The Mediating Role of Product Innovation in The Influence of Market Orientation on The Performance of Silver Craft MSMEs in Sukawati District

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Abstract: This study aims to examine the influence of market orientation on the performance of micro, small, and medium-sized enterprises (MSMEs) with product innovation as a mediating variable, focusing on silver craft MSMEs in Sukawati District. The study was conducted on 102 silver craft MSMEs operating in the region. The sample was selected using simple random sampling, resulting in 82 respondents. Data analysis techniques employed in this study include descriptive statistics and inferential statistics through path analysis, classical assumption tests, the Sobel test, and the Variance Accounted For (VAF) test. The results indicate that market orientation has a positive and significant effect on MSME performance, market orientation positively and significantly influences product innovation, product innovation positively and significantly affects MSME performance, and product innovation mediates the effect of market orientation on MSME performance.

Keywords: Market Orientation, MSME Performance, Product Innovation

1.   INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in Indonesia's economy by improving community welfare, providing employment, promoting economic growth, and ensuring equitable income distribution (Budiman & Hidayah, 2021). Globally, MSMEs are recognized as the primary engine of economic development, contributing significantly to job creation, income generation, innovation, and technological advancement (Faraz Mubarak et al., 2019).

In alignment with the Sustainable Development Goals (SDGs), Indonesia's Ministry of National Development Planning/Bappenas adopted the SDG Action Plan Guidelines in 2020, emphasizing the importance of MSMEs in achieving the SDG targets. The 2020–2024 National Medium-Term Development Plan (RPJMN) identifies strengthening the MSME sector as a key strategy for promoting economic inclusion, reducing inequality, and creating jobs (Yolanda, 2024). With over 66 million enterprises in 2023, MSMEs account for approximately 99% of all businesses in Indonesia, contributing 61% to the Gross Domestic Product (GDP), equivalent to IDR 9,580 trillion, and employing 117 million people or 97% of the national workforce (Kadin, 2023; Revo, 2024).

In 2022, West Java reported the highest number of MSMEs, totaling 1,494,723 units, reflecting its role as a major economic hub. Bali ranked 23rd with 40,764 MSMEs, which, despite its lower rank, play a crucial role in local economic development, especially in crafts, tourism, and the creative economy (BPS, 2024).

Bali's MSMEs, especially in Gianyar Regency's Sukawati District, significantly contribute to both local and national economies. Known for its cultural richness, Sukawati is a center of silver craft MSMEs, particularly in Celuk Village. The traditional silver craft, deeply rooted in Balinese philosophy, has been handed down through generations and continues to attract domestic and international tourists due to its artistic and spiritual value (Gianyar Department of Industry, 2024).

The uniqueness f Sukawati's silver crafts lies in their intricate designs inspired by nature, Hind mythology, and Balinese spirituality. Crafted manually without heavy reliance on machinery, these products embody high authenticity and artistic value, serving as a primary livelihood for local families and enhancing Bali's creative economy (Athayapurnama, Udaya Bali, 2023).

Despite its strengths, the silver craft industry in Sukawati faces several challenges, including volatile silver prices, competition from cheaper imported products, and a lack of product innovation. Many artisans still use conventional methods, leading to inefficiencies and limiting product development. Undefined roles among business owners, managers, and workers, along with reliance on family labor, further hinder operational effectiveness (Gianyar Department of Industry and Trade, 2023).

To address these challenges, enhancing MSME performance is imperative. According to the Resource-Based View (RBV) theory, firms must strategically leverage internal resources to create sustainable competitive advantages. RBV provides a comprehensive framework that highlights strategic management, economic organization, and industry analysis perspectives to optimize intangible assets and core competencies (Mahoney & Pandian, 1992).

Business performance reflects a firm's ability to achieve strategic objectives, respond to market challenges, and leverage opportunities. High performance indicates the successful implementation of strategies that enhance competitiveness and long-term sustainability (Handika & Baridwan, 2018).

Market orientation, a key determinant of MSME performance, focuses on understanding and fulfilling customer needs and preferences. It enables businesses to adapt to market dynamics and improve performance outcomes (Riswanto et al., 2019; Boso et al., 2013; Kurniawan et al., 2021; Udriyah et al., 2019). Market-oriented firms are more innovative and responsive, thus fostering sustainable competitive advantages (Mahmoud et al., 2016).

