

Jurnal Review Pendidikan dan Pengajaran http://journal.universitaspahlawan.ac.id/index.php/jrpp Volume 8 Nomor 1, 2025 P-2655-710X e-ISSN 2655-6022 Submitted : 02/01/2025 Reviewed : 02/01/2025 Accepted : 02/01/2025 Published : 10/01/2025

Syahyono<sup>1</sup> Nidya Fakhirah<sup>2</sup> Siti Nurhalimah<sup>3</sup> Ika Ajeng Febrianti<sup>4</sup> Anisa Setia Tantri<sup>5</sup> THE EFFECT OF DETERMINING MARKET ORIENTATION AND INNOVATION CAPABILITY ON BUSINESS PERFORMANCE IN MICRO, SMALL AND MEDIUM ENTERPRISES (UMKM) FRIED CHICKEN FRANCHISES IN BEKASI CITY AREA

### Abstrak

Penelitian ini bertujuan untuk menguji pengaruh orientasi pasar dan kemampuan inovasi terhadap kinerja bisnis. Objek penelitiannya adalah pemilik atau karyawan yang bekerja pada franchise ayam goreng. Metode penelitian menggunakan pendekatan kuantitatif. Kemudian pengujian yang dilakukan adalah reliabilitas indikator, reliabilitas konsistensi internal, dan inner model. Sampel yang digunakan sebanyak 100 orang. Hasil penelitian yang diperoleh menemukan bahwa orientasi pasar dan kapabilitas inovasi berpengaruh signifikan terhadap kinerja bisnis

Kata Kunci: Orientasi Pasar, Kemampuan Inovasi, Kinerja Bisnis

### Abstract

This research aims to examine the influence of market orientation and innovation capability on business performance. The research object is the owner or employee who works at the fried chicken franchise. The research method uses a quantitative approach. Then, the tests carried out are indicator reliability, internal consistency reliability, and inner model. The sample used was 100 people. The research results obtained found that market orientation and innovation capability have a significant effect on business performance.

Keywords: Market Orientation, Innovation Capability, Business Performance.

### INTRODUCTION

Franchising is a widely recognized and efficient approach to implementing and enlarging business activities. When planning to move forward, a business entity begins the franchising stage by issuing licenses to independent franchisees, which gives them the right to carry out business operations under the franchisee's brand name (Thao et al., 2022). In many service and retail industries, franchising is an important entrepreneurial growth strategy that involves cooperation between two very different types of entrepreneurs. In many service and retail industries, franchising is an important entrepreneurial growth strategy that involves cooperation between two very different types of entrepreneurial growth strategy that involves cooperation between two very different types of entrepreneurial growth strategy that involves cooperation between two very different types of entrepreneurial growth strategy that involves cooperation between two very different types of entrepreneurial growth strategy that involves cooperation between two very different types of entrepreneurial growth strategy that involves cooperation between two very different types of entrepreneurial growth strategy that involves cooperation between two very different types of entrepreneurial growth strategy that involves cooperation between two very different types of entrepreneurial growth strategy that involves cooperation between two very different types of entrepreneurial growth strategy that involves cooperation between two very different types of entrepreneurial growth strategy that involves the types of entrepreneurial growth strategy that involves cooperation between two very different types of entrepreneurial growth strategy that involves the types of entrepreneurial growth strategy that involves types of entrepreneurial growth str

Franchisors typically provide a full range of services such as training, product supply, and marketing plans, and in return, franchisees pay an upfront fee, ongoing royalties, and agree to abide by the franchisor's guidelines. This strategy has enabled entrepreneurs such as Ray Kroc (McDonald's) and Dave Thomas (Wendy's) to transform small businesses into large public companies while offering thousands of budding entrepreneurs the opportunity to build profitable local and regional companies. (Gillis et al., 2018)

The development of the franchise sector, especially in the fast food industry such as fried chicken, shows significant growth in Indonesia. Bekasi City, as an area with a large population and a rapidly growing economy, is a promising location for many MSMEs. Despite the huge

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opportunities, many MSMEs are faced with various obstacles in their efforts to improve their performance and increase their competition.

According to (Wijoyo et al., 2021) Business is a series of activities carried out by individuals and communities by presenting products and services to obtain profits or it can be interpreted as providing commodities as well as services to smooth the wheels of the economy. These business people must be prepared to face profits & deficits, entrepreneurship does not solely depend on financial capital, but there are various elements that support the realization of a business, for example: credibility, competence, knowledge, relationships & connections can be used as trading assets. Quoting Griffin & Eber in (Wijoyo et al., 2021) A business is an institution that delivers commodities or services with the goal of making a profit.

