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THE ROLE OF PRODUCT INNOVATION IN MEDIATING THE EFFECT OF MARKET ORIENTATION ON MARKETING PERFORMANCE AMONG HAND ACCESSORY MSMES IN GIANYAR REGENCY

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Abstract

This study aims to analyze the role of product innovation in mediating the influence of market orientation on marketing performance among hand accessories MSMEs in Gianyar Regency. The method employs a quantitative causal design with a purposive sampling technique involving 50 artisans, analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS). The results indicate that both market orientation and product innovation positively and significantly impact marketing performance, with product innovation serving as a strong partial mediator. Theoretically, these findings strengthen the Resource-Based View (RBV) paradigm in small businesses by proving product innovation acts as a dynamic capability that forms a competitive advantage from market insights. Practically, the study concludes that understanding consumer trends will not optimally boost profit without creative product execution. MSME owners are advised to actively enhance market sensitivity and routinely refresh visual designs, model variations, and material quality to maintain profitability amidst intense competition in Gianyar's creative industry.

Keywords: Market Orientation, Product Innovation, Marketing Performance

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) in Bali Province play a strategic role in driving regional economic growth and preserving local culture (Dinas Koperasi dan UKM Provinsi Bali, 2023). Gianyar Regency occupies a strategic position as it has the largest population of business units in Bali, serving as the heart of the creative economy and the artistic center of tourism (Putra & Dewi, 2023). Amidst fierce competition in this craft center, the hand accessory craft subsector has emerged as one of the most dynamic subsectors due to its ability to blend traditional artistic values with modern global market trends (Saraswati & Santika, 2019; Sunarya, 2022).

Despite possessing high aesthetic potential, market phenomena present fierce competitive challenges among business actors. Real profitability data from several accessory craft outlets in Gianyar shows an unstable pattern of net profit fluctuations, experiencing a severe downturn entering the first quarter of the year. This drastic decline in profit is driven by weak monitoring of local competitors' movements and slow responses by business owners toward shifting consumer preferences and declining purchasing power.

Facing these market challenges, artisans are required to possess a strong market orientation to swiftly understand shifting customer preferences (Asahi & Sukaatmadja, 2017). According to Slater & Narver (1994), market orientation is an organizational culture that places customer satisfaction at the core of business strategy through the continuous gathering of market needs information and monitoring competitor movements. Theoretically, companies that consistently apply market orientation tend to hold a competitive advantage because they are capable of creating higher value for customers compared to competitors (Arfiansyah & Rizaldy, 2024; Hanif et al., 2022; Tjiptono, 2019).

Several empirical studies present mixed results where market orientation is not always the sole determining factor of marketing success. Studies by Hidayaturahman & Rosha (2023) and Wiryawan & Seminari (2022) found that market orientation does not have a significant direct effect on marketing performance. This inconsistency is explained through the Resource-Based View (RBV) framework by Barney (1991), which emphasizes that holding intangible knowledge assets (*market intelligence*) does not guarantee higher performance achievement unless the firm possesses internal dynamic capabilities to exploit them effectively.

In this context, the product innovation variable serves as a crucial strategic solution for hand accessory MSMEs in Gianyar Regency. Based on the perspective of Kotler & Keller (2016), relevant product updates aligned with market preferences act as the primary stimulus in restoring long-term customer relationship profitability. Research by Asahi & Sukaatmadja (2017), Saraswati & Santika (2019), and Wiryawan & Seminari (2022) further confirms that product innovation capability is proven to play a strong role as a key element mediating the relationship between market orientation and marketing performance in the field.

Based on the issues stated above, this study aims to examine and explain the role of product innovation in mediating the effect of market orientation on the marketing performance of hand accessory craft MSMEs in Gianyar Regency. Theoretically, the results of this study are expected to contribute to the development of marketing management literature by reinforcing the relevance of RBV at the small business scale. Practically, this study is expected to serve as a guide for local artisans to focus on enhancing market sensitivity and executing innovation through visual design updates and material quality improvements to secure business profitability.

