors must continue to innovate appropriately, especially about customer needs and timing. Innovation is done while still having a strong market orientation because it has an impact on business development and performance. Likewise, business actors must also build networks with their groups and external parties intensely. Networking will provide benefits to the internal and external aspects of the business organization and can increase business effectiveness and efficiency. Networking will provide a solution to the problem of limited resources and access to stakeholders.

Last but not least, this research also has limitations. This research is built on a quantitative paradigm of data collection that only relies on distributing questionnaires so that opportunities to explore deeper information are limited. The number of samples is limited because the sample is adjusted to the criteria so it is not easy to get.

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