Franchising is a distinctive pattern of operation or has characteristics related to commercial activities in the commercial or service realm, including the type of commodity and format managed, corporate identity (emblem, design, label, including the dress and appearance of business staff), promotional strategies and management support. Franchising is based on an agreement called a franchise contract. The format of this franchise agreement is at least The first group is called the franchisor as the owner of a distinctive commodity, service, or operational mechanism with a specific label that has usually obtained a patent. The next group, franchisees as individuals and/or entrepreneurs who operate business activities by utilizing commercial identities, namely symbols, designs, labels of franchise ownership by submitting compensation to the franchisor. (Asuan, 2020)

Previous research from (Swasta et al., 2023) shows that the study can provide insights into the significance of entrepreneurial orientation and market orientation in optimizing the business performance of SMEs in the furniture crafting sector. Furthermore, this study can identify the role of product innovation as a mediating variable that links the correlation between entrepreneurial orientation and market orientation with business performance. A research by (Abubakar et al., 2024) shows that market orientation complements this by emphasizing customer orientation and responsiveness to market needs, while service quality emerges as an important determinant of organizational success.

In addition, research (Tuominen et al., 2023) and (Citrasari et al., 2022) indicates that superior creativity capabilities not only maximize procedural optimization, but also contribute to producing commodities that are more aligned with consumer demands. Meanwhile, research by (Yaskun et al., 2023) & (Saputra et al., 2024) shows that the synergy between consumer alignment and creativity can create sustainable competitive advantage. The research shows that MSMEs that are able to integrate these two aspects can improve customer satisfaction and, ultimately, business performance.

However, while there is evidence to support the relationship between market orientation and innovation capability with business performance, there is limited research specific to the context of franchise MSMEs in regions such as Bekasi City. A deeper understanding of these dynamics in the local context is needed, given the unique market characteristics and different consumer behaviors. Therefore, this study is intended to explore the contribution of market orientation as well as innovation capability on business performance in fried chicken franchise MSMEs in Bekasi City. The conclusions of the research are projected to provide valuable knowledge for entrepreneurs in constructing an optimal approach, as well as contribute to the development of literature in the field of management and entrepreneurship.

### **Research Objectives**

The objectives of this research are organized according to the issues mentioned in the background: (1) to understand the impact of Market Orientation on Business Performance; (2) to understand the impact on Innovation Capability on Business Performance.

### LITERATUR REVIEW

### **Market Orientation and Business Performance**

Research by (Nasrah et al., 2023) identified that high market orientation in MSMEs contributes significantly to improving business performance. They found that firms that are active in understanding and meeting customer needs have a better competitive advantage. This result is in line with the findings by (Wahyuni & Sara, 2020) which suggests that market orientation serves as a mediator between business practices and performance, especially in highly competitive markets.

(Maisaroh et al., 2022) emphasizes that market orientation directly affects business performance. By understanding customer needs and preferences, MSMEs can be more responsive, which is especially important in the dynamic food industry. (Sefnedi et al., 2022) emphasizes that effective management of market orientation and innovation can improve performance. This suggests that MSME business leaders need to create an organizational culture that supports innovation and is responsive to the market.

(Meisya & Surjasa, 2022) and (Fakhreddin & Foroudi, 2022) indicates that corporations with superior market orientation tend to obtain more optimal performance. In the context of a fried chicken franchise, understanding customer desires can increase sales and customer satisfaction. (Bamfo & Kraa, 2019) underlined that market orientation is critical in the service sector, which is also relevant for food franchises, where customer service and experience are key. (Indarwati et al., 2024) and (Jyoti & Sharma, 2014) found that corporations with superior market orientation are increasingly prepared to accommodate the dynamics of consumer needs and adapt business approaches, which leads to optimized commercial performance and competitive competence.

hows that corporations that apply market orientation to the maximum are able to optimize commercial performance. This situation is realized because the institution is able to adapt commodities and services to the ever-dynamic desires of consumers. (Zhou et al., 2009) Market orientation helps companies design more effective approaches to optimize customer satisfaction and financial performance. (Sampaio et al., 2019) hows the fact that corporations that have intensive market orientation not only optimize their operational performance, but also build quality relationships with their customers, which leads to higher loyalty. Research (Afif & Faradina, 2023) shows that corporations with intensive market orientation are able to gain competitive advantage and optimize financial performance substantially.

According to (Sutapa & Wasitowati, 2017) ompanies that have a strong market orientation are able to understand better about customer needs and competitive conditions, which leads to improved performance. (Rodríguez et al., 2023) and (Chang & Chen, 2006) show that market orientation contributes positively to firm profitability, especially in highly competitive industries.

(Narver & Slater, 1990) how that market orientation has a beneficial impact on business performance through increased customer satisfaction. Companies that focus on the market tend to produce products that are more in line with consumer desires. (Baker & Sinkula, 2005) found that companies with high market orientation not only have better financial performance but are also better able to adapt to changes in the market, producing relevant innovations.

