

THE INTERPLAY OF MARKETING CAPABILITIES: BRIDGING MARKET ORIENTATION AND PRODUCT INNOVATION TO BOOST MARKETING PERFORMANCE IN CREATIVE MSMEs IN SURAKARTA CITY

Rani Cahyaning Putri

Management Study Program, Atma Bhakti College of Economics, Indonesia

Rini Handayani

Management Study Program, Atma Bhakti College of Economics, Indonesia

INTERAKSI KAPABILITAS PEMASARAN: MENJEMBATANI ORIENTASI PASAR DAN INOVASI PRODUK UNTUK MENINGKATKAN KINERJA PEMASARAN PADA UMKM KREATIF DI KOTA SURAKARTA

Rani Cahyaning Putri

Program Studi Manajemen, Sekolah Tinggi Ilmu Ekonomi Atma Bhakti, Indonesia

Rini Handayani

Program Studi Manajemen, Sekolah Tinggi Ilmu Ekonomi Atma Bhakti, Indonesia

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Abstract

The purpose of the study is to examine empirically related marketing performance that can be enhanced by the influence of market orientation and product innovation with mediating variables, specifically marketing capabilities. Partial Least Square (PLS) is the research method used in the study. The study's population consisted of all MSMEs operating in Surakarta City's creative industry sector. Non-random sampling is accomplished by using an accidental sampling technique. The questionnaire was distributed to 75 Creative Industry MSMEs and became the primary data that would be used in the data processing process. The study's conclusions indicate that market orientation and product innovation have a positive but not significant effect on marketing performance. Consequently, marketing capabilities are greatly enhanced by product innovation and market orientation, and marketing performance is positively and significantly impacted by marketing capabilities. Marketing capabilities can mediate the effects of market orientation and product innovation on marketing performance.

Abstrak

Tujuan dari penelitian ini adalah untuk menguji secara empiris terkait kinerja pemasaran yang dapat ditingkatkan dengan pengaruh orientasi pasar dan inovasi produk dengan variabel mediasi, khususnya kapabilitas pemasaran. Partial Least Square (PLS) adalah metode penelitian yang digunakan dalam penelitian ini. Populasi penelitian ini terdiri dari seluruh UMKM yang beroperasi di sektor industri kreatif Kota Surakarta. Pengambilan sampel secara non-random dilakukan dengan menggunakan teknik accidental sampling. Kuesioner disebarkan kepada 75 UMKM Industri Kreatif dan menjadi data primer yang akan digunakan dalam proses pengolahan data. Penelitian ini menemukan bahwa orientasi pasar dan inovasi produk berpengaruh positif pada kinerja pemasaran, tetapi tidak signifikan. Kapabilitas pemasaran sangat ditingkatkan oleh inovasi produk dan orientasi pasar, dan kinerja pemasaran dipengaruhi secara positif dan signifikan oleh kapabilitas pemasaran. Kapabilitas pemasaran dapat memediasi pengaruh orientasi pasar dan inovasi produk terhadap kinerja pemasaran

Keywords: Product Innovation, Market Orientation, Marketing Capabilities, Marketing Performance.

Kata Kunci: Inovasi Produk, Orientasi Pasar, Kapabilitas Pemasaran, Kinerja Pemasaran

I. INTRODUCTION

Small and Medium Enterprises (SMEs) in developing countries are considered a way to increase growth, industrialization, and sustainable growth [1]. Likewise, with MSMEs in Indonesia, many priority programs have been launched by the government to increase the growth of MSMEs by the goals of the SDGs. It is even considered a security when the economy is in bad condition [2].

In this case, MSMEs receive considerable attention for their role in developing business financial capital and creating new jobs.

Tanjung et al. [3] said in their research that globalization has adverse effects on many people in countries around the world. The globalization of international trade has resulted in increased competition in the business world. The private sector, which consists of small businesses, has become a significant economic force in

Indonesia. The contribution of MSMEs to the Indonesian economy is enormous, as evidenced by their significant impact on gross domestic product (GDP). In their research, [3] additionally, 60,4% of the investment has been absorbed by small and medium-sized businesses (MSMEs), which can employ 97% of the labor force, or 116 million people, and generate value and propel the Indonesian economy. In Indonesia, micro, small, and medium-sized enterprises (MSMEs) have expanded dramatically, and the MSME sector has shown resilience in the face of globalization's challenges.

Micro, small, and medium-sized businesses are vital to the economies of Indonesia and other nations. They can offer the community a range of economic services and generate jobs. In addition to encouraging economic expansion and assisting in the establishment of national stability, MSMEs also contribute to the process of income distribution and growth [4].