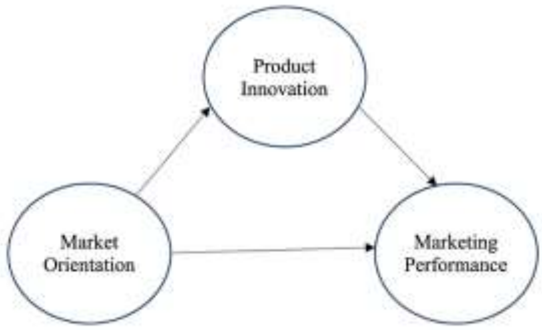

Figure 1. Conceptual Framework

The conceptual framework of this study is built upon the logical flow of the Resource-Based View (RBV) theory by Barney (1991), which posits that an organization's competitive advantage and superior performance are determined by the strength of its internal resource management. At the operational scale of hand accessory MSMEs in Gianyar Regency facing physical asset limitations, intangible internal capabilities become a far more dominant strategic factor. Within this framework, market orientation is positioned as an exogenous variable representing intangible knowledge resources, while product innovation acts as an internal dynamic capability functioning as a mediating variable to elevate the endogenous variable of marketing performance. The synergy among these constructs explains that a firm's performance effectiveness is highly determined by the organizational capacity to integrate unique internal resources to respond to market dynamics.

When a business possesses high strategic sensitivity to market dynamics, it is capable of creating superior value for consumers, which directly stimulates business performance and sales stability (Slater & Narver, 1994). A deep understanding of the target market is the key to building customer loyalty, competitive advantage, and sustainable business financial growth (Arfiansyah & Rizaldy, 2024; Hanif et al., 2022; Tjiptono, 2019). This positive impact is consistently supported by various previous empirical studies confirming that focusing on consumer preferences and competitor tactics significantly increases profitability in the field (Aminah, 2022; Dahmiri et al., 2024; Haider et al., 2024; Han & Srivastava, 2009; Hilman & Kaliappen, 2014; Pramono & Lestari, 2020; Salehzadeh et al., 2017; Susanto & Nugraha, 2021).

H1: Market orientation has a positive and significant effect on marketing performance.

Market orientation implemented consistently acts as the primary trigger for renewal activities and creativity within the firm (Slater & Narver, 1994). Through the coordinated absorption, analysis, and dissemination of market trend information, the new product development process is no longer conducted speculatively, but is instead based on real field data (Han et al., 1998; Teece et al., 1997). A strong understanding of market desires minimizes product failure risks while fostering the emergence of adaptive and highly competitive innovations (Wibowo & Pratama, 2020; Lestari, 2021). The consistent and essential role of market insights as a driver of product differentiation intensity has been proven by various prior empirical studies (Hidayati & Yuliana, 2022; Irfandi et al., 2024; Kim et al., 2009; Kirca et al., 2005; Ramadhan & Syahputra, 2023; Syahyono et al., 2025; Suharti et al., 2023; Wang & Wu, 2025).

H2: Market orientation has a positive and significant effect on product innovation.

The direct execution of product innovation holds a highly significant contribution in determining whether a business achieves optimal performance outcomes (Asahi & Sukaatmadja, 2017). By launching products updated in terms of design differentiation, model variation, and improved material quality, business owners can easily attract the purchasing interest of new consumers while maintaining the loyalty of existing customers (Kotler & Keller, 2016; Utami & Hidayat, 2021). Product updates that are relevant to market tastes serve as the primary strategic instrument to help firms escape harmful price competition traps, thereby directly impacting sales volume increases and net profit growth (Nuraini & Wibowo, 2020; Handayani & Putra, 2021). This strategic impact has been broadly validated in various previous empirical literatures (Christanto et al., 2024; Erkan, 2021; Fitriani, 2022; Irfandi et al., 2024; Kamaruzzaman & Indarwati, 2023; Saraswati & Santika, 2019; Sharma et al., 2016; Sudarti & Dewi, 2022; Waliuddin & Umar, 2022).

H3: Product innovation has a positive and significant effect on marketing performance.