Several studies affirm the positive impact of market orientation on organizational performance (Syarifah et al., 2020; Lorensa & Hidayah, 2022; Heryadi et al., 2023). However, some findings, such as those from Taufik (2020) and Rizan & Utama (2020), indicate a negative relationship, suggesting the need for further research incorporating mediating variables such as product innovation.

Product innovation is critical for silver craft MSMEs in Sukawati to remain competitive. It involves enhancing product attributes like design, aesthetics, and features to meet consumer expectations (Subiharto et al., 2015; Agung et al., 2019). Innovation helps firms differentiate their products, increase market share, and boost performance.

Studies by Dalimunthe (2017) and Djamaris & Anitawatu (2018) emphasize the significant role of market orientation in driving product innovation, particularly in SMEs. Innovative MSMEs are better positioned to meet evolving market demands and gain competitive advantages.

In the context of silver MSMEs in Celuk Village, continuous innovation is essential to distinguish local products from domestic and international competitors. Product innovation enhances product value and attracts new market segments, ultimately supporting business growth and sustainability.

Putri et al. (2023) highlight that product innovation, whether in physical form or accompanying services, aims to increase product value and competitive edge. Creative innovation improves product quality, attracts consumers, and expands market reach. According to Ekawati et al. (2016), effective product and process innovation not only allows businesses to adapt to market changes but also to lead in setting new trends.

In today's competitive environment, product competitiveness depends not only on quality but also on innovative strategies. A strong market orientation enables firms to identify consumer demands, recognize market opportunities, and develop differentiated products, thereby reinforcing competitive positioning (Kumbara & Afuan, 2020).

2. METHOD

This study employs a quantitative approach with an associative design to examine the influence of market orientation on the performance of silver craft MSMEs in Sukawati District, with product innovation serving as a mediating variable. The research was conducted in the silver craft center of Celuk Village, a well-known hub for silver jewelry production and marketing in Bali. The study population consisted of 60 MSMEs, with a total sample of 80 respondents selected using simple random sampling, based on specific criteria such as business experience and involvement in product innovation (Sugiyono, 2018).

Primary data were collected through surveys using a Likert-scale questionnaire, while secondary data were obtained from institutional reports and previous studies. The independent variable in this study is market orientation (X), the mediating variable is product innovation (M), and the dependent variable is MSME performance (Y). The research instrument was tested for validity and reliability, with all indicators showing correlation coefficients greater than 0.30 and Cronbach's Alpha values exceeding 0.70, indicating that the questionnaire is both valid and reliable as a measurement tool (Ghozali, 2013; Sugiyono, 2018).

Data analysis was conducted using descriptive statistics to outline respondent characteristics and research data, and inferential statistics through path analysis to test both direct and indirect relationships among variables. Classical assumption tests—including normality, multicollinearity, and heteroscedasticity—were applied to ensure the validity of the regression model. Additionally, the Sobel test and Variance Accounted For (VAF) were employed to assess the mediating strength of product innovation in the relationship between market orientation and MSME performance (Utama, 2021; Rahyuda, 2020; Sholihin, 2014).

3. RESULTS AND DISCUSSION

Research result

Descriptive Statistical Analysis Resultt

Table 1. Results of Descriptive Statistical Analysis

	N	Min.	Max	Mean	Std. Deviation
Market Orientation (X)	60	4	15	12.65	2,448
Product Innovation (M)	60	8	20	16.83	3.465
MSME Performance (Y)	60	10	25	21.43	4.110

Source: Processed Primary Data, 2025

Based on Table 1, it can be described as follows:

1) The market orientation variable (X) has a minimum value of 4 and a maximum value of 15. The average value is 12.65 with a standard deviation of 2.448, which means that there is a deviation in the market orientation value from its average value of 2.448.

2) The product innovation variable (M) has a minimum value of 8 and a maximum value of 20. The average value is 16.83 with a standard deviation of 3.465, which means that there is a deviation in the product innovation value from its average value of 3.465.

3) The UMKM performance variable (Y) has a minimum value of 10 and a maximum value of 25. The average value is 21.43 with a standard deviation of 4.110, which means that there is a deviation in the UMKM performance value from its average value of 4.110.