Surakarta City has many historical sites and diverse cultures that domestic and foreign visitors can explore. The cultural diversity of Surakarta City can be used as a tool to develop innovative industries that enhance Indonesia's economic expansion and image. It becomes a business opportunity for the people of Surakarta City to do business and produce various creative products to gain profit and become reliable employment. Some creative products that can be produced are handicrafts, batik cloth, art and antique products, and so on.

Creative industries produce goods and services, generating added value primarily based on creativity and (intellectual) knowledge. They can be sourced from ideas, art, and forms of technology that successfully create wealth [5]. The creative industry is a sector that emphasizes the creativity, skills, and talents of managers to add value to products and employment. Some things related to the creative industry include innovation, culture, and technology. Marketing performance is an activity that positively impacts the effectiveness of generating sales to market products. A highly competitive environment has formed among MSMEs due to their growth in various regions. As a result, marketing performance is seen as crucial to winning the competition as it defines the achievement of MSMEs throughout the entire marketing process [6].

However, marketing initiatives are crucial to MSMEs' development for their performance and success to grow and endure alongside their operations, where customer orientation remains the focus of attention. Marketing performance can be a benchmark for businesses to measure how well the marketing process is running, which is part of achieving business goals. The research process in marketing is very important to improve business performance; businesses need to increase the amount of funds allocated to grow their current business units to improve performance [7].

In the business sector, product innovation is crucial because it can result in new products that address appearance, systems, procedures, and other factors [8]. Product innovation is the key so that MSME players continue differentiating in an increasingly broad market. According to [9] innovation is a key element of business strategy and is considered crucial for companies to compete successfully in domestic and international markets. To meet consumer needs by utilizing product innovation, the company ensures that the business it produces can still attract customers to buy it, and it is designed to be more relevant to what customers want [10].

Product innovation variables are used in this study because innovative MSME industries are more likely to adopt new concepts more quickly and adaptively in practice. The creative industry is closely related to product innovation and increasingly diverse consumer needs and wants to want something different before making business people in this field motivated to update and add something new to their products. Customer-focused businesses foster greater creativity by creating innovative goods and impactful marketing campaigns [8].

Creative industry businesses are not only directly

required to innovate products, but businesses in this industry sector must also be able to adapt to market competition and change quickly to meet the needs of their clients. Businesses must prioritize market orientation in their operations if they want to gain the trust of their clients [8]. Businesses can improve their marketing performance by generating and satisfying customers, which is market orientation's primary objective, through ongoing consumer needs and preferences assessment. Market orientation is crucial to efforts to improve marketing performance because it allows businesses to process market data faster, anticipate market trends, and take more appropriate actions in response to changing customer needs [11].

MSMEs can improve their marketing performance and capitalize on their market power by applying innovation activities to their products. They are market-oriented, balanced, or mediated by strong marketing capabilities. Research and development is a strategic factor determining business operations, and the company's innovation efforts seek to generate a competitive advantage [12]. Businesses that can best understand consumer demand and offer their target customers the greatest benefits will be able to gain a larger market share [13].

As demonstrated by earlier studies [10], [14] marketing performance is positively and significantly impacted by product innovation and market orientation. In addition, previous research by [15] revealed that market orientation impacts marketing performance. Nevertheless, a study gap carried out by [16] demonstrate that there is no appreciable impact of product innovation on marketing performance. Research by [17] The findings indicate no discernible relationship between product innovation on marketing performance.

Marketing capabilities are the collective skills and knowledge, and the community's ability to implement organizational processes that facilitate the coordination of marketing campaigns converted into business assets [18]. This study will use marketing capabilities to mediate the relationship between marketing performance, market orientation, and product innovation. MSMEs' marketing capabilities may need to be improved to maximize the advantages of applied product innovation and market orientation and ensure a strong correlation between these factors and marketing performance.

Several studies conducted in the previous year revealed that product innovation variables impact marketing capabilities; research [19] is one of them. Research on how market orientation affects marketing capabilities has been tested. According to research conducted in the past year, market orientation has a positive and significant impact on marketing capabilities [20]. Numerous researchers have examined the impact of marketing capabilities on marketing performance; one study conducted by [18], [21], [22] proves that marketing capabilities owned by a business can improve marketing performance in a business. The study's findings can subsequently be used to inform and evaluate MSMEs to enhance their marketing performance. This study will probably show and present strong arguments regarding whether the independent variables used can affect the marketing performance of MSMEs in Surakarta

City's creative sector and whether the marketing capabilities variable can mitigate the effects of the independent variables on the dependent variable.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. Literature Review

a. Product Innovation

One key component of growth strategy is innovation, which can help businesses expand into new markets, gain a competitive edge, and increase their market share [23]. Ramadhani et al. [24] claim that innovation is very important in business because it allows companies to create something new from a product, appearance, and procedure. Rosmiyani [25] points out that the capacity of a company to develop and execute new and valuable ideas is what innovation means. Innovation is critical for businesses to capitalize on new opportunities and gain a competitive advantage. Businesses that continuously innovate will have the ability to control the market.