Positioning product innovation as a mediating variable explains the mechanism of how market insights possessed by business owners can be executed into tangible competitive advantages (Wiryawan & Seminari, 2022). Information regarding shifting customer trends and competitor tactics remains a latent potential that requires internal dynamic capabilities to yield concrete business performance (Han et al., 1998; Kotler & Keller, 2016). Through the mediation of innovation capabilities, market understanding is successfully transformed into high economic value product uniqueness that is difficult for competitors to replicate (Asahi & Sukaatmadja, 2017; Saraswati & Santika, 2019). Various empirical studies consistently prove that market orientation cannot stand alone; rather, it requires product innovation as a strategic bridge to optimize market share expansion and profit growth (Darma et al., 2022; Fitriani & Heryanto, 2022; Pradwipa & Hidayati, 2024; Putra & Rahanatha, 2017; Putri & Sulastri, 2023; Widyastuti & Suryana, 2020). The strength of this mediating role is also broadly supported by various international publications (D'Souza et al., 2022; Pinna et al., 2018; UAE SME Study, 2017; Zhang & Duan, 2010).

H4: Product innovation mediates the effect of market orientation on marketing performance.

RESEARCH METHOD

This quantitative study employing a causal associative design was conducted in Gianyar Regency, focusing on the marketing performance of hand accessory MSMEs as shaped by market orientation and product innovation. Primary data collection was carried out directly using a structured questionnaire with a five-point Likert scale. Operationally, market orientation was measured through customer understanding, competitor monitoring, inter-functional coordination, and market responsiveness; product innovation was measured through design development, product variation, and product quality; while marketing performance was measured through sales growth, customer growth, and profit growth. Finally, the data analysis technique utilized descriptive statistical analysis to map the mean scores of respondents' characteristics, alongside inferential statistical analysis using Structural Equation Modeling based on Partial Least Squares (PLS-SEM).

RESULT AND DISCUSSION

Findings

Hand-crafted hand accessories in Gianyar Regency have developed dynamically as part of Bali's creative economy hub due to their ability to integrate traditional art with modern trends. However, the massive population of business actors triggers intense competition, profit volatility, and drastic profit declines during the low season resulting from weak competitor monitoring and slow responses to market preferences. To map the profile of artisans facing these industry dynamics, respondents' characteristics were collected and identified based on gender, age, and education categories, as presented in Table 1.

Table 1. Respondent Characteristics

Variable	Classification	Amount (person)	Percentage (%)
	Male	21	42
Gender	Female	29	58
	Total	**50**	**100**
	<22	0	0
	22-28	3	6
Age	29-35	9	18
	36-42	12	24
	43-49	16	32
	<49	10	20
	Total	**50**	**100**
Last Education	Junior High	8	16
	Senior High	20	40
	Diploma	11	22
	Bachelor	11	22
	Total	**50**	**100**

Source: Processed Data, (2026)

Based on the research findings from 50 hand-crafted accessory artisans in Gianyar Regency, the respondent characteristics were dominated by female entrepreneurs, accounting for 58 percent compared to males at 42 percent. In terms of age profile, these handicraft businesses were predominantly managed by the mature productive age group, specifically within the 43–49 age range at 32 percent and the 36–42 age range at 24 percent, while the remainder was distributed across other age groups.

The assessment of convergent validity for the reflective model is based on the loading factor values of the indicators measuring the construct. The convergent validity criteria are met if the outer loading value is above 0.70. The test results for the variables of market orientation, product innovation, and marketing performance are detailed in the following tables:

Table 2. Convergent Validity Test Results

Variable	Indicator	*Outer Loading*	Information
Market Orientation (X1)	Customer Understanding (X1.1)	**0.918**	Valid
	Competitor Monitoring (X1.2)	0.868	Valid
	Internal Coordination (X1.3)	0.902	Valid
	Responsive to the Market (X1.4)	0.888	Valid
Product Innovation (M1)	Product Design Development (M1.1)	**0.904**	Valid
	Product Variation Development (M1.2)	**0.904**	Valid
	Product Quality Development (M1.3)	0.889	Valid
Marketing Performance (Y)	Sales Growth (Y1.1)	0.903	Valid
	Customer Growth (Y1.2)	**0.921**	Valid
	Profit Growth (Y1.3)	0.901	Valid

Source: Processed Data, (2026)

Table 3. Cross Loading Test Results

	Market Orientation (X)	Product Innovation (M)	Marketing Performance (Y)
M1.1	0,743	**0,904**	0,784
M1.2	0,780	**0,904**	0,761
M1.3	0,768	**0,889**	0,809
X1.1	**0,918**	0,833	0,888
X1.2	**0,868**	0,753	0,837
X1.3	**0,902**	0,713	0,813
X1.4	**0.888**	0.731	0,809
Y1.1	0,827	0,788	**0,903**
Y1.2	0,859	0,781	**0,921**
Y1.3	0,866	0,809	**0,901**

