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The Strategic Orientation Dimensions İmpact On The Performance Of Micro Enterprises İn Kota Surabaya: Does The Mediating Role Of İnnovation Capability Matter?

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abstract

Firm performance is linked to strategic orientation and innovation capability. Only a few studies have examined the link between microenterprise performance, innovation capabilities, and strategy orientation—market, entrepreneurial, learning, technology, and network. Following this call, this study will evaluate the direct influence of strategic orientation dimensions on microenterprises in Kota Surabaya and construct a model to explain the mediation function of innovation capability. We conducted a cross-sectional study of 169 formal microenterprises under Kota Surabaya Cooperatives and Micro Enterprises Service supervision. A positivist perspective and quantitative methodology guided our SEM-PLS 2024 investigation. The results demonstrated that, first, technology orientation, one of the five strategic orientation dimensions, does not affect microenterprise performance. Four other strategic orientation dimensions directly improve microenterprise performance. Second, technology and network orientation, two of the five strategic orientation dimensions, do not affect innovation capabilities. The other three strategic orientation aspects directly improve microenterprise innovation capability. Third, innovation capability directly influences company performance and partially mediates the effects of learning, market, and entrepreneurial orientations. It doesn't mitigate the effects of network orientation and technology orientation.

Keywords: Strategic Orientation Dimensions, Innovation Capability, Microenterprise Performance, Kota Surabaya

1. INTRODUCTİON

Micro, Small, and Medium-Sized Enterprises (MSMEs) play a crucial role in economic growth, social development, and poverty reduction. In Indonesia, 98% of 65 million MSMEs are classified as micro enterprises (Jayani, 2021). Running a microenterprise in Indonesia is challenging due to a high incidence of failure, with around 78 percent (Halim, R., Azis, A., 2014) and 50-60 percent ceasing operations during the first three years (Wirasasmita, 2019). Microbusinesses' failure to survive hinders their potential economic and social development contribution. (Wong, K. L; Kuek, T. Y.; Ong, 2013) Argue that the difficulty of SMEs to continue operating is mostly attributed to poor business performance. In the field of literature, there are several factors that are linked to the performance of an enterprise, two of which are its ability to innovate and its strategic orientation.

Prior studies investigating the correlation between firm performance and strategic orientation have produced inconclusive findings. Several previous studies suggest a positive link (Sawaean & Ali, 2020) (Shoham, A., Vigoda-Gadot, E., Ruvio, A., & Schwabsky, 2012) (Slater & Narver, 1995) Wang et al., 2012), however, there is also empirical evidence suggests a negative link (Jones et al., 2001; Jumaili, 2005).

Innovation is crucial for business survival (Saunila, 2014) and SMEs' success (Love & Roper, 2015; Scott et al., 2017; Wheelwright, S. C., & Clark, 1992). Nevertheless, innovation is contingent upon the presence of a range of innovative capabilities that enable the transformation of imaginative theoretical concepts into practical implementation (Bedford, A et al., 2020). Empirical research has demonstrated that innovation capability not only directly impacts business performance but also acts as a possible mediator in the link between strategic orientation and firm performance (Calantone et al., (2002), Al-Ansari et al., (2013) and (Özgül et al., 2023).

Considering the dearth of empirical studies in this area, Kafetzopoulos & Psomas (2015), Saunila (2019) and Von Koskull & Strandvik (2014), suggests the necessity for additional empirical research, especially when it comes to small and medium-sized businesses (SMEs). In response to this call, this study investigates strategic orientation dimensions' impact on the performance of micro-enterprise in Kota Surabaya, and constructing a model to explain firm innovation capability's role in this relationship.

This study employs stakeholder theory to analyze company performance from the business owner's, employee's, consumer's, supplier's, and community perspectives to promote business sustainability. The Resource-Based View (RBV), developed by Penrose (1959) and later refined by Barney (1991), has been used to explain how strategic orientation, innovation capability, and microenterprise performance in Kota Surabaya relate. This notion is one of numerous possible causes of this connection.

Terms will be interchangeable in the following discussion: SO stands for strategic orientation, MO for market orientation, EO for entrepreneurial orientation, LO for learning orientation, TO for technology orientation, NO for network orientation, IC for innovation capability, and FP for firm or business performance.