Respondents' Answer Description

Respondents' answers regarding the role of product innovation mediating market orientation towards the performance of silver craft UMKM in Sukawati District in this study

need to determine the frequency distribution based on the interval value. The assessment of the research variables is measured with the lowest score of 1 (strongly disagree), and the highest score is 5 (strongly agree). The average assessment criteria use intervals to determine the length of the interval class, the formula used according to Sudjana (2005: 47) is:

Interval Class Length $= \dfrac{\text{Range}}{(\text{Number of Class Intervalsl}}$

Where:

Range   : highest value- lowest value

Many Interval classes   : 5

So, the length of the interval class   : $\dfrac{5-1}{5} = 0,8$

Based on the length of the interval class, the distribution of respondents' answers has a range of assessments presented in Table 2 below.

Table 2. Criteria and Categories for Respondents' Answer Assessment

Criteria	Category
1.00 – 1.79	Very Bad (STB)
1.80 – 2.59	Not Good (TB)
2.60 – 3.39	Good Enough (CB)
3.40 – 4.19	Good (B)
4.20 – 5.00	Very Good (SB)

Source: Processed Primary Data, 2025

Based on Table 2, the description of respondents' answers regarding the variables in this study is described as follows.

1) Description of Market Orientation Variable Answer (X)

The following is a description of the respondents' answers in this study regarding the market orientation variable which is presented in Table 3 as follows.

Table 3. Description of Answers to Market Orientation Variable (X)

No	Statement	N	Score	Flat-Flat	Category
1	We quickly identified changing customer preferences.	60	244	4.07	Good
2	We regularly review the impact of changes in the business environment on customer behavior.	60	241	4.02	Good
3	We rapidly develop products according to changing customer needs.	60	224	3.73	Good
Overall Average				3.94	Good

Source: Processed Data (2025)

Based on Table 3, it can be seen that the average overall answer of respondents regarding the market orientation variable is 3.94. This indicates that silver craft UMKM actors in Sukawati District tend to have a good market orientation in running their business. Referring to Table 3, it can be seen that the statement on indicator x1, namely "We quickly identify changes in customer preferences" has the highest average value of 4.07. This indicates that the majority of respondents in this study tend to be able to quickly identify changes or preferences desired by customers. Meanwhile, the statement on indicator x3, namely "We quickly develop products according to changes in customer needs" obtained the lowest average of 3.73. Although this average is the lowest compared to the overall average, this value is still included in the good category. This indicates that there are still some silver craft UMKM actors who have not been able to develop products according to customer needs quickly, so there is still room for improvement in time and cost efficiency in developing products effectively.

2) Description of Product Innovation Variable Answer (M)

Table 4. Description of Answers to Product Innovation Variable (M)

No	Statement	N	Score	Flat-Flat	Category
1	We regularly update our product designs according to market needs.	60	246	4.10	Good
2	We are able to create unique products that are different from competitors on the market.	60	231	3.85	Good
3	We have attractive aesthetic designs to increase customer preference for our products.	60	253	4.22	Very good
4	The innovations we make to products can increase the number of new customers.	60	257	4.28	Very good
Overall Average				4.11	Good

Source: Processed Data (2025)

Based on Table 4, it can be seen that the average overall answer of respondents regarding the product innovation variable is 4.11. This indicates that silver craft UMKM actors in Sukawati District tend to have carried out product innovation well in the businesses they run. Referring to Table 4, it can be seen that the statement in indicator m4, namely "The innovation we make to the product can increase the number of new customers" has the highest average value of 4.28 compared to the overall average. This indicates that the majority of respondents in this study tend to innovate the products offered to customers which is then followed by an increase in the number of new customers. The product innovation carried out tends to provide novelty and uniqueness to the products offered so that they have a higher appeal.

Referring to Table 4, it can also be seen that the statement in indicator x3, namely "We are able to create unique products that are different from competitors on the market" obtained the lowest average of 3.85. Although the average is the lowest compared to the overall average, the value is still included in the good category. This indicates that although the majority of respondents in this study were able to innovate products well, there were still some respondents who had not been able to innovate products optimally. The high trend of a product on the market makes some MSMEs tend to have difficulty in finding ideas to highlight the uniqueness of similar competitors. This shows that there is still room for improvement in product innovation in order to compete with similar competitors.