(Gahari, 2024) examined the relationship between market orientation and innovation capability, showing the fact that corporations that apply intensive market orientation are more inclined to invest in innovation, which in turn improves business performance. (Huhtala et al., 2014) concluded that the combination of market orientation and innovation capability significantly improves business performance, especially in a competitive environment. Companies that can combine the two are more successful in retaining customers and increasing market share.

(Prifti & Alimehmeti, 2017) and (Azzani et al., 2024) show that corporations that implement a methodology that combines market orientation and innovation capability are more likely to achieve more consistent and sustainable growth because they can more quickly adapt to changes in customer preferences. (Rajabbeigi et al., 2022) onducted research on food franchises in Iran and found that optimal market orientation along with renewal capability substantially optimizes business performance. They emphasized the importance of understanding the local context in developing effective strategies.

(Silva et al., 2018) analyzed franchises in Brazil and found that companies with innovative approaches and strong market orientation were able to survive and grow despite difficult market conditions. (Amangala & Wali, 2020) and (Gonu et al., 2023) state that corporations that apply intensive market orientation are more likely to achieve more optimal performance, especially in terms of customer satisfaction and retention. Their research shows that a good understanding of customers allows companies to improve service and product quality. (Wang, 2015) output on the investigation revealed that market orientation presents a beneficial impact on innovation and performance.

(Sampaio et al., 2019) conducted research on restaurant franchises in Europe and found that good market orientation and innovation in customer service greatly affect business performance, especially in increasing customer satisfaction and loyalty. (Dewangga & Nugroho, 2024) and (Nuryati et al., 2024) investigated the relationship between market orientation and entity achievement in the realm of micro to medium scale industries (MSMEs). The research output shows that corporations with a strong market orientation exhibit a superior ability to create innovation and strengthen the quality of customer service, which then results in maximum performance in industry competition.

According to (Sefnedi, 2017) market orientation includes a number of fundamental elements, including direction to consumers and direction to competitors. This research develops a conceptual framework that shows how market orientation can affect overall organizational performance. Wahyudiono (2024) investigated the relationship between consumer and competitor orientation on business creativity and increased transactions in the culinary industry. The study showed that both orientations have a beneficial impact on business creativity, which in turn has an impact on sales growth.

(Faerrosa et al., 2022) in their research showed that market orientation presents a substantial impact on the promotional achievements of micro small medium entities. This research emphasizes the importance of product innovation as a strategy to strengthen competitive capabilities in an increasingly competitive business arena. They found that orientation towards customers and competitors can increase the effectiveness of marketing strategies as well as product innovation produced by MSMEs.

(Morgan & Strong, 2006) and (Abdulsamad et al., 2021) This study examines how market orientation affects firm performance in the context of a changing business environment. They highlight the importance of adaptation and rapid response to changing customer needs. (Prasetyo et al., 2024) This article examines the impact of market orientation on SME performance in developing countries. The findings show that good market orientation contributes to SMEs' growth and profitability, and improves responsiveness to customer needs.

(Serra et al., 2022) revealed that implementing effective market orientation can strengthen relationships with customers, which leads to increased brand loyalty. (Jamaludin et al., 2022) found that market orientation plays a significant role in improving business performance. The study carried out shows the impact of this strategy is able to encourage marketing performance while presenting optimization in the management of the work system. Thus, companies that implement market orientation well can achieve better results in operations and marketing.

(Ergun & Kuscu, 2013) explored how market orientation affects customer loyalty in the context of e-commerce. Their results show that companies that prioritize market orientation are able to create stronger relationships with consumers, driving loyalty and retention on digital platforms. This shows the importance of implementing market orientation in a competitive online environment.

### **Indicator Market Orientation**

Indicators of market orientation variables according to the theory of Narver & Slater (1990) in (Puspaningrum, 2020) state that market orintation indicators consist of:

- 1. Company Orientation shows the commitment of the business entity in exploring the expectations, desires and aspirations of consumers.
- 2. Competitor Orientation refers to the surveillance that the corporation implements to analyze competitors' tactics.
- 3. Market Information represents the investigation process regarding market dynamics and industry sector situation.

### Innovation Capability as a Competitive Advantage

Innovation capability is also a major focus in the literature. From (Amar & Zainurrafiqi, 2021) he findings of the research study show that Innovation Capability has a constructive and meaningful impact on Competitive Advantage, while Blue Ocean Strategy presents a positive and substantial effect on Competitive Advantage, and Competitive Advantage shows a favorable and relevant effect on Business Performance.

Azzam et al. (2022) and Chuang (2021) emphasize that renewal (innovation) is not solely focused on production results, but also includes stages and management. MSMEs that are able to innovate, both in products and services, will be more likely to attract and retain customers.