Source: Processed Data, (2026)

Table 4. Average Variance Extracted Test Results

Variable	*Average Variance Extracted* (AVE)	Information
Product Innovation (M)	0,808	Valid
Marketing Performance (Y)	0,800	Valid
Market Orientation (X)	0,825	Valid

Source: Processed Data, (2026)

Based on the data analysis results, the cross-loading test indicates that all research indicators exhibit significantly higher correlation values with their respective latent variables than with other latent variables, thereby satisfying the discriminant validity criteria. This is further substantiated by the Average Variance Extracted (AVE) test results, in which the variables of Market Orientation, Product Innovation, and Marketing Performance all yielded AVE values well above the mandatory threshold of 0.50.

Table 5. Reliability Test Results

Variable	*Cronbach's Alpha*	*Composite Reability*
Product Innovation (M)	0,881	0,904
Market Orientation (X)	0,916	0,930
Marketing Performance (Y)	0,894	0,914

Source: Processed Data, (2026)

The reliability test results indicate that all variable constructs in this research model meet very high reliability standards. This is evidenced by the Cronbach's Alpha and Composite Reliability values for the variables of Market Orientation, Product Innovation, and Marketing Performance, which consistently exceed the standard threshold values of 0.60 for Cronbach's Alpha and 0.70 for Composite Reliability. Consequently, it can be concluded that the questionnaire instrument used demonstrates highly stable consistency and is reliable for repeated measurements in this study.

Table 6. R-Square Test Results

Variable	*R-Square*	*R-Square Adjusted*
Product Innovation (M)	0,722	0,716
Marketing Performance (Y)	0,899	0,895

Source: Processed Data, (2026)

The R-Square test results demonstrate a very strong structural model contribution, where the R-Square value for the Marketing Performance variable is 0.899 and for the Product Innovation variable is 0.722. This indicates that 89.9% of the variance in Marketing Performance can be explained by Market Orientation and Product Innovation, while 72.2% of the variance in Product Innovation is explained by Market Orientation. The remainder is influenced by other variables outside the research model, confirming that the combination of internal variables in this model possesses exceptionally high predictive power regarding the business performance of hand-crafted accessory MSMEs in Gianyar.

Table 7. Path Coefficient Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Market Orientation (X) -> Marketing Performance (Y)	0,277	0,277	0,095	2.913	0,004
Market Orientation (X) -> Product Innovation (M)	0,850	0,846	0,048	17,877	0,000
Product Innovation (M) -> Marketing Performance (Y)	0,702	0,701	0,090	7,782	0,000

Source: Processed Data, (2026)

Table 8. Specific Indirect Effect Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Market Orientation (X) -> Product Innovation (M) -> Marketing Performance (Y)	0,235	0,235	0,085	2.762	0,006

Source: Processed Data, (2026)

In Table 7, the path coefficient values indicate that market insights will not be optimal if they are merely retained as latent information; rather, they must be executed into tangible products to generate superior business performance. This is demonstrated by the effect of Market Orientation on Marketing Performance with a coefficient of 0.277 (;), signifying that every increase in the artisans' focus on monitoring trends and competitors is directly followed by an increase in sales volume. Furthermore, the exceptionally strong coefficient value of Market Orientation on Product Innovation at 0.850 (;) indicates that comprehensive market intelligence serves as the primary raw material and highest catalyst of creativity for artisans to launch new designs. Lastly, Product Innovation is proven to be the most dominant direct driver of Marketing Performance, with a coefficient reaching 0.702 (;), confirming that tangible execution in the form of aesthetic visual design, material quality, and new model variations is the most potent instrument in boosting the financial profitability of hand-crafted accessory MSMEs in Gianyar.