2. LİTERATURE REVİEW

2.1 Strategic Orientation and the Dimensions of Strategic Orientation

Strategic orientation—a company's guiding principles—helps it achieve extraordinary performance (Gatignon & Xuereb, 1997. The SO will specify and unify business resources based on its values and beliefs (Day, 1994). SO is the company's multifaceted operational strategy in a changing environment. Firms pick orientations according to external environmental influences (Gao et al., 2007). This study examined five SO dimensions: market orientation, entrepreneurial orientation, learning orientation, technology orientation, and network orientation.

a. Market Orientation (MO)

According to the marketing concept (Day, 1994, p. 37), enterprises with improved market response and foresight can attain long-term competitive advantage and higher profitability. (Kohli & Jaworski, 1990) and (Narver & Slater, 1990) presented MO as a marketing practicality parameter in the early 1990s. (Narver & Slater, 1990) asserted that MO requires customer orientation, competitor orientation, and inter-functional cooperation to create value and sustain exceptional performance.

b. Entrepreneurial Orientation (EO)

RBV views entrepreneurial orientation as an intangible resource, and this resource is inimitable, valuable, rare, and irreplaceable (J. Barney, 1991a; J. B. Barney, 2001). EO refers to a company's inclination or readiness to participate in entrepreneurial activities, as described by Kollmann and Stöckmann (2014). "How a firm organizes to find and exploit opportunities" (Wiklund & Shepherd, 2003) reflects EO. "Policies and practices that form the basis for entrepreneurial decisions and actions" indicate this (Rauch et al., 2009, p. 763). Miller (1983), defines EO as an orientation to participate in product market innovation, to take on relatively risky projects, and to strive to be the first with proactive ideas in order to beat the competition. Covin & Slevin (1989), aligning with Miller (1983), propose that entrepreneurship research should incorporate the three aspects of EO, namely innovation, proactivity, and risk-taking, as a fundamental and unidimensional SO. Other views of EO

encompass supplementary elements such as independence and assertive competitiveness (Lumpkin & Dess, 1996),as well as collaboration across organizations (Kusa et al., 2019).

c. Learning Orientation (LO)

Sirmon & Hitt (2003) emphasize the importance of learning for an organization. They hold the belief that any strategy implemented within an organization both implicitly and explicitly incorporates learning capabilities and structures. Failure to consolidate learning will result in failure to detect errors, and this will cause the organization to become inefficient due to a lack of information sharing or development by members of the firm. The literature (Calantone, R. J, Cavusgil, S. T & Zhao, 2002; Kaya & Patton, 2011; Liu et al., 2002; Sinkula et al., 1997) suggests that there are four aspects of LO, namely: commitment to learning, commitment to shared vision, commitment to openness, and commitment to intra-organizational knowledge sharing.

d. Technology Orientation (TO)

Technology orientation, defined by the firm's RBV (Day, 1994; Zhou et al., 2005), is culture-based, firm-specific, and includes sophisticated capabilities. According to Day's (1994) definition of capabilities, TO is a complex combination of capabilities held together by the ability to integrate and deploy the firm's assets efficiently and effectively. Company "technology orientation" is its commitment to adopting new technologies (Ardito & Dangelico, 2018; Yousaf & Majid, 2017).

e. Network Orientation (NO)

Today's business globalized world requires networking (Leevi, 2015). Toivola (2005) defines business networking as a social process of merging information, know-how, and value into value-added activities. Entrepreneurial business networks allow people to connect, identify, develop, and capitalize on business opportunities, share knowledge, and find venture partners (Guercini & Ranfagni, 2016). Small enterprises require resources and support from other firms, institutions, family, and friends ((Cham Das, M. & Goswami, 2019). Networks help SMEs leverage expertise and resources to overcome deficiencies (Crowley et al., 2018). Network orientation is a construct that cannot be observed directly. However, NO can be decomposed into different aspects. According to Dong Baobao (2015), there are three aspects of NO, namely, network initiative, network interdependence, and network attention.

f. Innovation Capability (IC)

Innovation is key to performance (Huang, J. W., & Li, 2018), especially for firms with limited resources such as SMEs (Kumar et al., 2021; Van de Vrande et al., 2009).The capacity to develop and manage capabilities (Lawson & Samson, 2001) allows a business to integrate critical competencies and resources to innovate (Vu, 2020). IC are necessary for micro and small firms to compete with larger, more resourced competitors (Saunila, 2020).

This research includes product, process, organizational, and market components of IC, according to Avermaete et al.'s., (2003) classification of innovation.

g. Firm performance (FP)

Microenterprise performance is hard to describe since it depends on the context and what each person means (Gerba & Viswanadham, 2016; Simpson et al., 2012; Wach, et al., 2016). Stakeholder theory states that stakeholders will only support a corporation if they receive value (Hatami,A., & Firoozi,2019). The firm must work with stakeholders to generate value to achieve common goals in addition to economic success (Freudenreich, B.; Lüdeke-Freund, F.; Schaltegger, 2020).

According to some experts (Brouthers & Nakos, 2004; Griffin, 2003; Hüttinger, L.; Schiele, H.; Veldman, 2012; Lo et al., 2015; Prieto & Revilla, 2006; Taghizadeh et al., 2016), firm performance is the firm's ability to meet the wants of its key stakeholders, which can be measured in five ways: owner, customer, employee, supplier, and community satisfaction.