For a fried chicken franchise, this could mean developing a menu that suits the tastes of the customers. local or adopt new technologies to improve operational efficiency. **Rafique et al.** (2024) dan Zhang et al. (2023) provide an analysis of how MSMEs can formulate data-driven strategies from market orientation and innovation. This plays a vital role in the process of selecting optimal solutions and improving work performance. Chuang (2021) emphasizes that good innovation can improve business performance. Fried chicken franchises need to innovate in products and services to attract a wider range of customers. Deng & Cheng (2023) found that innovation ability serves as a key driver in improving efficiency and competitiveness, which is very important for MSMEs in a competitive market.

Lee and Hwang (2022) concluded that a firm's ability to innovate plays an important role in improving business performance. Innovative firms have the capability to adapt nimbly to the transformation of the business sector, which helps them improve efficiency and gain an edge in the market. Chen et al. (2022) found that innovation capability, driven by market orientation, plays an important role in maintaining sustainable business performance. With the ability to recognize market changes and respond to them through innovation, firms can improve their resilience and sustainability.

Chen and Liu (2023) concluded that strong innovation capabilities in the manufacturing sector help corporations optimize operational efficiency and create new products, which contribute positively to overall business performance. Khan and Zhang (2022) concluded that high innovation capability plays an important role in improving firm performance. Innovative firms are able to develop new products and improve existing processes, which ultimately contribute to efficiency and profitability.

Khan et al. (2023) showed that enterprises with adequate innovation capabilities are able to be more responsive to market changes, thereby improving their overall business performance. Gopalakrishnan (2022) emphasize that corporations with superior innovation capabilities are able to create more optimal production and service outcomes, which directly contribute to improving their business performance.

According to Montalvo (2022), companies that are able to innovate quickly and efficiently have a greater competitive advantage. Kumar & Reinartz (2021) show that business entities with superior market orientation show more optimal business performance. This condition occurs due to the entity's capability to deliver production and services that match consumer expectations, thereby increasing convenience and loyalty. Ryu & Hwang (2023) found that market orientation not only improves business performance directly, but also facilitates the innovation process. By understanding customer needs, companies can develop relevant and targeted innovations. Wang & Ahmed (2022) confirmed that innovation capability has a positive effect on business performance. Companies that are able to innovate often create new value that attracts customers, thereby increasing sales and market share.

Liu & Zhang (2024) showed that firms that have both-market orientation and innovation capability-are better able to respond to changes in the market and create products accordingly, leading to improved business performance. Sari & Amin (2022) stated that successful chicken franchise companies are those that are able to integrate these two variables. Their research found that market orientation and innovation contribute to each other in significantly improving business performance. Zhou, Yim, & Tse (2021) suggest that market orientation can strengthen innovation capability. A deep understanding of customer needs allows companies to develop innovative and targeted solutions.

Teece (2022) explains that companies with strong innovation can create added value, which has a direct impact on improving business performance. In the context of a chicken franchise, innovation in menus or services can attract new customers and increase sales. Cadogan et al. (2022) showed that market orientation serves as a driver to increase innovation capability. Cohen & Levinthal (2022) emphasize the importance of innovation capability in improving firm competitiveness and performance. They argued that firms with innovation capability can adjust to market changes and achieve better results. Fagerberg & Verspagen (2023) showed that effective innovation can improve operational efficiency and profitability. This research highlights how innovation in products can bring in potential customers and maintain the continuity of existing users.

Bonn & Fisher (2021) showed that the combination of market orientation and innovation capability results in superior business performance. They found that companies that integrate these two variables can increase customer satisfaction and profits simultaneously. Homburg et al. (2023) state that corporations with market orientation as well as good innovation capabilities are able to adapt quickly to changing market conditions, thereby improving overall performance.

### **Innovation Capability Indicator**

Indicators of innovation capability variables according to the theory of Bonn & F (2021) in (Nuramdini & Gunawan, 2022) state that the indicators of innovation capability consist of:

- 1. Resource Allocation, the provision of adequate resources including time, funds and infrastructure that enable the innovation process to run effectively..
- 2. Knowledge Management, a system for managing and disseminating knowledge within the organization, including learning from past experiences of various ideas.
- 3. Organizational Culture, an organizational culture that supports experimentation, creativity and tolerance for failure. It includes aspects of openness, flexibility and adaptability.

### **Business Performance**

According to Primeum (2023) Business performance is the ability of a company to maximize commercial profitability from its resources, both material and human. Companies are expected to manage sales strategies through quantitative performance indicators such as customer conversion rates, customer loyalty, and sales analytics, which overall help assess the commercial and operational success of the business. Studies from Hussinki (2022) emphasize the importance of using business analytics combined with technical skills and a data-driven culture to improve company performance.

The study on the banking sector by Yue et al. (2023) highlighted that sustainable business performance is now also influenced by green initiatives, green innovation, and responsible leadership. The implementation of Green HRM has been shown to improve overall company performance by strengthening the company's environmental reputation and commitment.