According to Kawira [26], Innovation is an iterative process that starts with discovering new markets and/or service opportunities and leads to tasks about development, production, and marketing to achieve commercial success. Product innovation gives SMEs additional chances to boost revenue and sales while broadening their consumer base [8].

b. Market Orientation

Market information is any activity that includes information about target market competitors and customers and activities spread across the company. It describes how a business looks for information about consumer and competitor orientation and market conditions [8]. Market orientation's main objective is to create and satisfy customers by continuously evaluating their needs and desires, which will improve MSMEs' marketing performance [24]. This is justified by the idea that a company with a market-oriented organizational culture that understands the needs of its customers and the goods that its rivals are selling will be better able to focus its innovation efforts on addressing unmet customer needs [27].

A successful and effective organizational culture that adds value to customers to enable the company to outperform competitors is known as market orientation [2]. Market-oriented companies routinely collect data about their external stakeholders to create products that provide customers with greater value. MSME actors may be more negatively impacted by a weak market orientation than large corporations. MSMEs may perform worse if they lack the funds to cover possible business failures, particularly long-term ones [28].

c. Marketing Capabilities

The definition of capabilities, according to Rosmayani [25] It is the business's capacity to establish target markets, set competitive prices, produce high-quality goods, distribute them efficiently, select the best marketing strategy and use resources with steps that are as effective and efficient as possible to create added value as part of efforts to carry out marketing activities to fulfill customer needs. In addition, an integrated process that is deliberate and intended to apply a collection of resources, knowledge, and business capabilities

about market demand can also be understood as marketing capabilities.

Arramadhan Daulay [19] describes marketing capabilities as a comprehensive process intended to use the knowledge, capabilities, and resources acquired by a business to meet customer demands, add value, and meet competitive demands. The ability of the business to price, advertise, and distribute its goods is known as marketing capabilities. Strong marketing skills can influence enhancing the company's marketing performance [29].

Marketing capabilities enable a firm to add value by responding to competitive threats, capitalizing on market opportunities, and adapting its products and services to market conditions [30]. According to Qureshi (2010), a business unit's marketing processes in six different areas corporate management, pricing, product development, distribution channel, marketing research, and promotion lead to its marketing capabilities.

d. Marketing Performance

Marketing performance is used to identify strategy effectiveness. It is one area of business performance that can be improved if companies choose and implement the best actions [31]. Furthermore, Rosmayani [25] Marketing performance gauges the effectiveness of all marketing initiatives or the performance of the company's product market. Marketing performance results from an organization's business and marketing strategies collaborating [20].

The field of (business) performance measurement, which includes marketing performance measurement, aims to shed light on company performance to make business strategy implementation easier [8]. With the right marketing performance measurement, companies can make business decisions based on data and facts for higher-quality performance growth. Business people will strive to meet the needs of various marketing tools; their customers aim to outperform their competitors [32]. According to Badollahi et al. [9], the primary goal of performance measurement is to encourage management to exercise initiative when conducting business operations. Companies must measure performance to achieve their goals.

B. Hypothesis Development

Effect of Product Innovation on Marketing Capabilities

Consumers need innovation to fulfill their desires according to their respective needs. As a result, companies in the industry must develop new products to meet customer demand [31]. Product innovation can strengthen marketing capabilities because products that are increasingly differentiated, have more value, and provide satisfaction for consumers will create a competitive advantage, increasing attractiveness in the marketing process. The company will strive to market its products thoroughly and develop its market share, ultimately contributing to increasing its marketing capabilities.

According to [33], product Innovation has an important role in improving marketing capabilities where competition is increasingly competitive, the desire for sustainable product innovation to increase marketing capabilities. This statement is backed up by earlier studies by [19] and [34], with findings showing that

market capabilities are positively and significantly impacted by product innovation. The following hypothesis is developed based on prior research and the explanation of hypothesis development:

H1: *Product innovation positively and significantly impacts Marketing Capabilities.*

Effect of Market Orientation on Marketing Capabilities

Market orientation refers to how much a business generates, shares, and responds to market intelligence about its competitors, customers' needs, strategies, and actions, as well as the needs and capabilities of its channels and the broader business environment [35]. Market orientation can encourage businesses to continuously understand consumers, competitors, and the dynamics that occur in the market. These factors will impact the marketing capabilities of MSMEs by providing in-depth market knowledge, increasing responsiveness, and ensuring superior marketing strategies.