2.4 The Relationship Between Strategic Orientation's Dimensions, Innovation Capability (IC) and Firm Performance (FP) in the Resource-Based View Perspective

Barney (1991) and Amit & Shoemaker (1993) describe SO as intangible assets or corporate resources that can boost SMEs' performance and success. SO, an essential capability and culture, has greatly affected the performance of the organization (Zhou et al., 2005, p. 44). Various scholars have offered diverse perspectives on SO, and regardless of the viewpoint, it remains crucial for the survival and prosperity of businesses.

Innovation capability, a type of dynamic capability (Helfat et al., 2007), converts SO into strategic resources that increase sustainable FP ((Spillan, J. & Parnel, 2006); Lin & Wu, (2014) and Wernerfelt, (1984), SO and its VRIN-defined dimensions have an impact on the FP. According to Spillan, J., Parnel, J. (2006), and Lin & Wu (2014), SO affects FP indirectly through IC, a dynamic firm capability.

2.2 The Relationship between innovation capability (IC) and firm performance (FP)

The literature substantiates the significance of innovation for good performance (Latifah et al., 2021) and success (Makanyeza & Dzvuke, 2015). However, innovation can only be done well if the firm has the ability to innovate (Laforet, 2011). Especially in a dynamic environment characterized by accelerated change, complexity and uncertainty, innovation performance is intimately associated with the firm's IC (Johannessen et al., 2001). According to Amin et al. (2016), firms with the ability to innovate are more likely to improve their performance.

2.3 The relationship between market orientation (MO), innovation capability (IC) and firm performance (FP)

Numerous studies have linked MO to firm performance. Despite MO and SMEs' performance, some research suggests a link (Eris & Ozmen, 2012) (Slater & Narver, 2000). Ho et al. (2017), (Mahmoud et al., 2016), Reijonen et al. (2012) and Baker & Sinkula (2009) claim that MO directly affects the FP for small businesses. Marketing management holds that MO contributes more to FP than other SO dimensions (Grinstein, 2008). Further studies (Haugland et al., 2007) (Keskin, 2006) (Mahmoud et al., 2016) Polat & Mutlu, 2012; Suliyanto & Rahab, 2012) found no association between MO and FP of SMEs.

Several empirical research indicate the importance of IC act as a mediator in the link between MO and FP (Atuahene-Gima & Ko, 2001) (Park et al., 2011) and suggested that in order to create and sustain performance in an uncertain environment, IC based on adequate market understanding and customer understanding are necessary. Zehir C, Köle M, Yıldız H (2015) found that IC partially mediates the effect of MO on export performance of manufacturing SME in Turkey. (Özgül et al., 2023) found that IC mediates MO impact on Turkish SMEs performance.

2.4 Relationship between Entrepreneur Orientation (EO), Innovation Capability (IC), and Firm Performance (FP)

According to (Makhloufi et al., 2021) research, IC is highly dependent on the existence of EO, so EO is the main driver of IC. Numerous studies have examined the effect of EO on FP in the field of entrepreneurship, and most of the results indicate that EO is crucial in enhancing FP (Rauch et al., 2009). Furthermore, studies like Li et al. (2009), (Fairoz et al., 2010), and Rodriguez-Gutiérrez et al. (2015) revealed a significant correlation between EO and FP. Various studies have indicated, however, that EO has an insignificant on SMEs' FP (Alegre & Chiva, 2013) (Matsuno et al., 2002) (Walter et al., 2006). Spillan, J.& Parnel, J.

(2006), and Lin & Wu (2014) argue that SO does not directly affect FP but rather the mediating role of IC, which is a dynamic capability of the firm. As one of the dimensions of SO, we should expect the effect of EO on FP to occur indirectly, with its ability to innovate acting as a mediator.

2.5 Relationship between Learning Orientation (LO), Innovation Capability (IC), and Firm performance (FP)

Calantone et al. (2002) found that learning orientation affects IC and is crucial for innovation in large US enterprises. Calantone et al. (2002) found that organizational learning affects IC, supporting prior studies (Hurley & Hult, 1998). (Keskin, 2006) found a positive relationship between LO and IC in SMEs. (Lita & Faisal, 2018) and (Real et al., 2014) found that LO can yield FP. (López & Hernández, 2006) found discrepancies in the LO-FP investigation. Research shows that LO improves operational performance (Araiza et al., 2014) as well as an organizational performance (Sawaean & Ali, 2020) (Slater & Narver, 1995). However, some believe LO doesn't boost organizational performance (Crossan et al., 1999) (JEREZ GOMEZ, 2002). (Voss & Voss, 2000) propose an indirect link between FP and LO through IC, which aligns with the findings of Spillan, J. & Parnel, J. (2006) and Lin & Wu (2014).