### **Business Performance Indicator**

Indicators of innovation capability variables according to Primeum's theory (2023) state that the indicators of innovation capability consist of:

- 1. Relevant, in line with the company's strategic objectives and reflecting the key aspects of the business to be improved.
- 2. Measurable, has clear quantitative and qualitative values so that progress can be monitored.
- 3. Achiveable, performance targets should be realistic and achievable within the time frame and resources available.

### The Relationship Between Market Orientation and Innovation Capability

Several studies also highlight the importance of the interaction between market orientation and innovation capability. Research by (Laksana et al., 2022) & (Wasik et al., 2023) means that MSMEs that successfully integrate these two elements can create greater added value. Based on this situation, corporations are not only able to respond to consumer demands, but also... create relevant innovations based on customer feedback. This finding supports the argument that collaboration between these two factors can strengthen the competitive position in the market.

(Dogbe et al., 2019) show that the combination of market orientation and innovation capability is very important. MSMEs that can integrate a combination of these aspects will produce a more maximized competitive advantage. For example, by using customer feedback to inform product innovation, fried chicken franchises in Bekasi City can create more relevant and attractive menus. Research by (Cass & Ngo, 2014) focused on the local context, showing that specific market characteristics, such as culture and consumer preferences, strongly influence the effectiveness of market orientation and innovation strategies. They emphasized the importance of adjusting strategies based on the local context to improve MSME performance.

Kumar et al. (2023) interpreted that the combination of innovation capabilities and market orientation provides a greater competitive advantage for companies. The ability to identify

customer needs and simultaneously create innovative solutions allows companies to consistently achieve optimal performance. Gupta et al. (2021) define that the combination of market orientation and innovation capabilities strengthens company performance. With the ability to respond to market needs through innovation, companies are able to generate competitive advantages that remain in the long term.

Wu et al. (2021) emphasize that corporations that have an ambitious market orientation are more capable of implementing innovations in accordance with customer desires, which contributes to improved business performance. This research underscores the importance of integration between market understanding and innovation capabilities. Salgado A., Monteiro, S., & Dias, A (2024) showed that companies that are able to integrate these two aspects tend to be more innovative and responsive to market needs. Frishammar and Tidd (2021) show that high market orientation strengthens the firm's innovation ability, which leads to better performance outcomes. This suggests that companies that can understand the market and innovate appropriately will have an advantage in improving performance.

### HYPOTHESIS DEVELOPMENT

1. Impact of Market Orientation on Business Performance

Referring to the research studies of (Lestari et al., 2023) and (Mokhtar & Yusoff, 2007) and (Thioanda & Wardhana, 2022) in order to optimize the level of consumer orientation, an institution must identify customer expectations more comprehensively than competitors. When an institution is able to more responsively detect the services that consumers need and then successfully meet these expectations, it will certainly gain a larger market share and profit. If the institution does not understand the competitor's strategy, it will not evolve with the intensifying market dynamics; hence it is recommended that, in order to optimize the competitor orientation element, the institution needs to move carefully and precisely. Empirical studies have proven a substantial correlation between Market Orientation and Business Performance.

# H1: Market Orientation has a positive and substantial impact on Business Performance.

2. Effect of Innovation Capability on Business

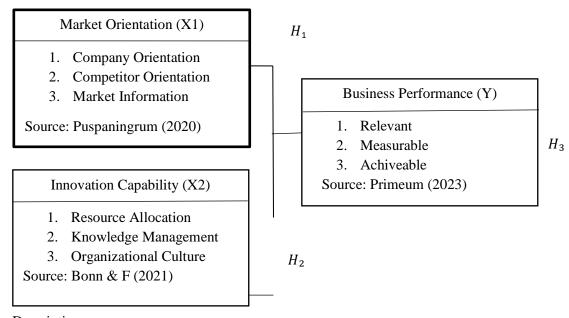
Performance In research by (Pradana & Safitri, 2023) and (Jin & Choi, 2019) innovation refers to a series of activities carried out by corporations that fundamentally transform the characteristics of competition in the business sector and obtain profits through the implementation of tactics that are distinctive from competitors. There is a close relationship between innovation and success, not only in the context of development research to create future products, but also in the face of traditional paradigms in specific segments. This includes reformulating target markets, customer preferences, and overall benefit delivery approaches. Empirical studies have proven a significant link between Innovation Capability and Business Performance.

# H2: Innovation Capability has a beneficial and substantial impact on Business Performance.

3. Effect of Market Orientation and Innovation Capability on Business performance

In research (Praditya & Purwanto, 2024) and (Sabriantoni & Indarwati, 2023) innovation capability reflects the company's ability to create, create, elaborate, and realize innovative ideas in the form of commodities, services, and systems that bring additional benefits. This capability enables companies to improve operational efficiency, offer unique solutions, and strengthen competitiveness in the market. On the other hand, market orientation is a tactical orientation that focuses on a comprehensive understanding of consumer expectations, competitor assessment, and cross-departmental synchronization within the institution to create superior value. The combination of these two factors creates a strong synergy, where innovations developed with reference to consumer demands tend to be better accommodated and produce an increasingly significant impact on business performance. By integrating market orientation in innovation development, companies can increase customer loyalty, optimize consumer share, and achieve sustainable competitive supremacy.