3) Description of the Answer to the MSME Performance Variable (Y)

Table 5. Description of Answers to MSME Performance Variables (Y)

No	Statement	N	Score	Flat-Flat	Category
1	We actively build good relationships with customers	60	241	4.02	Good
2	We provide services that exceed customer expectations	60	240	4.00	Good
3	We involve customers in the campaign activities we carry out	60	247	4.12	Good
4	we actively improve brand image in the eyes of customers.	60	242	4.03	
5	We always maintain customer satisfaction so that they continue to use the company's products or services.	60	243	4.05	
Overall Average				4.04	Good

Source: Processed Data (2025)

Based on Table 5, it can be seen that the average overall respondent's answer regarding the UMKM performance variable is 4.04. This indicates that silver craft UMKM actors in Sukawati District tend to have good UMKM performance. Referring to Table 5, it can be seen that the statement in indicator y3, namely "We involve customers in the campaign activities that we carry out" has the highest average value of 4.12 compared to the overall average. This indicates that the majority of silver craft UMKM in Sukawati District tend to be active in involving customers in their marketing and business campaign activities. This could be due to a marketing strategy based on customer participation, such as promotions through social media, customer testimonials, or loyalty programs that make customers feel more involved. Customer involvement in campaigns can increase loyalty and trust in the brand, thereby encouraging increased UMKM performance.

Referring to Table 5, it can also be seen that the statement in the y2 indicator, namely "We provide services that exceed customer expectations" obtained the lowest average of 4.00. Although the average is the lowest compared to the overall average, the value is still included in the good category. This indicates that some MSMEs have tried to provide good service, but there is still room for improvement in providing a superior experience for customers. Factors that may influence this result include limitations in resources and increasing customer expectations.

Classical Assumption Test Results

The classical assumption test aims to test whether the variables used in a study are free from deviations. The Classical Assumption Test in this study includes the normality test, multicollinearity test, and heteroscedasticity test. Each classical assumption test used in this study will be described as follows.

1) **Normality Test**

Table 6. Results of Normality Test of Structures 1 and 2

Unstandardized Residual	Structure 1	Structure 2
N	60	60
Kolmogorov-Smirnov Z	0.085	0.057
Asymp.Sig (2-tailed)	0.200	0.057

Source: Processed Data (2025)

Table 6 shows that the Asymp. Sig (2-tailed) value of the test results on structures 1 and 2 each has a value of 0.200 which is greater than 0.05 so it can be concluded that the residual data used in this study is normally distributed.

2) **Multicollinearity Test**

Table 7. Results of the Multicollinearity Test of Structural Equation 2

Variables	Tolerance	VIF	Information
Market Orientation	0.461	2,110	Free from multicollinearity
Product Innovation	0.461	2,110	Free from multicollinearity

Source: Processed Data (2025)

Table 7 shows that the tolerance value of each variable used in structural equation 2 is greater than 10 percent (0.10) and the VIF of each variable is less than 10, so it can be concluded that the regression equation model in this study is free from multicollinearity.

3) Heteroscedasticity Test

Table 8. Results of Heteroscedasticity Test for Structural Equations 1 and 2

Structure	Variables	Sig.	Information
1	Market Orientation	0.897	Free from heteroscedasticity
2	Market Orientation	0.771	Free from heteroscedasticity
3	Product Innovation	0.366	Free from heteroscedasticity

Source: Processed Data (2025)

Table 8 shows that the significance value of each variable used in this study in structural equations 1 and 2 is greater than 0.05, so it can be concluded that the regression equation model used in this study does not contain symptoms of heteroscedasticity.

Path Analysis Results

1) Model Feasibility Test Results

Table 9. Results of the F Test for Structural Equations 1 and 2

Structure	Fcount	Significance
1	67,852	0,000
2	184,396	0,000

Source: Processed Data (2025)

Based on Table 9, it can be seen that the results of the F test show that the F count value in structural equation 1 is 67.852 with a significance value of 0.000 <0.05. Table 4.10 also shows that the F count value in structural equation 2 is 184.396 with a significance value of 0.000 <0.05. The significance value in both structural equations is 0.000 <0.05, which means that the structural equation used in this study is feasible for further analysis.