The specific indirect effects test results reveal that product innovation is validly and significantly proven to act as a mediating variable in the relationship between market orientation and the marketing performance of hand-crafted accessory MSMEs in Gianyar. This is shown by the positive parameter coefficient (Original Sample) of 0.235, further substantiated by a T-Statistic value of 2.762 (greater than 1.96) and a P-Value of 0.006 (well below the 0.05 threshold). Descriptively, these figures indicate that the market insights gathered by business actors will not maximally drive business performance without internal operational actions; information regarding market trends and competitor movements must first be converted into creative and adaptive product innovations in order to generate significant increases in sales volume and net profit in the field.

Analysis/Discussion

The Influence of Market Orientation on Marketing Performance

The hypothesis testing results prove that Market Orientation has a positive and significant effect on enhancing the Marketing Performance of hand-crafted accessory MSME actors in Gianyar Regency, indicating that higher implementation of Market Orientation leads to higher Marketing Performance for the MSMEs.

The results of this study are in line with previous empirical research conducted by Pramono & Lestari (2020) and Susanto & Nugraha (2021), which found that a Market Orientation culture significantly enhances competitive effectiveness and business performance. This consistency is reinforced by the findings of Aminah (2022), Dahmiri et al. (2024), as well as international studies by Salehzadeh et al. (2017), Hilman & Kaliappen (2014), Han & Srivastava (2009), and Haider et al. (2024), which concluded that strategic sensitivity toward consumers is a crucial stimulus in elevating financial profitability and market advantage. Specifically, the findings of this study have the closest and strongest empirical relevance to studies by Asahi & Sukaatmadja (2017), Saraswati & Santika (2019), and Wiryawan & Seminari (2022) on creative industries in Bali. The similarities in regional context and object characteristics affirm that the integration of market insight sensitivity and internal strategic execution is an absolute determinant in securing profit stability amidst the competitive volatility among local business actors.

The Influence of Market Orientation on Product Innovation

The hypothesis testing results demonstrate that market orientation has a positive and significant effect on enhancing product innovation among hand-crafted accessory MSMEs in Gianyar Regency, indicating that a higher level of market understanding and sensitivity possessed by business actors leads to greater product innovation capabilities. Inferentially, this strategic relationship is most strongly confirmed by the customer understanding dimension as the most dominant indicator reflecting the market orientation variable, which statistically aligns with the empirical conditions captured from the questionnaire in the field.

The findings of this study are consistent with previous empirical research by Wibowo & Pratama (2020) and Lestari (2021), which concluded that a commitment to fulfilling market needs serves as the primary driver behind high product strategy creativity among entrepreneurs. This consistency is further reinforced by empirical studies from Hidayati & Yuliana (2022), Irfandi et al. (2024), Syahyono et al. (2025), and Suharti et al. (2023), confirming that strengthening market orientation is an upstream instrument essential for stimulating the intensity of competitive product differentiation in the MSME sector. In particular, these findings hold the closest and strongest empirical relevance to the studies of Asahi & Sukaatmadja (2017) and Wiryawan & Seminari (2022), which focused on the creative industry ecosystem in Bali. This alignment of results proves that accessory artisans' sensitivity in mapping the dynamics of consumer preferences is an empirical prerequisite for generating new, adaptive, and highly marketable product innovations.

The Influence of Product Innovation on Marketing Performance

The hypothesis testing results demonstrate that product innovation has a positive and significant effect on enhancing the marketing performance of hand-crafted accessory MSMEs in Gianyar Regency, indicating that higher product innovation capabilities executed by artisans lead to higher MSME marketing performance. Inferentially, this strategic relationship is most strongly confirmed by the dimensions of design development and product variation development as the most dominant indicators reflecting the product innovation variable, whereby these statistical findings provide a strategic perspective that complements the empirical conditions captured from the questionnaire in the field.

The findings of this study are consistent with prior empirical research conducted by Nuraini & Wibowo (2020) and Handayani & Putra (2021), which revealed that handicraft product creativity directly contributes to market share expansion and customer loyalty. This consistency is further reinforced by empirical studies from Fitriani (2022), Irfandi et al. (2024), Sudarti & Dewi (2022), Waliuddin & Umar (2022), Christanto et al. (2024), Sharma et al. (2016), Erkan (2021), and Kamaruzzaman & Indarwati (2023), which collectively emphasize that the intensity of launching innovative products aligned with aesthetic trends serves as a primary strategic instrument in securing revenue growth and market performance. In particular, these findings hold the closest and strongest empirical relevance to the studies of Asahi & Sukaatmadja (2017) and Wiryawan & Seminari (2022) within the creative industry subsector in Bali. This congruence proves that the artisans' capability to execute design refreshment and model variations realistically acts as the main driver in restoring sales volume and securing business profitability amidst intense competition.