2.6 Relationship between Technology Orientation (TO), Innovation Capability (IC), and Firm performance (FP)

Barczak (1994) states that technology-oriented firms will be more competent and flexible, allowing them to develop their innovative capabilities. Lee, D.H., et al. (2014) research on 374 Korean MSMEs proves that TO positively affects IC. Several studies (Kusuma, 2018; Lestari et al., 2019; Wulandari, 2015) have found that TO has a positive impact on the FP. Conversely, however, a negative link between technology adoption and FP was found by Jones et al. (2001) and Jumaili (2005). Tseng, C. H.; Chang, K. H.; Chen, (2019) state that IC acts as a mediator in explaining TO's impact on FP. This is consistent with the opinion of Spillan, J. & Parnel, J. (2006) and Lin & Wu (2014) that SO does not directly affect FP, but through IC's mediating role.

2.7 Relationship between Network Orientation (NO), Innovation Capability (IC), and Firm Performance (FP)

Strong NO-committed companies will value network ties, be more forward-thinking, and be more responsive to external developments (Zhang, 2022). Networking improves

organizational effectiveness in all areas (MacMillan, 1983). According to Spillan, J., Parnel, J. (2006), and Lin & Wu (2014), SO indirectly affects FP through IC.

3. RESEARCH METHOD

3.1 The Research Model and Hypotheses

The study proposed four links, according to theory and previous research. First, strategic orientation dimensions corresponded well with business performance. Second, strategic orientation dimensions should boost innovation capability. Third, innovation capability had an impact on firm performance. Finally, it was believed that innovation capability mediated the strategic orientation dimensions and microenterprise performance. Figure 1 exhibits these four interactions in the research model.

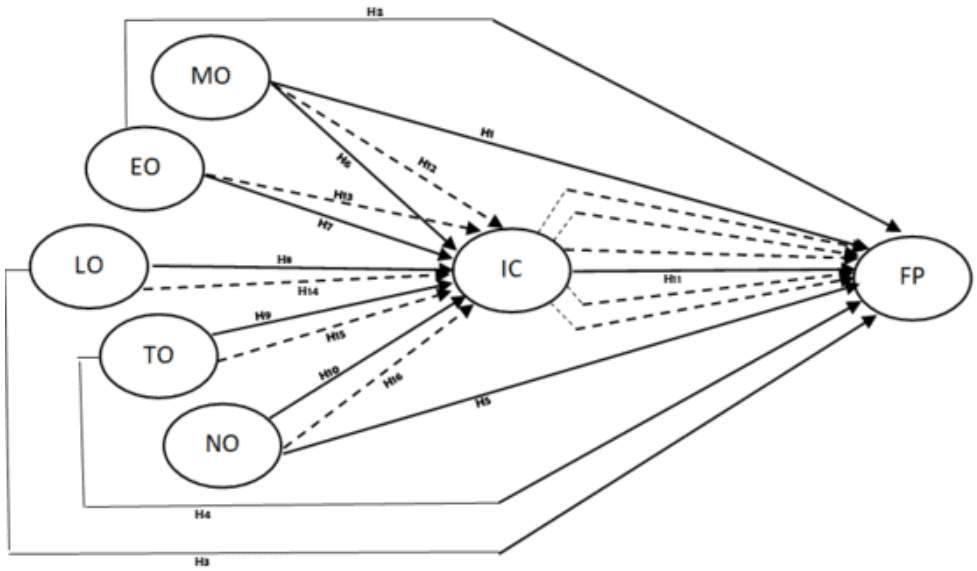

Figure 1. Research Model

This study formulated the following null hypotheses to analyze the relationship between the proposed factors:

H1: MO significantly affects the FP of micro-enterprises in Kota Surabaya.
H2: EO significantly affects the FP of micro-enterprises in Kota Surabaya.
H3: LO significantly affects the FP of micro-enterprises in Kota Surabaya.
H4: TO significantly affects the FP of micro-enterprises in Kota Surabaya.
H5: NO significantly affects the FP of micro-enterprises in Kota Surabaya.
H6: MO significantly affects the IC of micro-enterprises in Kota Surabaya.

H7: EO significantly affects the IC of micro-enterprises in Kota Surabaya.
H8: LO significantly affects the IC of micro-enterprises in Kota Surabaya.
H9: TO significantly affects the IC of micro-enterprises in Kota Surabaya.
H10: NO significantly affects the IC of micro-enterprises in Kota Surabaya.
H11: IC significantly affects the FP of micro-enterprises in Kota Surabaya.
H12: IC has significantly mediated the linkage between MO and the FP of micro-enterprises in Kota Surabaya.
H13: IC has significantly mediated the linkage between EO and the FP of micro-enterprises in Kota Surabaya.
H14: IC has significantly mediated the linkage between LO and the FP of micro-enterprises in Kota Surabaya.
H15: IC has significantly mediated the linkage between TO and the FP of micro-enterprises in Kota Surabaya.
H16: IC has significantly mediated the linkage between NO and the FP of micro-enterprises in Kota Surabaya.

3.2 Population and sampling procedure

Small business owners were the target population for the study. To choose the sample, we used the following criteria: We selected (1) microbusinesses listed in Kota Surabaya, Indonesia; (2) those that have been in operation for at least a year; (3) those operating in the industrial or service sector (but not as resellers); and (4) those willing to participate in this study.