2) Results of Determination Coefficient Test

Table 10. Results of the Determination Coefficient Test

Structure	Equality	R-Square	Adj. R Square
1	Y1 = 1.039X + e1	0.539	0.531
2	Y2 = 0.321X + 927M + e2	0.866	0.861

Source: Processed Data (2025)

Table 10 shows that in structural equation 1 (path analysis 1) the magnitude of the influence of the independent variable on the dependent variable indicated by the R-Square value of 0.539, which means that 53.9 percent of product innovation (M) is influenced by the market orientation variable (X), while 46.1 percent is explained by other factors not included in the model. Table 4.11 also shows that in structural equation 2 (path analysis 2) the magnitude of the influence of the independent variable on the dependent variable indicated by the R-Square value of 0.866, which means that 86.6 percent of MSME performance (Y) is influenced by the market orientation variable (X) and product innovation (M), while 13.4 percent is explained by other factors not included in the model.

Based on the structural equation model 1 and 2, the final path diagram model can be compiled. Before compiling the final path diagram model, the standard error value is first calculated as follows.

$$e_1 = \sqrt{1 - R_1^2} = \sqrt{1 - 0,539} = 0.679$$

$$e_2 = \sqrt{1 - R_2^2} = \sqrt{1 - 0,866} = 0.366$$

Based on the calculation of the standard error value, the results obtained are e1 of 0.679 and e2 of 0.366 so that the total determination coefficient value can be calculated as follows.

R2m   = 1 – (e₁)2(e2)2

        = 1 - (0.679)2(0.366)2

        = 1 - (0.461) (0.134)

        = 0.938

The total determination coefficient of 0.938 means that 93.8 percent of the variance in MSME performance is influenced by market orientation and product innovation variance, while 6.2 percent is explained by other factors not included in the model.

3) Testing with structural equation 1 (M = β1X + e1)

The calculation of the path coefficient in structural equation 1 was carried out using SPSS software and the results obtained were shown in Table 11.

Table 11. Results of Structural Equation Path Analysis 1

Variables	Standardized Beta	Std. Error	Tcount	Sig.
Market Orientation	0.734	0.126	8,237	0,000

Source: Processed Data (2025)

Based on Table 11, a structural equation 1 can be made, namely M = 0.734X + e1. Based on this equation, the influence of market orientation (X) on product innovation (M) can be described.

a) Hypothesis

H0: β1 = 0 means that market orientation has no effect on product innovation.

H1: β1 > 0 means that market orientation has a positive and significant effect on product innovation.

b) Real Level 5% or 95% confidence level

c) Testing Criteria

If the significance value is greater than α = 0.05 (Sig > 0.05), then H0 is accepted. If the significance value is smaller or equal to α = 0.05 (Sig < 0.05), then H0 is rejected.

d) Calculation

Based on the calculation results with SPSS presented in Table 11, it can be seen that the market orientation variable in structural equation 1 has a positive regression coefficient of 0.734 with a significance value of 0.000.

e) Conclusion

The significance value is 0.000 < 0.05 so that H0 is rejected and H1 is accepted. This shows that market orientation directly has a positive and significant effect on product innovation.

4) **Testing with structural equation 2 ($Y = \beta 2X + \beta 3M + e2$)**

Table 12. Results of Structural Equation Path Analysis Test 2

Variables	Standardized Beta	Std. Error	Tcount	Sig.
Market Orientation	0.191	0.120	2,681	0.010
Product Innovation	0.781	0.085	10,941	0,000

Source: Processed Data (2025)

Based on Table 12, a structural equation 2 can be made, namely $Y = 0.191X + 0.781M + e2$. Based on this equation, it can be explained as follows.

a) **The Influence of Market Orientation (X) on MSME Performance (Y)**
   i. Hypothesis
      H0: $\beta 2 = 0$ means that market orientation has no effect on MSME performance.
      H2: $\beta 2 > 0$ means that market orientation has a positive and significant effect on MSME performance.
   ii. Real Level 5% or 95% confidence level
   iii. Testing Criteria
      If the significance value is greater than $\alpha = 0.05$ (Sig > 0.05), then H0 is accepted. If the significance value is smaller or equal to $\alpha = 0.05$ (Sig < 0.05), then H0 is rejected.
   iv. Calculation
      Based on the calculation results with SPSS presented in Table 12, it can be seen that the market orientation variable in structural equation 2 has a positive regression coefficient of 0.191 with a significance value of 0.010.
   v. Conclusion
      The significance value is 0.010 <0.05 so that H0 is rejected and H2 is accepted. This indicates that market orientation directly has a positive and significant effect on MSME performance.