### H3: Innovation Capability and Market Orientation together have a positive impact on Business Performance. Framework of Thought



Description:

Description: X<sub>1</sub>: Market Orientation Variable

X<sub>1</sub>: Market Orientation Variable X<sub>2</sub>: Innovation Capability Variable

A2: Innovation Capability variable

 $\beta^1$ : Market Orientation Regression Coefficient

 $\beta^2$ : Innovation Capability Regression Coefficient

### METHOD

This research uses quantitative descriptive analysis as part of its approach. Quantitative methods are scientific approaches used to make economic and administrative choices (Heizer et al., 2017). Quantitative methods are a field of science and art related to the process (method) of data collection, data analysis, and interpretation of analytical findings in order to obtain information for decision making and drawing conclusions, according to Solimun, Armanu, and Fernandes (2018).

### **Population and Research Sample**

### Populasi

The population in this study consists of all Fried Chicken franchise outlets. Operating in Bekasi City. The sample size is 100 individuals, as indicated by Frankelen and Wallen (1993) in Aritonang (2005:132), who claim that a sample size of 100 participants is already considered necessary for descriptive studies.

### Sampling Technique

The sample was determined by purposive sampling technique with its characteristics:

- 1. MSMEs that run in the food sector, especially the fried chicken franchise.
- 2. Operating in the Bekasi City area.
- 3. Has been operating for at least 1 year.

Types and Sources of Data

The sources of information used in this study are as follows:

- 1. Primary data, which is the origin of the research study obtained without intermediaries from the base of origin or the location of the study being carried out.
- 2. Secondary data, which is research material accessed through intermediaries from the subject of observation, either including the total number of workers or references related to the subject matter studied.

Information Collection Methods:

- 1. Literature Study, which is a procedure for collecting materials by searching and analyzing materials through references, archives, and academic works related to the problem being investigated.
- 2. Field Study
  - a. Observation is a way of accumulating facts through direct review activities on the subject of study.
  - b. Questionnaire is a technique by distributing questionnaires using a Likert scale (1=strongly disagree, 10=strongly agree). The questionnaire was distributed directly and through an online platform (Google Form).

### **RESULTS AND DISCUSSION** Evaluation of the Lower Order Construct Measurement Model (Outer Model)

#### IC2 IC3 IC4 IC5 IC6 0.812 0.726 0.837 0.865 0.904 0.861 0 840 Innovation MO1 Capability 0.917 0.609 0.776 0.837 187 MO3 0 325 **4**0.861 0.770 0.870.861 Market Orientation

## 1) Indicator Reliability

### outer loading

The initial stage for outer model evaluation involves assessing the outer loadings of the measurement parameters. The size of the outer model indicates the strength of the linkages in the structure. The lowest number for outer loading is 0.8 (Hair et al., 2022). Below are the achievements of the outer loading examination which can be observed in Table 1 below:

Table 1					
Outer Loading	BP	IC	MO		
BP1	0,819				
BP2	0,871				
BP3	0,876				
BP4	0,882				
BP5	0,877				
BP6	0,852				
IC1		0,812			
IC2		0,726			
IC3		0,837			
IC4		0,865			
IC5		0,904			
IC6		0,861			
MO1			0,776		
MO2			0,837		
MO3			0,830		
MO4			0,861		
MO5			0,770		
MO6			0,861		

Referring to the convergent validity check results in Table 1, it can be understood that all measurement parameters have an outer loading score  $\geq 0.70$ . Therefore, all measurement parameters in this assessment can be expressed as meeting the standard.

### 2) Cronbach's Alpha and Composite Reliability (Internal Consistency Reliability)

The next mandatory check on the outer model is the internal consistency reliability review. This evaluation is carried out through Cronbach alpha and composite reliability values. The score of Cronbach alpha illustrates the relationship of measurement parameters in a structure, while composite reliability observes the differentiation of the outer loading of parameter variables. (Hair et al., 2022) revealed that the scores of Cronbach alpha and composite reliability that can be adopted must obtain a number exceeding 0.6.

Construct reliability and validity	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
BP	0,931	0,932	0,946	0,745
IC	0,913	0,916	0,933	0,699
MO	0,904	0,908	0,926	0,678

Table 2	
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 Table 2 : Cronbach's Alpha dan Composite Reliability (Internal Consistency Reliability)

The examination results in Table 2 show that all hidden variables meet the reliability evaluation standards. This is based on the Cronbach alpha and composite reliability scores of all hidden variables being > 0.7. Thus, all hidden elements are revealed to be reliable after meeting all assessment parameters.