We use several common principles to establish the minimum sample size for structural equation modeling research. This study supports Ferdinand's (2005, p. 80) claim that SEM, which incorporates PLS, requires a 100-sample minimum. We randomly sampled 700 microbusinesses supported by the Kota Surabaya Cooperatives and Micro-Enterprise Service to ensure validity and robustness. We received 194 responses. Following additional checks for completeness, non-response, and incomplete surveys, the response rate should drop to 169, or 83.25%.

3.3 Research Design

This study uses quantitative research and a positivist philosophical approach to examine how MO, EO, LO, TO, and NO affect micro-enterprises' FP in Kota Surabaya. It also seeks to simulate how IC mediates these SO aspects and the FP of Kota Surabaya micro-enterprises. This work is important since it investigates a hitherto untapped area. In Appendix 1, Table 1 lists the paper's construct names and measurements.

Structured questionnaires were utilized since behavioral science research often assesses objectives, preferences, attitudes, and viewpoints. Many writers say it models well and is easy to use (Appiah et al., 2022). All components were measured using a Likert scale, with 5 indicating strong agreement and 1 indicating extreme disapproval. This study followed all ethical criteria since volunteers were used. These include well-informed material, voluntary participation, human rights respect, and safety.

3.4 Analysis

We analyzed the data in this study using partial least squares structural equation modeling (PLS-SEM) (further details on why, when and how to use PLS-SEM, see (Lowry & Gaskin, 2014; Sarstedt et al., 2016). The consistent PLS technique using Smart PLS 4 improved analytic rigor and estimation consistency. We chose PLS-SEM due to its model formulation, interpretability, and soft distributional assumptions (Sarstedt et al. 2016).

4. RESULT

SMART-PLS 4 is used to test the linkages proposed by the research model and to evaluate the hypotheses proposed. PLS path modelling consists of two main steps: outer model evaluation and inner model evaluation (Henseler et al., 2009). All research variables use reflective indicators, therefore, the outer model evaluation in this study uses a reflective measurement model.

4.1 Reliability and Validity of Reflective Measurement Models

The reflecting measurement model evaluation verifies construct measure reliability and validity to establish path model applicability. According to Hair et al. (2021), this study's reflecting measurement model will include four stages: indicator reliability, internal consistency reliability, convergent validity, and discriminant validity.

a. Indicator Reliability Assessment

To assess the reflecting measurement model, we first determine the reliability of each indicator by examining the extent to which its concept explains its variation. As Hulland (1999) advised, all constructions exhibit indicator reliability since their indicator loadings are larger than 0.708 (see table 2 in Appendix 2).

b. Internal Consistency Reliability Assessment

The second stage involves assessing the internal consistency and dependability of the reflecting measurement model. We refer to the correlation between indicators of a given concept as internal consistency and reliability. This study uses Jöreskog's (1971) composite reliability rhoC and Cronbach's alpha to estimate internal consistency

reliability. The composite reliability rhoC may be more forgiving than Cronbach's alpha. Often, the idea's reliability lies between these two extremes.

Following (Diamantopoulos et al., 2012), this study's results (Table 1) reveal that all constructs have internal consistency reliability values greater than 0.600. Noted that TO, NO, and IC may have redundant indications.

Table 1 Internal consistency reliability

Construct	Cronbach's alpha	Composite reliability	Evaluation Result
MO	0.819	0.892	satisfactory to good
EO	0.742	0.854	satisfactory to good
LO	0.852	0.900	satisfactory to good
TO	1.000	1.000	potentially redundant
NO	0.896	0.935	potentially redundant
IC	0.894	0.927	potentially redundant
FP	0.844	0.889	satisfactory to good

c. Convergent Validity Assessment

The third phase involves assessing the convergent validity of each construct. The results of this study (see Table 2) show that the AVE value of all constructs is greater than 0.500, following (Hair, J.F et al., 2022), which indicates that all constructs have convergent validity.

Table 2 Convergent Validity of the construct

Construct	EO	FP	IC	LO	MO	NO	TO
AVE	0.660	0.616	0.760	0.692	0.735	0.827	1.000
Evaluation Result	Valid	Valid	Valid	Valid	Valid	Valid	Valid

d. Discriminant Validity Assessment

Fourth, assess discriminant validity. This statistic, based on empirical data, shows the ease of distinguishing a notion from others in the structural model. The hetero-trait-mono-trait ratio (HTMT) from Henseler et al. (2015) was used to test discriminant validity in this study, as recommended by Hair et al. (2021). Henseler et al. (2015) recommend a structural model threshold of 0.90; scores above 0.90 indicate no discriminant validity. This study (Table 3) found that all constructs had discriminant validity because their HTMT values were below 0.90.