b) **The Influence of Product Innovation (M) on MSME Performance (Y)**
   i. Hypothesis
      H0: $\beta 3 = 0$ means that product innovation has no effect on MSME performance.
      H3: $\beta 3 > 0$ means that product innovation has a positive and significant effect on MSME performance.
   ii. Real Level 5% or 95% confidence level
   iii. Testing Criteria
      If the significance value is greater than $\alpha = 0.05$ (Sig > 0.05), then H0 is accepted. If the significance value is smaller or equal to $\alpha = 0.05$ (Sig < 0.05), then H0 is rejected.
   iv. Calculation
      Based on the calculation results with SPSS presented in Table 4.13, it can be seen that the product innovation variable in structural equation 2 has a positive regression coefficient of 0.927 with a significance value of 0.000.
   v. Conclusion
      The significance value is 0.000 <0.05 so that H0 is rejected and H3 is accepted. This indicates that product innovation directly has a positive and significant effect on MSME performance.

Table 13. Direct, Indirect, and Total Influences

Variable Relationship	Influence		Total
	Direct	Indirect	
Market Orientation (X) → Product Innovation (M)	0.734		0.734
Market Orientation (X) → MSME Performance (Y)	0.191	(0.734 x 0.781) = 0.529	0.72
Product Innovation (M) → MSME Performance (Y)	0.781		0.781

Source: Processed Data (2025)

5) **Results of Indirect Effect Test (Sobel Test)**

The indirect influence test or Sobel test in this study is used to analyze the role of product innovation in mediating the influence of product orientation on MSME performance, which is described as follows.

a) **Hypothesis Formulation**

H0: $\beta 4 = 0$ Market orientation indirectly does not affect the performance of MSMEs through product innovation

H4: $\beta 4 \neq 0$ Market orientation indirectly influences MSME performance through product innovation

b) **Testing Criteria**

If $|$zhitung$| < 1.96$ then H0 is accepted, meaning that credit distribution is not a mediating variable. If $|$zhitung$| > 1.96$ then H0 is rejected and H4 is accepted, meaning that market orientation indirectly influences MSME performance through product innovation. In other words, product innovation is a mediating variable for the influence of market orientation on MSME performance.

c) **Calculating test statistics**

To test the significance of the indirect effect, the z value must be calculated. However, it is necessary to determine the size of the standard error of the indirect effect with the following formula.

$$S_{ab3} = \sqrt{b_3{}^2 S_a^2 + a^2 S_{b3}^2 + S_a^2 S_{b3}^2}$$

$$= \sqrt{(0,927)^2(0,126)^2 + (1,039)^2(0,085)^2 + (0,126)^2(0,085)^2}$$

$$= 0.118$$

Information:

a	= Path coefficient of variable X towards M
b3	= Path coefficient of variable M towards Y
Sa	= Standard errorvariable X against M
Sb3	= Standard errorvariable M against Y
Sat3	= Standard error indirect effect

Based on the calculation of the standard error of the indirect effect, the z value of the ab coefficient can be calculated using the following formula.

$$z = \frac{ab3}{S_{ab3}}$$

$$= \frac{(1,039)(0,927)}{0,118}$$

$$= 8.16$$

d) **Conclusion**

Because z count is $|8.16| = 8.16 > 1.96$, it can be concluded that market orientation indirectly affects MSME performance through product innovation. In other words, product innovation is a mediating variable for the influence of market orientation on MSME performance. In this study, the nature of mediation provided by the product innovation variable in mediating the influence of market orientation on MSME performance is partial mediation, where there is a significant direct influence of market orientation on MSME performance and there is also significant mediation or indirect influence of market orientation on MSME performance through significant product innovation, so that the nature of the resulting mediation is partial mediation.

Discussion

The Influence of Market Orientation on MSME Performance

Based on the results of the analysis that has been carried out, it can be seen that market orientation has a positive and significant effect on the performance of silver craft MSMEs in

Sukawati District. This indicates that the better the market orientation carried out as a business strategy in creating competitive advantage, the more likely it is to improve the performance of MSMEs. The results of this study are in line with research conducted by Aji et al., (2023); Antari & Widagda (2022); Afandi & Ajizah (2023); Rianto rt al., (2024); and Zuliasanti et al., (2020) who found that market orientation has a positive and significant effect on the performance of MSMEs.