### 3) Convergent Validity (AVE)

Convergence validity refers to the degree to which a structure is able to measure each of its measurement parameters. Checking the validity of convergence can be carried out through the assessment of Average Variance Extracted (AVE). Based on Hair et al. (2022) when the amount of AVE exceeds 0.5, the structure is able to explain more than 50% of the variation in the measurement parameters.

For the Acap to BP variable group, the AVE value is between 0.626 to 0.85, indicating a strong ability to explain the variance of its indicators. The variables X1 to X2 have AVE values between 0.782 to 0.809, which also indicates good convergent validity. In totality, the AVE magnitudes for these parameters lie above the minimum score of 0.5, indicating that the structures contain sufficient to very satisfactory convergence validity.

### **Discriminant Validity**

An assessment to estimate the level of difference between one variable and another in detecting symptoms that are not the same can be carried out through differentiator validity testing. In general, scholars utilize a number of testing methods in discriminating validity, for example cross loading, heterotrait monotrait ration (HTMT) and Fornell-Larcker criterion, (Hair et al., 2017).

The main aspect that must be considered in distinguishing validity is the Fornell-Larcker criterion. In order to meet the standard in this test, the magnitude of the power of two of the AVE should exceed the magnitude of the highest relationship with other variables, which can be observed in Table 3 below:

### **Fornell-Larcker criterion**

Table 3				
Fornell-Larcker criterion	BP	IC	MO	
BP	0,863			
IC	0,907	0,836		
МО	0,883	0,917	0,823	

Based on the table above, the square root value of AVE for each construct is greater than the correlation with other constructs, which means that this figure has met the Fornell-Larcker criterion.

The next criterion to consider is the cross loading value. According to this criterion, the outer loading of an indicator on the related construct must be greater than the cross loading on other constructs. The loading factor score can be seen in Table 4 in the following:

Table 4					
Cross Loading	BP	IC	MO		
BP1	0,819	0,825	0,770		
BP2	0,871	0,759	0,749		
BP3	0,876	0,788	0,814		
BP4	0,882	0,783	0,795		
BP5	0,877	0,773	0,705		
BP6	0,852	0,764	0,734		
IC1	0,767	0,812	0,811		
IC2	0,702	0,726	0,701		
IC3	0,714	0,837	0,779		
IC4	0,719	0,865	0,723		
IC5	0,845	0,904	0,816		
IC6	0,789	0,861	0,756		
MO1	0,642	0,671	0,776		
MO2	0,779	0,734	0,837		
MO3	0,777	0,789	0,830		
MO4	0,796	0,855	0,861		
MO5	0,629	0,741	0,770		
MO6	0,723	0,805	0,861		

Based on the table provided, it can be explained that each value on the outer loading has a larger number than the cross loading on other constructs. Another significant aspect to consider in discriminant validity is the heterotrait monotrait ratio (HTMT). HTMT is defined as the average of all relationships between indicators on various constructs. In view of (Hair et al., 2022), the maximum limit of the HTMT correlation score is 0.9. If the HTMT correlation score exceeds 0.9, it reflects a weakness in discriminant validity.

### Heterotrait monotrait ration (HTMT) :

Table 5     Heterotrait-monotrait ratio (HTMT)	BP	IC	MO
BP	0,825		
IC	0,755		
МО	0,835		

Based on the table presented, there are no HTMT correlation scores that exceed 0.9. These scores have met the requirements of the HTMT ratio and have also passed the discriminant validity test. At this stage, each construct successfully meets all the criteria required in examining discriminant validity, so it can be concluded that each construct has an empirical difference with other constructs and is able to represent phenomena that cannot be explained by other constructs in the model. Thus, all indicators are declared to have met the requirements of discriminant validity testing.

### DISCUSSION

### 1. The Effect of Market Orientation on Business Performance

Market orientation plays a crucial role in driving the performance of fried chicken franchise MSMEs in Bekasi City. In this study, methods that involve a deep understanding of consumer needs, evaluation of competitors, and collaboration between functions in the organization have been shown to have a beneficial effect on business performance (Syahyono, 2020). These results are in line with the (Narver & Slater, 1990) study, explaining that market orientation contributes to helping corporations understand and meet

Jurnal Review Pendidikan dan Pengajaran (JRPP)

customer needs more efficiently, which ultimately increases customer satisfaction and loyalty. Based on research findings (Purwianti, 2019), there is a contribution between cost leadership, differentiation strategy, market orientation regarding company performance.

However, a study by (Gahari, 2024) found that market orientation does not always contribute significantly to innovation capability. This study shows that if market orientation is not matched by strong innovation, the positive impact on business performance can be reduced. This indicates that while market orientation is important, its success is highly dependent on the firm's innovation capabilities.

### 2. Effect of Innovation Capability on Business Performance

Innovation capability is the ability to design new products or services that meet the needs of the market. Research by (Arifin, 2023) states that innovation capability has a substantial impact on the business performance of MSMEs in Pontianak, indicating that corporations with superior innovation capacity tend to achieve superior performance.