Table 3 Discriminant Validity of the construct

	EO	FP	IC	LO	MO	NO
FP	0.866					
IC	0.896	0.889				
LO	0.827	0.687	0.814			
MO	0.832	0.896	0.872	0.660		
NO	0.890	0.846	0.781	0.829	0.814	
TO	0.778	0.554	0.612	0.573	0.658	0.695
Result	valid	valid	valid	valid	valid	valid

e. Inner Model Evaluation

When the constructed measurement is valid and reliable, analyzing the inner model comes next. We used inner model analysis to address three issues. Initial suspicions of fluctuating non-multicollinearity were confirmed. The significance of structural model relationships is another issue. Third, there are issues with the goodness of fit model.

1) Assess the collinearity issues of the structural model

Before testing the structural model hypothesis, we must check the inner VIF statistical measure for variable multicollinearity. According to Hair et al. (2021), no multicollinearity across components when the inner VIF was less than 5. Multicollinearity test findings (Table 4) show that all constructions have VIFs < 5, indicating no multicollinearity issues in the model.

Table 4 Multicollinearity Test Results

Construct	EO-FP	EO-IC	IC-FP	LO-FP	LO-IC	MO-FP	MO-IC	NO-FP	NO-IC	TO-FP	TO-IC
VIF	3.033	2.753	4.017	3.518	2.313	3.541	2.185	4.594	3.438	2.288	2.104
Have multicollinearity problem	no	no	no	no	no	no	no	no	no	no	no

2) Assess the Significance of the Structural Model Relationships

The evaluation of a hypothesis follows. Statisticians analyze hypotheses using t or p values. If the t-statistic is greater than 1.96 (according to the t-table) or the test p-value is less than 0.05, there is a high correlation between the variables.

Out of 16 hypotheses evaluated, 11 were direct and 5 were indirect, mediated by innovative capabilities. The effects of TO on FP (Hypothesis 4), TO on IC (Hypothesis

9), and NO on IC (Hypothesis 10), among the 11 direct correlations, are unrelated. Eight associations have a significant direct benefit. Out of the five indirect correlations, the mediation effect of IC on TO and NO on FP (hypotheses 15 and 16) shows no link. The three links are both positive and significantly indirect. Table 7 in Appendix 3 summarizes hypothesis testing.

3) Assess the Goodness-Of-Fit Model Evaluation

According to Hair et al. (2019), R-square, SRMR, and PLS Predict may be used to evaluate a structural model's fit. Detailed explanation as follows:

a) R square

Higher R-square coefficients indicate a model's ability to explain data (Shmueli, G. & Koppius, 2011). Hair, Ringle, and Sarstedt (2011) classify R-square values of 0.75, 0.50, and 0.25 as strong, moderate, and weak in various social sciences.

Table 5 R-Square value

	R Square
Micro enterprise performance (FP)	0.874
Innovation Capability (IC)	0.716

This study's R square for innovation capability is 0.716, indicating that the factors investigated account for 71.6% of innovation capability variation (Table 11). Table 11 reveals that FP's R square value is 0.874, indicating that this study's factors explain 87.4% of the firm's performance variation. Hair, Ringle, and Sarstedt (2011) say this R-squared value implies a strong FP association and a moderate IC relationship.

b) SRMR

The SRMR measures the model's estimated correlation matrix's fit to empirical data. A model with an SRMR below 0.08 is a perfect fit, meaning its estimates match actual data (Hu & Bentler, 2009). Table 9 shows that both saturated and estimated models have SRMR values < 0.08, suggesting a perfect fit with actual data.

Tabel 6 SRMR Value

	Saturated Model	**Estimated Model**
SRMR	0.067	0.069

c) PLS Predict

Is necessary to evaluate the predictive ability of the model. Shmueli R et al., (2016) present PLS predict, a method to make predictions outside the sample data, as a measure of the predictive capability of the model. The PLS prediction evaluation results (see Table 7) show that the majority indicator of FP (three out of five on RMSE and four out of five on MAE) is lower than the LM benchmark, according to Shmueli et al. (2019), indicating moderate predictive ability.

Tabel 7 PLS prediction evaluation results

	RMSE	MAE	LM RMSE	LM MAE	RMSE < LM_RMSE	MAE< LM_MAE
CSS	0.482	0.399	0.482	0.361	No	No
ESS	0.525	0.437	0.524	0.415	No	Yes
OWS	0.392	0.292	0.417	0.297	Yes	Yes
SOS	0.533	0.453	0.562	0.459	Yes	Yes
SUS	0.482	0.401	0.499	0.398	Yes	No
MIC	0.388	0.287	0.389	0.289	Yes	Yes
OIC	0.385	0.266	0.408	0.277	Yes	Yes
PIC	0.427	0.328	0.432	0.311	Yes	No
PRC	0.441	0.342	0.463	0.354	Yes	Yes

5. DİSCUSSİON

5.1 Direct Relationship

This analysis confirms prior findings that market orientation improves business performance (Baker & Sinkula, 2009; Shoham et al., 2005). Increasing market orientation improves company performance. Microenterprises can enhance performance by becoming more market-oriented.