Maryono et al. [17] argue that businesses implementing the most efficient market culture orientation can improve business performance and buyer behavior. This assertion is consistent with the findings of earlier studies carried out by [17], [20], which concluded that market orientation can enhance, positively impact, and significantly impact a company's marketing capabilities. The following hypothesis is developed using the description of hypothesis development and prior research:

H2: *Market orientation positively and significantly impacts marketing capabilities.*

Effect of Marketing Capabilities on Marketing Performance

Many of the firm's capabilities span multiple functional areas and are visible at different levels. However, the marketing function is usually linked to the capabilities related to the deployment of market resources [35]. Market capabilities include understanding consumer needs, preferences, and behavior through market research and data analysis.

With a firmer grasp of marketing and strong capabilities, businesspeople can create more effective and relevant strategies, increasing the influence of MSMEs' marketing capabilities on marketing performance. These findings are supported by the research that was carried out by [17], [18], [36], which concludes that good marketing capabilities can improve marketing performance in business. The following hypothesis has been developed based on previous studies and the explanation of hypothesis development.:

H3: *Marketing capabilities positively and significantly impact marketing performance.*

Effect of Product Innovation on Marketing Performance

A business's ability to launch new products will allow it to lead and reduce the possibility that competitors will do so first [18]. The study conducted by [31] mentions a conclusion that the more innovative entrepreneurs make their products, the more marketing performance will increase. Nizam et al. [37] argue that businesses can innovate, allowing companies to continue selling their products.

Innovation successful businesses are one step ahead of their rivals. Businesses can rely on meeting

customer demand to increase marketing effectiveness and boost sales. According to Ramadhani et al. [24], the success of a business in maintaining the continuity of product sales of its products lies in its ability to innovate. This aligns with findings from earlier studies by [14], [24], [45], [31], [38]–[44], which demonstrates how product innovation implemented by business actors can enhance the company's marketing performance. The following hypothesis has been developed based on previous studies and the explanation of hypothesis development:

H4: *Product innovation positively and significantly impacts marketing performance.*

Effect of Market Orientation on Marketing Performance

Control over business direction is influenced by market orientation, which forces companies to respond to information collected by concentrating more on customers, markets, and product related information. Market orientation sets goals and creates a customer-focused organization that meets expectations to outperform competitors [46]. Market-oriented businesses will conduct marketing activities based on a deep understanding of consumers, markets, and competitors in the same business sector.

Through activities that are more focused on consumer needs, businesses will carry out marketing activities that are of higher quality, effective, efficient, and more relevant, the results of which will be able to drive customer satisfaction, loyalty, and long-term profits, which means that marketing performance in the business has improved. This description is reinforced by previous research by [20], [35], [47], [48] According to the study, market orientation significantly and favorably affects marketing performance. The following hypothesis is established by describing the hypothesis development process and referencing prior research, and the following hypothesis is formed:

H5: *Market orientation positively and significantly impacts marketing performance.*

Effect of Product Innovation on Marketing Performance through Marketing Capabilities

At certain times, the market will experience product saturation, so producers must make updates or what is known as product innovation to re-attach buying interest in consumers or the market they are targeting. However, in practice, there are still several *research gaps* that reveal the results of research that innovations made by businesses have not been able to improve marketing performance.

Research conducted by Wulandari et al. [16] asserts that there is little correlation between product innovation and marketing performance. This indicates that product innovation alone cannot ensure the best possible boost in marketing performance because rivals can imitate the innovations. The effect of product innovation on marketing performance will be mediated in this instance by marketing capabilities.

Through product innovation driven by good marketing capabilities, business people can effectively communicate to the market about the innovative products they produce, including product advantages, uniqueness, and things that make products different from those produced by competitors. This assertion is

supported by studies carried out by [12], which reveal the research results that marketing capabilities accompanied by technology use capabilities can mediate. Product innovation's effect on business performance, including marketing performance. The following hypothesis is developed based on explaining hypothesis development and prior research substantiating this claim:

H6: *Product innovation positively and significantly impacts marketing performance through marketing capabilities.*

Effect of Market Orientation on Marketing Performance through Marketing Capabilities

Market orientation involves gathering, sharing, and reacting to market intelligence to gain market share, which in this case is consumers and potential customers, as well as information about competitors and current and potential customers. According to [17], business actors who can manage market information effectively distribute this information to all company units and emphasize continuous proficiency in changing customer needs are considered capable of increasing their marketing capabilities.