The RBV theory states that a company's competitive advantage depends on valuable, rare, difficult to imitate, and irreplaceable internal resources. In this context, market orientation can be considered a strategic resource that allows MSMEs to be more adaptive to market dynamics, understand customer needs, and develop more effective business strategies. By having a strong market orientation, MSMEs can collect and analyze market information better, so that they are able to create products and services that are in accordance with customer demand. This is in line with the RBV concept which emphasizes the importance of organizational capabilities in managing internal resources to improve competitiveness and business performance. In addition, good market orientation also contributes to increased innovation and operational efficiency, which ultimately has an impact on improving MSME performance.

Based on the results of the questionnaire distribution, it can be seen that the better the market orientation of MSMEs, the better the business performance. The majority of silver craft MSMEs in Sukawati District have implemented market orientation well, especially in identifying changes in customer preferences quickly. This ability allows business actors to adjust products and business strategies to remain relevant to market demand. In addition, good MSME performance can also be seen from the active involvement of customers in various marketing activities and business campaigns. This strategy shows that MSMEs do not only focus on product creation, but also build strong relationships with customers through participation-based promotions, such as social media, customer testimonials, and loyalty programs. This approach not only increases customer satisfaction, but also strengthens the competitiveness of MSMEs, which ultimately has a positive impact on improving overall business performance.

The Influence of Market Orientation on Product Innovation

Based on the results of the analysis that has been carried out, it can be seen that market orientation has a positive and significant effect on product innovation in silver craft UMKM actors in Sukawati District. This shows that the better and more precise the market orientation that has been determined, the more likely it is to increase product innovation carried out by UMKM actors. The results of this study are in line with research conducted by Haryanto et al., (2017); Djamaris & Anitawati (2018); Arief & Rosiawan (2018); and Resyanda et al., (2022); who found that market orientation has a positive and significant effect on product innovation.

The resource-based view (RBV) theory emphasizes that competitive advantage comes from utilizing unique and difficult-to-imitate internal resources. In this case, market information obtained through market orientation is a strategic resource that can drive product innovation. By understanding customer needs and industry trends, companies can develop more relevant and value-added products. In the RBV perspective, this capability reflects dynamic capabilities, namely the company's ability to adapt and innovate in a changing business environment. Therefore, market orientation not only increases product innovation but also strengthens the company's long-term competitiveness.

Based on the results of the questionnaire distribution, it can be seen that silver craft UMKM actors in Sukawati District in this study tend to have good market orientation, as indicated by their ability to quickly identify changes in customer preferences. This allows UMKM actors to understand market needs and adjust their business strategies more effectively. Meanwhile, product innovation has also been well implemented by UMKM actors, especially in creating more attractive products that are in accordance with customer demand. The innovation carried out not only increases the attractiveness of the product but also has an impact on the growth of the number of new customers. This finding confirms that a strong market orientation encourages more relevant product innovation, thereby increasing the competitiveness of UMKM in the silver craft industry. In other words, through a stronger market orientation, UMKM actors tend to be encouraged to carry out product innovation.

The Influence of Product Innovation on MSME Performance

Based on the results of the analysis that has been carried out, it can be seen that product innovation has a positive and significant effect on the performance of silver craft MSMEs in Sukawati District. This indicates that the better the product innovation carried out by business actors tends to improve the performance of MSMEs. The results of this study are in line with research conducted by Pertiwi (2023); Riyanto & Heriyanti (2024); Aldina & Margunani (2022); Xieming & Puspitowati (2024); and Darma et al., (2023) who found that product innovation has a positive and significant effect on the performance of MSMEs.

RBV theory states that a company's competitive advantage depends on internal resources that are valuable, rare, inimitable, and non-substitutable. Product innovation can be categorized as a strategic resource because it allows MSMEs to create added value, differentiate themselves from competitors, and adapt products to changes in market demand. The ability of MSMEs to develop unique and sustainable product innovations is a major factor in increasing competitiveness and business performance. By innovating, MSMEs can attract new customers, increase customer loyalty, and expand market share, which ultimately contributes to business growth. This shows that product innovation as a strategic asset can strengthen competitive advantage and drive better MSME performance.