This study confirms prior findings (Kam-Sing Wong, 2014 and Li Y et al., 2006) that entrepreneurial approach improves business performance. This suggests entrepreneurial approach boosts business performance. Thus, microenterprises can enhance performance by becoming more entrepreneurial.

The study confirms earlier findings (Lita & Faisal, 2018) (Real et al., 2014) (Bature et al., 2018) that show a beneficial impact of learning orientation on company performance.

Thus, learning orientation boosts business performance. Thus, increasing learning orientation can boost microenterprise performance.

The present study shows that NO has a significant positive effect on FP, supporting Rauch et al. (2009) and Song et al. (2022) as well as previous studies. Increasing network orientation improves business performance. Thus, increasing network orientation can improve microenterprise performance.

The present study confirms earlier studies (Atuahene-Gima & Ko, 2001) (Park et al., 2011) showing greater awareness of the market and consumers improves a company's capacity to innovate. MO has a strong favorable influence on IC. An increased market orientation improves innovation capability. In order to strengthen innovation capabilities, microenterprises might increase market orientation.

The results of the present study, which show the significant positive effect of EO on IC, confirm previous studies such as Meirun, T et al., (2020) and Messersmith, G.J & Wales, (2013) which states that entrepreneurial orientation is a key driver of innovation capability improvement. This means that an increase in entrepreneurial orientation will improve firm innovation capability. Thus, in order to improve innovation capability, microenterprises can achieve it by increasing the level of entrepreneurial orientation.

This study confirms Calantone et al (2002), which found that learning orientation improves innovative capabilities. Companies without a learning focus struggle to innovate and survive. Learning orientation is vital, and increasing it will promote corporate creativity. Thus, boosting learning orientation can help microenterprises increase their capability to innovate.

The present analysis shows that IC positively affects FP, supporting Amin et al.'s (2016) claim that innovative organizations perform better. Increasing innovation capabilities improves business performance. As a result, microenterprises can improve innovation capabilities, boosting company performance.

Regarding the three direct relationships that were found to be nonsignificant, namely the effect of TO on FP (Hypothesis 4), the effect of TO on IC (Hypothesis 9), and the effect of NO on IC (Hypothesis 10), it is stated as follows:

The results of the present study, which show that TO has no direct effect on FP, do not support Tseng & Liao (2015) and Tajeddini (2016) which state that technological orientation has a positive effect on firm performance. The unidimensionality of FP may explain why TO does not directly affect it. As shown in Table 6.3, technical orientation had a beneficial influence on each microenterprise performance measure (CSS, ESS, OWS, SOS, SUS).

Table 8 Effect of TO on FP Indicator

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
TO -> CSS	0.284	0.284	0.072	3.921	0.000
TO -> ESS	0.482	0.483	0.067	7.216	0.000
TO -> OWS	0.531	0.536	0.068	7.860	0.000
TO -> SOS	0.394	0.395	0.070	5.667	0.000
TO -> SUS	0.304	0.305	0.068	4.488	0.000

The results of the present study, which show that TO has no direct effect on IC, do not support Barczak (1994), which states that companies with a strong focus on technology will be more competent and flexible, allowing them to further develop their innovation capabilities.

The absence of a direct influence of TO on IC may be attributed to the unidimensionality of IC in this research. Table 9 shows that using multidimensionality on the IC positively affects each innovation capability indicator.

Tabel 9. Effect of Technology Orientation on Each of Innovation Capability Indicator

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
TO -> MIC	0.469	0.470	0.063	7.426	0.000
TO -> OIC	0.503	0.505	0.078	6.483	0.000
TO -> PIC	0.582	0.584	0.062	9.437	0.000
TO -> PRC	0.464	0.467	0.075	6.197	0.000

The results of the present study, which show that NO has no direct effect on IC, do not support Huang, H.C.& Chang (2008) which states that firm networks enable the creation of new information mechanisms, joint problem solving, trust, and commitment, which in turn lead to increased innovative capacity. It is suggested that the lack of a direct effect of NO on IC is due to the unidimensionality of IC in this study. Results presented in Table 10 show that the effect of network orientation has a significant positive effect on (each of the) innovation capability indicators.

Tabel 10 Effect of Network Orientation on Each of Innovation Capability Indicator

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
NO -> MIC	0.601	0.604	0.063	9.509	0.000
NO -> OIC	0.612	0.615	0.066	9.327	0.000
NO -> PIC	0.628	0.631	0.060	10.514	0.000
NO -> PRC	0.603	0.605	0.060	10.121	0.000

a. Indirect Relationship through Innovation Capability mediation

The results of the present study, which show the significant positive mediation effect of IC on the relationship of MO on FP, confirm previous studies such as Zehir et al (2015) and Ozgu, B; Karaca, D; Zehir (2023) who found that innovation capability mediates the effect of market orientation on SME firm performance in Turki.