To achieve marketing performance, it is not

enough to be skillful in managing a product and producing satisfied customers; businesses need to form customer loyalty. Therefore, businesses must have capabilities. Through good marketing capabilities, the market orientation carried out by business people will continuously improve the market performance of the marketing process. This statement is reinforced by research conducted by [2], [7], [17], [49] shows that market orientation influences marketing performance through marketing capabilities, according to research findings. The following theory is established in light of the explanation of hypothesis development and earlier studies that substantiate this claim:

H7: *Market orientation positively and significantly impacts marketing performance through marketing capabilities.*

C. Research Framework

The research conceptual framework, which is grounded in theory and previous research, explains the relationship between research variables. The impact of the independent variables on the dependent variable will be visualized, and the direction of the research will be demonstrated. The study's conceptual framework is shown in Figure 1 below.

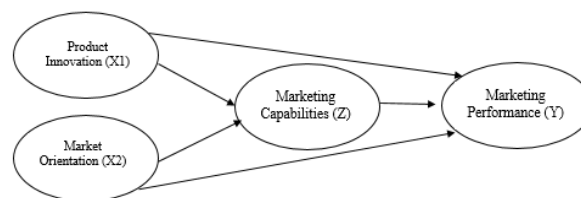


Figure 1. Research Framework

III. RESEARCH METHODS

A quantitative research design was employed to understand how the independent and dependent variables relate. This study will process primary data, and the data source will be gathered by distributing questionnaires that contain statements and closed questions. Each Creative Industry MSME will be given one questionnaire with 15 statements measured using a Likert scale of 1 - 5.

The study's population consists of all MSMEs in the Surakarta City area that are involved in the creative industry. The *non-random side* is a sampling method used with an *accidental sampling* technique. Sourced from data from the Office of Cooperatives, MSMEs, and Industry of Surakarta City states that in 2024, the number of MSMEs recorded operating in Surakarta City amounted to 14,339 MSMEs with various types of sectors. The number of creative industry MSMEs in Surakarta City is unlimited or *infinite*. Using a calculation of 5 x 15 indicators, the minimum number of samples required for the study was determined to be 75 MSMEs in the creative industry. According to [50], 5 - 10 respondents for each indicator is the ideal minimum number of samples needed for the PLS analysis process.

Data processing in this study used SmartPLS Version 4 software. The quality of the data used was tested with validity and reliability tests. Reliability testing is identified by evaluating the *composite reliability* and *Cornbach's alpha* values. Furthermore, the validity test is measured by *convergent validity*, namely through the

loading factor value evaluation process. According Ghazali & Latan [51] If the minimum AVE value is 0,50, the loading factor value is deemed valid, and if the minimum values of *Cornbach's alpha* and *composite reliability* are 0,60, the data is considered reliable.

The structural model (inner model) in this study is tested by calculating the coefficient of determination (R^2) and assessing the Goodness of Fit (GoF). The degree to which exogenous factors can be explained is determined by the coefficient of determination (R^2). This study tested the hypothesis with a statistical significance level at the 5% alpha level. The hypothesis's significance level indicates whether the hypothesis can be accepted or rejected statistically if the *t-statistic* value is greater than the *t-table* value of 1,992, the hypothesis is accepted or can compare the *p-value* results with the α value. The hypothesis is accepted if the *t-statistic* value exceeds the *t-table* and the *p-value* is less than 0,05. Direct effects (*path coefficient*) and indirect effects are the two effects measured in this study.

IV. RESULTS AND DISCUSSION

A. RESULTS

Respondent Characteristics and Descriptive Statistics

The questionnaire was distributed to 75 Creative Industry MSMEs in the Greater Solo area. Respondents who participated were mostly female, namely 54 people (72%). Meanwhile, there were 21 male respondents (28%). Most respondents were 21-30 years old (39%),

with the age of the MSME business that was most respondents above 5 years, as many as 26 MSMEs or 35%. Respondents in the study were creative industry entrepreneurs in Surakarta City, which consisted of various types of creative industries. These industries include handicrafts, application and game development, creative culinary, creative interiors, creative fashion that raises cultural elements, and other creative businesses such as making bouquets, floral arrangements, and other industries that have creative elements.

Descriptive statistics provide information about the characteristics of the variables in the study, including standard deviation and average (*mean*). Each of the four current constructs has an average value greater

than four and a standard deviation value greater than zero. This concludes that the respondents' answers are relatively diverse and tend to the right, namely in answers that agree with the statements on the indicators.

Data Quality Test

Validity Test

In this study, the validity of the data used was tested through 2 methods: convergent validity and discriminant validity. Indicator scores can meet valid data quality if the *loading factor* is above 0.70. The test results on the data show that all indicators used have proven valid. Below are the results of *Cross-Loading* Indicators between constructs in the study.