Based on the results of the questionnaire distribution, it can be seen that MSMEs tend to actively innovate their products, which not only creates novelty but also increases customer appeal. This innovation contributes to an increase in the number of new customers, which ultimately has a positive impact on business performance. In addition, MSMEs that involve customers in marketing activities and campaigns tend to have closer relationships with their consumers. Marketing strategies based on customer participation, such as promotions through social media and loyalty programs, strengthen customer engagement and increase trust and loyalty to the brand. Thus, product innovation combined with effective marketing strategies contributes to increasing the competitiveness and overall performance of MSMEs.

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

Based on the results of the analysis that has been carried out, it can be seen that product innovation mediates the influence of market orientation on the performance of silver craft MSMEs in Sukawati District. In other words, market orientation indirectly has a positive and significant effect on the performance of silver craft MSMEs in Sukawati District through product innovation. This indicates that when MSME actors have good market orientation, MSME actors will be faster in identifying changes in market trends and customer demand, which in turn will encourage product innovation. This product innovation will produce products that are more in line with customer desires and needs, thereby increasing the attractiveness of the product in the market and attracting more customers. As a result, through product innovation driven by a strong market orientation, MSMEs can improve product quality, introduce new products, or provide higher added value to customers. This ultimately contributes to improving MSME performance. The results of this study are in line with research conducted by Asahi & Sukaatmadja (2017); Putra & Rahanatha (2017); Pripty & Alimehmeti (2017); Antari & Widagda (2022); Wiryawan & Seminari (2022); Resyananda & Mandala (2022); and Rachmasari & Suprapti (2022) who found that product innovation mediates the influence of market orientation on MSME performance.

RBV theory suggests that companies that can utilize unique and non-imitable internal resources will gain a competitive advantage. In the context of MSMEs, market orientation functions as a strategic resource that allows MSMEs to recognize and respond to changes in customer needs and preferences quickly. Good market orientation will encourage MSMEs to continue to innovate, produce new products that are more relevant to the market, and increase the attractiveness of these products in the eyes of customers. Product innovation, which is part of a valuable, rare, and irreplaceable resource, then acts as a mediator that connects market orientation with MSME performance. Through product innovation, MSMEs can improve product quality and differentiation, which will ultimately increase customer satisfaction and overall business performance. This shows that market orientation driven by internal resources such as product innovation can improve MSME performance sustainably.

Based on the results of the questionnaire distribution regarding market orientation, product innovation, and MSME performance, it can be understood that product innovation mediates the influence of market orientation on the performance of silver craft MSMEs in

Sukawati District. Good market orientation, which is reflected in the ability of MSME actors to quickly identify changes in customer preferences, plays an important role in driving product innovation. This can be seen from the results showing that MSME actors are able to respond to market needs by innovating products that are in accordance with customer demand, which in turn increases the attractiveness of the product.

The resulting product innovation not only provides novelty and uniqueness, but also provides added value that is relevant to market developments, thus potentially attracting new customers. This finding reflects that product innovation is a bridge that connects good market orientation with improved MSME performance. This can be seen in the results of the questionnaire which shows that the majority of respondents consider product innovation as an important factor in increasing customer satisfaction and driving sales growth. Therefore, product innovation that is carried out continuously acts as a mediator that strengthens the positive impact of market orientation on MSME performance, optimizes responses to market needs, and increases business competitiveness.

4. CONCLUSION

a) Market orientation has a positive and significant effect on product innovation among silver craft MSMEs in Sukawati District. This indicates that the more appropriate and well-defined the market orientation, the more likely it is to enhance product innovation among MSME actors.

b) Market orientation has a positive and significant effect on MSME performance in the silver craft sector in Sukawati District. This implies that a strong market orientation, when applied as a business strategy to create competitive advantage, tends to improve MSME performance.

c) Product innovation has a positive and significant effect on the performance of silver craft MSMEs in Sukawati District. This suggests that better product innovation efforts by business actors are likely to lead to improved MSME performance.

d) Product innovation mediates the relationship between market orientation and MSME performance in the silver craft sector in Sukawati District. This means that a stronger market orientation encourages business actors to engage in more effective product innovation, which in turn contributes to enhanced business performance.

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