The results of the present study, which show the significant positive mediation effect of IC on the relationship of EO on FP, confirm previous studies such as Djayadiningrat et al., (2017) who found that innovation capability mediates the effect of entrepreneurial orientation on the performance of food industry in Manado, Indonesia.

The results of the present study, which show the significant positive mediation effect of IC on the relationship of LO on FP, confirm Humphreys et al., (2005) argument that a learning orientation has a significant impact on the ability to innovate and then leads to better business performance (Voss & Voss, 2000).

Regarding the two indirect relationships that were found to be nonsignificant, namely the mediation effect of IC on the relationship of TO on FP (Hypothesis 15), and the mediation effect of IC on the relationship of NO on FP (Hypothesis 16) it is stated as follows:

The results of the present study, which show that IC has no mediation effect on the relationship of TO on FP is not inline with Tseng, C. H.; Chang, K. H.; Chen (2019), who stated that innovation capability serves as a mediator in explaining the effect of technological orientation on firm performance. This study also found different results from Al-Ansari et al., (2013) research on MSMEs in Dubai, which concluded that technological orientation with firm performance is mediated by ability to innovate.

The results of the present study, which show that IC has no mediation effect on the relationship of NO on FP, does not support previous research such as Abbas J et al., (2019) study on small enterprises in Pakistan, which found that dynamic capabilities mediate the relationship between entrepreneurial business networks and sustainable performance of small firms.

The rejection of hypotheses 15 and 16 shows that IC is not a mediator in the link between NO and FP or between TO and FP. This suggests that using IC as a unidimensional concept may be the cause. This argument is based on previous findings that show that neither NO nor TO have any effect on IC when we use IC as a unidimensional notion. However, Tables 9 and 10 showcase the use of IC as a multi-dimensional concept, revealing that TO and NO significantly enhance each IC indicator.

6. CONCLUSİON

The four things that this research aims to analyze and demonstrate are: (1) does the strategic orientation dimension directly affect the performance of micro enterprises in Kota Surabaya; (2) does the strategic orientation dimension directly affect the innovation capability of the micro enterprise in Kota Surabaya; (3) does the the innovation capability directly affect the performances of the micro enterprise at Surabaya City; and (4) does the innovation capability mediate the influence of the strategic orientation dimension on the performances of the micro enterprise at Surabaya City?

Based on the prior description's findings, analysis, and discussion, it can be inferred that in total, 16 hypotheses have been tested, consisting of 11 direct relationship hypotheses, and 5 indirect relationship hypotheses, namely through the mediation of innovation capabilities.

Among the 11 direct relationships, 8 relationships show a positive and significant direct effect, namely the effect of MO on FP (H1), the effect of EO on FP (H2), the effect of LO on FP (H3), the effect of NO on FP (H5), the effect of MO on IC (H6), the effect of EO on IC (H7), the effect of LO on IC (H8), and the effect of IC on FP (H11). Meanwhile there are 3 relationships that show no relationship, namely the effect of TO on FP (H 4), the effect of TO on IC (H 9), and the effect of NO on IC (H 10). The use of the FP indicator as a unidimensional construct suggests the lack of a direct effect of TO on FP. The utilization of the FP indicator as a multidimensional construct, as seen in Table 8, provides evidence that TO has a substantial and favorable impact on all FP indicators. It is suggested that the lack of a direct effect of TO on IC (H9) and NO on IC (H 10) is due to the use of the IC as a unidimensional construct. The utilization of the IC as a multidimensional construct, as seen in Table 9 and

Table 10, provides evidence that TO and NO has a substantial and favorable impact on all IC indicators.

Among the 5 indirect relationships, there are 3 relationships show a positive and significant indirect effect, namely the mediation effect of IC on the relationship of MO on FP (H 12), the mediation effect of IC on the relationship of EO on FP (H 13), and the mediation effect of IC on the relationship of LO on FP (H 14). Meanwhile there are 2 relationships that show no relationship namely the mediation effect of IC on the relationship of TO on FP (H 15), and the mediation effect of IC on the relationship of NO on FP (H 16). This suggests that using IC as a unidimensional concept may be the cause. This argument is based on previous findings that show that neither NO nor TO have any effect on IC when we use IC as a unidimensional notion. However, Tables 9 and 10 showcase the use of IC as a multi-dimensional construct, revealing that TO and NO significantly enhance each IC indicator. Consequently, employing IC as a multidimensional concept has the potential to substantiate IC's role as a mediator in the association between TO and FP, as well as between NO and FP.

The cross-sectional (although time-lag) methodology of this study may have restricted the ability to get more in-depth data necessary for conducting reliable longitudinal research. The authors therefore issue a call. Future studies, particularly those focusing on the relatively new and empirically underdeveloped area of stakeholder opinions on corporate success, should incorporate the results of longitudinal research.

This study views company performance and innovation capabilities as one-dimensional concepts. The authors thus urge further research to examine if multidimensional views on corporate performance and innovation capabilities will provide findings consistent with or dissimilar from those of this study.

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