Table 1. Cross Loading of Indicators between Constructs

	Product Innovation	Market Orientation	Marketing Capabilities	Marketing Performance
PI1	0,786	0,590	0,530	0,548
PI2	0,709	0,366	0,364	0,366
PI3	0,758	0,464	0,474	0,464
PI4	0,763	0,519	0,550	0,519
MO1	0,499	0,904	0,506	0,504
MO2	0,477	0,906	0,517	0,542
MO3	0,332	0,784	0,360	0,310
MC1	0,412	0,397	0,724	0,593
MC2	0,506	0,458	0,767	0,647
MC3	0,459	0,358	0,786	0,658
MC4	0,576	0,431	0,761	0,650
MP1	0,582	0,441	0,733	0,775
MP2	0,463	0,365	0,592	0,740
MP3	0,509	0,364	0,657	0,783
MP4	0,356	0,470	0,539	0,739

Source: Primary Data, processed 2025

Reliability Test

A variable can be considered reliable if its value is more significant than 0.60 in both Cronbach alpha and composite reliability results [52]. The overall construct

reliability test results, as displayed in Table 2 below, are higher than 0,60, indicating very good Composite Reliability and Cronbach Alpha values.

Table 2. Reliability Test Results

Construc	Cronbach Alpha	Composite Reliability
Product Innovation	0,750	0,759
Market Orientation	0,836	0,876
Marketing Capabilities	0,756	0,758
Marketing Performance	0,757	0,764

Source: Primary Data, processed 2025

Structural Model Test Results (Inner Model)

The structural model (*inner model*) can be tested to see R² values (*R square*), significant values, and the

relationship between constructs. The R² value determines whether the independent variables can affect the dependent variable. The R Square value is shown below in Table 3.

Table 3. R Square Value

Construct	R – Square
Marketing Capabilities	0,478
Marketing Performance	0,725

Source: Primary Data, processed 2025

In addition to R² as an inner model test, this study employs Q² Predictive Relevance. This shows the goodness of fit model (GoF); a model is considered good if its predictive relevance is high and its Q² value is greater than zero [51]. The observation value in this study is good, as shown by the calculation of the Predictive Relevance Q² value of 0,634.

The following calculation generates the *Predictive Relevance* Q² value:

$$Q^2 = 1 - (1 - R_1^2) (1 - R_2^{(2)})$$

$$\begin{aligned}
 &= 1 - (1 - 0,478^2) (1 - 0,725^2) \\
 &= 1 - (1 - 0,228) (1 - 0,525) \\
 &= 1 - (0,772) (0,475) \\
 &= 1 - 0,366 \\
 &= 0,634
 \end{aligned}$$

Using SmartPLS software version 4, the hypothesis was tested using the *Partial Least Square* (PLS) analysis method. The following figure provides an interpretation of the test results:

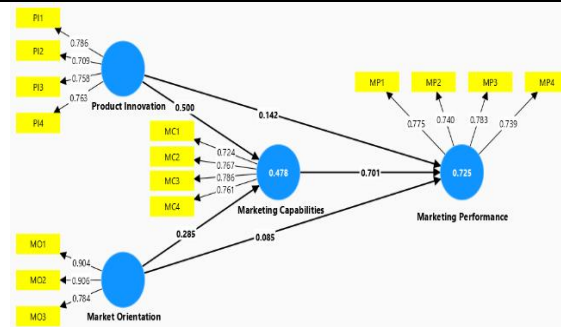


Figure 2. Full Research Model

Table 4 below provides information on the influence between variables obtained from data processing. Every unit increase in product innovation will have a 0,500 impact on marketing capabilities, according to the calculated product innovation coefficient on marketing capabilities. Additionally, the market orientation variable yields a marketing capabilities coefficient value of 0,285, meaning that for every unit increase in market orientation, marketing capabilities will rise by 0,285.

According to the marketing capabilities construct on marketing performance, which has a coefficient estimate value of 0,701, every unit increase in marketing

capabilities will translate into a corresponding increase in marketing performance of 0,701. The product innovation construct then yields an estimated coefficient of 0,142 on marketing performance, meaning that if product innovation increases by one unit, it will have a 0,142 increase in marketing performance. Finally, the market orientation construct's estimated coefficient of influence on marketing performance is 0,085, indicating that the research findings show that every unit increase in market orientation will have an increasing effect on marketing performance of 0,085.

Table 4. Inner Model Statistical Results (Direct Effects)

Relationship between Constructs	Estimated coefficient	t - statistic	p-value	Conclusion
Product Innovation -> Marketing Capabilities	0,500	5,550	0,000	Hypothesis 1 accepted
Market Orientation -> Marketing Capabilities	0,285	3,060	0,002	Hypothesis 2 accepted
Marketing Capabilities -> Marketing Performance	0,701	7,424	0,000	Hypothesis 3 accepted
Product Innovation -> Marketing Performance	0,142	1,607	0,108	Hypothesis 4 Rejected
Product Innovation -> Marketing Performance	0,085	1,116	0,264	Hypothesis 5 Rejected

Source: Primary Data, processed 2025

The outcomes of testing the five aforementioned hypotheses are explained below. The hypothesis in this study will be accepted or rejected based on the p-value and t-statistic:

1. The t value in the analysis of the impact of product innovation on marketing capabilities is 5,550 > the t table value of 1,992, and the p-value is 0,000 < 0,05; based on these results, it indicates that **hypothesis 1 is accepted**.