However, there is a different view with Debrito delta Pandega (2023). This study found that although there is a positive relationship between innovation capability and performance, not all SMEs feel significant benefits from innovation. This suggests that external factors such as management and resources also affect innovation outcomes.

Research from (Foguesatto et al., 2024) means that the use of social platforms contributes positively to innovation performance and contributes to internal collaboration capability (a second-level construct that includes commitment, communication, and trust). Internal collaboration is an antecedent of organizational absorption capacity and agility. Both of these dynamic capabilities have a positive impact on innovation performance. Our results also show that these dynamic capabilities sequentially mediate the relationship between social media and innovation performance.

### 3. The influence between Market Orientation and Innovation Capability

Many studies show that market orientation has a beneficial contribution to innovation capability. For example, in a study by (Gahari, 2024), it was found that market orientation contributes to the improvement of corporate innovation capability. The study revealed that corporations that implement market-oriented strategies intensively tend to have higher innovation capabilities and meet customer needs effectively.

However, there are also studies that define market orientation does not always have a significant impact on innovation capability. For example, research by (Syahyono, 2019) found that although market orientation contains a positive effect on marketing performance, its effect on innovation capability is not significant. This study states that other factors such as entrepreneurial orientation and operational capability are more dominant in influencing innovation capability.

### **Difference with Previous Research**

The main difference between this research and previous studies lies in the research focus on fried chicken franchise MSMEs in Bekasi City. This study specifically examines a local market that has certain characteristics and dynamics that may be different from markets in other regions, such as other large cities. In addition, this study highlights the relationship between two main variables, namely market orientation and innovation capability, which is expected to provide a clearer picture of how they contribute to business performance in the context of franchise MSMEs in a particular region.

Overall, the results of this study support the view that both market orientation and innovation capability play an important role in improving MSME business performance. However, the success of both cannot be separated from an effective marketing strategy, which must be well considered so that innovation and market understanding can synergize to achieve optimal results.

### CONCLUSSION

This study concludes that market orientation and innovation capability have a significant influence on business performance in fried chicken franchise MSMEs in Bekasi City. Market orientation helps MSMEs to better understand customer needs and respond effectively to market changes, while innovation capability allows companies to introduce new products and improve operational efficiency. These two factors complement each other and play an important

role in driving better business performance, increasing customer satisfaction, and strengthening the competitiveness of MSMEs in an increasingly competitive market.

### **IMPLICATION**

This study shows that market orientation and innovation capability have a significant impact on the business performance of fried chicken franchise MSMEs in Bekasi City. Improved market orientation helps MSMEs recognize consumer needs and preferences, which in turn increases the level of customer satisfaction and loyalty. In addition, a superior level of innovation allows MSMEs to quickly adjust to changes in market trends and technology, introduce new products, and improve operational efficiency. The implementation of digital technologies, such as online ordering and customer apps, can also strengthen these two factors. By optimizing human resources through innovation training and strengthening partnership networks with suppliers and business partners, MSMEs can improve competitiveness and maintain business sustainability in a competitive market. Therefore, MSME entrepreneurs should prioritize the development of market orientation and innovation to drive sustainable business growth.

### LIMITATIONS

Based on the findings of this study, there are some limitations to the research, including:

- Focus on One Type of Business: This study only focuses on fried chicken franchise MSMEs in Bekasi City, so the results obtained may not apply to other types of MSME businesses, such as restaurants or other business sectors in the food and beverage industry. The variables that influence business performance may differ from one sector to another.
- Time and Resource Limitations: This study was conducted over a limited period of time, which may have limited the depth of analysis that could be conducted. In addition, limited resources to collect data from more respondents may also affect the generalizability of the results.
- Limited Information Collection Methods: The information in this study was obtained by utilizing a questionnaire that relied on respondents' perceptions. This may cause bias if the respondents are not fully objective or do not have a deep understanding of the variables being measured, especially for a topic as complex as innovation capability.

### RECOMMENDATION

Based on the findings of this study, a number of suggestions can be made, among others:

(1) Fried chicken franchise MSMEs are advised to delve deeper into market needs and consumer trends through routine market research. This will increase responsiveness to market changes and strengthen customer loyalty. (2) MSMEs should continue to innovate in terms of products and services. They can utilize the latest technological innovations or create more diverse menu variations to adapt to changing consumer preferences. (3) MSMEs should optimize the use of technology to improve operational effectiveness and provide a superior customer experience, such as online ordering systems or digital-based loyalty applications. (4) To support innovation and market orientation, MSMEs need to allocate time and resources to conduct training for employees, so that they can actively contribute to improving the quality of products and services. (5) Further studies can be conducted to explore other factors that have an influence on MSME performance, as well as expand the scope of the study to include more MSMEs from different sectors.

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