The Role of Product Innovation in Mediating the Effect of Market Orientation on Marketing Performance

The hypothesis testing results demonstrate that product innovation partially mediates the effect of market orientation on the marketing performance of hand-crafted accessory MSMEs in Gianyar Regency. This indicates that market orientation not only contributes directly to business performance but also provides a complementary reinforcing impact when market insights are systematically executed through product innovation capabilities first.

The existence of this mediating role is consistently supported by prior research from Widyastuti & Suryana (2020), Fitriani & Heryanto (2022), and Putra & Rahanatha (2017), which concluded that market orientation requires product innovation activities as a strategic bridge to optimize marketing performance. The reinforcing consistency of this mediating variable is further corroborated by empirical studies from Putri & Sulastri (2023), Pradwipa & Hidayati (2024), Darma et al. (2022), Darma & Widagda (2022), Putri et al. (2021), Ramli et al. (2019), and D'Souza et al. (2022), which affirm that focusing on customer needs is substantially more effective in elevating market outcomes when actualized through relevant product innovation strategies. In particular, these findings bear the closest empirical relevance to studies by Asahi & Sukaatmadja (2017) on the creative industry in Denpasar and Wiryawan & Seminari (2022) on the handicraft industry in Bali. Both studies congruently prove that market intelligence remains latent and cannot be converted into optimal profitability without an internal execution mechanism in the form of product refreshment; hence, positioning product innovation as a mediator in this model is proven to be an essential instrument for enhancing marketing performance.

CONCLUSION

Based on the data analysis and discussion conducted, the following conclusions can be drawn

Market Orientation has a Positive and Significant Effect on Marketing Performance

This indicates that a higher implementation of market orientation by hand-crafted accessory MSME actors in Gianyar Regency encompassing customer understanding, competitor monitoring, internal coordination, and market responsiveness leads to greater marketing performance achievements. The empirical findings reveal that customer understanding is the most dominant factor driving business performance enhancement. This is attributed to the artisans' sensitivity in capturing real-time insights regarding consumer needs and preferences, which effectively aligns strategic execution to attract market interest, boost sales volume, and sustainably expand the customer base.

Market Orientation Has a Positive and Significant Effect on Product Innovation

This indicates that a higher implementation of market orientation by hand-crafted accessory MSME actors in Gianyar Regency encompassing customer understanding, competitor monitoring, internal coordination, and market responsiveness leads to greater product innovation capabilities. The research findings reveal that customer understanding is the most dominant trigger in driving business creativity intensity. This is because the artisans' active pursuit of in-depth intelligence regarding consumer needs and trend preferences provides a robust empirical foundation, thereby stimulating the targeted execution of fresh ideas, visual design refreshments, and enhancements in product material quality.

Product Innovation Has a Positive and Significant Effect on Marketing Performance

This indicates that higher product innovation capabilities executed by hand-crafted accessory MSME actors in Gianyar Regency through the development of product ideas, additions or updates to product variations, and enhancements in product quality led to greater marketing performance achievements. The research findings reveal that product quality development is the most dominant factor driving marketing performance enhancement. This is because the artisans' continuous commitment to improving intrinsic value, material durability, and physical aesthetic appeal effectively delivers strong added value, massively attracts consumer buying interest, and tangibly optimizes sales volume as well as net profit growth.

Product Innovation Partially Mediates the Effect of Market Orientation on Marketing Performance

This indicates that product innovation is proven to serve as a robust partial mediating variable that bridges the effect of market orientation on marketing performance among hand-crafted accessory MSMEs in Gianyar Regency. The research findings suggest that market intelligence mastery particularly through the customer understanding dimension will not directly convert into optimal profitability without an internal execution mechanism in the form of product innovation strategies. When artisans successfully transform consumer trend insights into tangible refinements in product quality and visual aesthetics, this latent knowledge asset is converted into distinct product uniqueness with high differentiation value, thereby significantly driving sales volume growth and securing net profit stability amidst the intense competition within the creative industry.

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