2. The calculated t value in the analysis of the impact of market orientation on marketing capabilities is 3,060 > the t table value is 1,992, and p-value is 0.002 < 0,05; these results conclude that **hypothesis 2 is accepted**.

3. **Hypothesis 3 is accepted**, t - statistic in the analysis of the relationship between marketing capabilities and marketing performance is 7.424 > the t - t-table of 1,992, and p-value is 0.000 < 0.05.

4. **Hypothesis 4 is rejected**, based on the test results of the effect of product innovation on marketing performance, which show a t value of 1.067 < the t table value of 1,992 and p-value of 0,108 > 0,05.

5. The calculated t value of the product impact analysis on marketing capabilities is 1,116 < the t table value of 1,992 and p-value of 0,264 > 0,005, based on these results, it means that **hypothesis 5 is rejected**.

This study uses marketing capabilities as an intervening variable, and the inner model's statistical results for indirect effects are in addition to the inner model's results for the direct effect mentioned above. According to the estimated coefficient of the relationship between product innovation and marketing performance mediated by the marketing capabilities construct, marketing performance can increase by 0,351 for every unit increase in product innovation if marketing capabilities are used as a mediator.

The estimated coefficient on the next indirect effect is 0,200. With the marketing capabilities construct serving as a moderator between the two constructs, a one-unit increase in the market orientation construct can result in a 0,200 increase in marketing performance. The findings of the study's inner model statistics testing for indirect effects are shown in Table 5 below.

Table 5. Inner Model Statistical Results (*Indirect Effects*)

Relationship between Construct	Estimated coefficient	t - statistic	p-value	Conclusion
Product Innovation -> Marketing Capabilities -> Marketing Performance	0,351	4,605	0,000	Hypothesis 6 accepted
Orientasi Pasar -> Marketing Capabilities -> Marketing Performance	0,200	2,781	0,005	Hypothesis 7 accepted

Source: Primary Data, processed 2025

The t-statistic and *p-value* are the basis for deciding whether to accept or reject the hypothesis of indirect effects in this study, as shown in Table 6 above; here are the results:

1. The impact of product innovation analysis on marketing performance through marketing capabilities has a calculated t value of 4,605 > the t table value of 1,992, and the sig is 0,000. According to these findings, the value is 0,000 < 0,05, indicating that **hypothesis 6 is accepted**.

2. In the analysis of how market orientation affects marketing performance through marketing capabilities, given that the p-value is 0,005 < 0,05 and the calculated t-value is 2,781 > the t-table value of 1,992, **hypothesis 7 is accepted**.

B. Discussions

The first hypothesis's test results demonstrate that respondents' reactions to the impact of product innovation on marketing capabilities were both favorable and significant. According to [19], companies benefit through involvement in more innovative and value-added marketing efforts. The results of this investigation align with studies conducted by [19], [34]. Product innovation can enrich marketing strategies, increase effectiveness, and assist companies in creating more value for consumers, ultimately strengthening and improving overall marketing capabilities.

The second hypothesis's test results demonstrate that respondents' reactions to the impact of market orientation on marketing capabilities were both favorable and significant. Most respondents concurred and acknowledged that market orientation would significantly and favorably affect the company's marketing capabilities. The results concluded that market orientation positively and significantly affects marketing capabilities in Creative Industry MSMEs in Surakarta City. According to [17], market orientation focuses on consumer decisions in buying a product. Sufficient focus on competitors and customer orientation is necessary to deliver optimal outcomes and satisfy customer needs and preferences. According to the study's findings, Surakarta City's creative industry MSMEs' marketing capabilities are positively and significantly impacted by the orientation that these players practice. This study's results align with research [17], [20], [48], this indicates that marketing capabilities are positively and significantly impacted by market orientation.

Furthermore, the third hypothesis testing revealed that marketing capabilities can positively and significantly impact marketing performance. Marketing capabilities carried out by creative industry MSME players in Surakarta City can directly affect marketing performance. Marketing capabilities owned by Creative Industry MSMEs in Surakarta City can increase the effectiveness of marketing strategies to accelerate the achievement of company goals. According to [49], if a

company has adequate capabilities regarding marketing strategy, this factor will provide tangible benefits in the form of increased marketing performance. This study's research line was carried out by [18], [21], [53].

The fourth hypothesis shows that respondents gave a positive but insignificant response. The marketing performance of Surakarta City's MSME players in the creative industry has not been significantly impacted by their innovations. This happens because of several factors that trigger the insignificance of innovation on marketing performance, namely that the innovations made are not by customer needs, so the product's innovation is considered irrelevant and cannot significantly improve performance in the marketing process. The study's findings indicate that product innovation alone cannot enhance the marketing performance of Surakarta City's creative industry MSMEs. However, product innovation is still vital because it can maintain business competitiveness in the market through product innovation. According to this research, studies carried out by [16], reveal the results of research that product innovation cannot significantly impact increasing marketing performance.

Additionally, respondents gave a positive but not significant response to the fifth hypothesis regarding the impact of market orientation on marketing performance. Marketing performance cannot be directly impacted by market orientation. Market orientation implemented by the creative sector, the marketing performance of MSME players in Surakarta City has not been significantly impacted. This occurs due to several factors, such as the creative industry. MSMEs may understand the needs of their customers but do not carry out proper execution, so marketing strategies run ineffectively and cannot significantly impact marketing performance. Another factor is that creative industry MSMEs are too focused on today's market conditions without any attention to future *trends* so that marketing strategies quickly experience saturation; this can cause a decrease in marketing performance because products and promotional strategies are no longer relevant to customer needs. Research conducted by [17] and research by [49] these studies support the findings of this study, which show that a company's market orientation hasn't been able to significantly affect marketing performance.

Hypothesis testing in this study was carried out using two methods: direct hypothesis testing and indirect hypothesis testing. To determine whether the moderating factors employed in this study can serve as a link to enhance the influence of product innovation and market orientation on marketing capabilities, indirect testing is employed. Product innovation can create advantages, but customers may not realize the product's added value without a strong marketing strategy. Marketing capabilities can help communicate the advantages of these

innovations to the market. Marketing capabilities play a role in ensuring that innovative products can be accepted and appreciated and have an optimal impact on the marketing carried out by the company [54]. The test results for the sixth hypothesis demonstrate that marketing capabilities can act as a mediator in the relationship between product innovation and marketing performance. Research conducted by [12] aligns with this research. The study's findings demonstrate that the relationship between product innovation and business performance, including marketing performance, can be mediated by technological capabilities used to optimize marketing performance.

The seventh hypothesis states that marketing capabilities can lessen the impact of market orientation on marketing performance. Market orientation carried out by creative industry MSMEs in Surakarta City can significantly affect marketing performance with marketing capabilities to mediate its influence on marketing performance. Companies can process market information obtained through the market orientation process into a superior marketing strategy with the right market segmentation, competitive pricing, and a more effective promotion strategy. Without good marketing capabilities, the information obtained from the market orientation process is not optimally utilized to improve marketing performance. According to [49], market orientation will impact marketing performance if adequate marketing capabilities mediate the influence of both. The findings of this study support those of research by [2], [7], [17], [49], it suggests that marketing capabilities can act as a mediator in the relationship between market orientation and marketing performance.

V. CONCLUSIONS AND SUGGESTIONS

A. Conclusions

The following describes the conclusions based on data processing and discussion. Product innovation and product orientation variables positively and significantly impact marketing capabilities. This demonstrates how MSMEs use product innovation and market orientation strategies in Surakarta City's creative industry sector, which can impact their increased marketing capabilities. According to this study, marketing capabilities have a positive and significant impact on the marketing performance of MSMEs in Surakarta City's creative industry.

On the other hand, neither product innovation or market orientation variables directly affect the marketing performance of creative industry MSMEs in Surakarta City. In this case, marketing capabilities successfully act as a mediator in the influence of product innovation and market orientation on the marketing performance of creative industry MSMEs in Surakarta City. This conclusion means that product innovation can positively and significantly impact the marketing performance of creative industry MSMEs in Surakarta City through good marketing capabilities. Through effective marketing capabilities, market orientation can also have an indirect impact on the marketing performance of MSMEs in the creative industry in Surakarta City.

B. Suggestion

According to the findings of the study on how

market orientation and product innovation affect marketing performance using marketing capabilities as an intervening variable, researchers provide several suggestions for further research and creative industry MSME players in the Surakarta City area. Advice for the creative sector for MSME owners, including those in the creative industry, to have a greater influence on marketing performance, they must continuously enhance and reassess product innovation and market orientation; MSME managers should provide more added value to products and increase communication with consumers and improve after-sales service.

Suggestions for future researchers, namely: Future researchers are advised to be able to use more recent and relevant variables and indicators in research so that testing of marketing performance can be explored more broadly. Future researchers are also expected to expand and increase the sample size in the study so that the research is of higher quality and produces new findings that can support past and future research.

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