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THE MEDIATING ROLE OF PRODUCT INNOVATION ON MSME PERFORMANCE IN JAKARTA'S DAIRY SECTOR

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ABSTRACT

Dairy MSMEs play an important role in satisfying domestic milk demand, but they confront hurdles in consistently improving company performance. Product innovation is seen as a critical factor that can enhance the impact of MO and EO on MSME performance. The objective of this investigation is to investigate the impact of MO and EO on MSME performance, using product innovation as a mediating variable. The investigation took place in August and September 2024 at Pondok Ranggon, Jakarta, with 41 dairy farming SMEs selected using a saturated sampling technique. The key variables are market orientation (X_1), entrepreneurial orientation (X_2), product innovation (Y), and SME performance (Z). The data were analysed using SPSS version 30.0, which included multiple linear regression and path analysis. MO has a significant impact on product innovation ($p < 0.05$), whereas EO does not ($p > 0.05$). Product innovation has a significant impact on MSME performance ($p < 0.05$), but does not moderate the effect of MO or EO.

Keywords: dairy cattle farming; entrepreneurial orientation (EO); market orientation (MO); MSME performance; product innovation.

INTRODUCTION

In developing countries such as Indonesia, MSMEs are essential to the national economy's growth. This sector makes a substantial contribution to economic equity, employment absorption, and the GDP. (Kementerian Koordinator Bidang Perekonomian Republik Indonesia, 2025) MSMEs absorb over 97% of the national workforce and contribute over 60% to the national GDP. These figures emphasise the significance of MSMEs as economic generators and as instruments for poverty alleviation, social inclusion, and rural development.

Among various MSME sectors, dairy cattle farming is a subsector with enormous potential for sustainable growth. Increasing public awareness of nutrition, along with high demand for processed dairy products such as fresh milk, yogurt, and cheese in urban areas, creates an auspicious market environment for dairy-based MSMEs. In suburban areas like Pondok Ranggon, Jakarta, proximity to consumer markets is a strategic advantage for dairy MSMEs in meeting local needs. However, despite this enormous potential, many MSMEs in this sector still face structural and managerial challenges that hinder their growth and competitiveness.

Some of the main obstacles faced by MSMEs in this sector include limited access to capital, weak institutional and managerial capacity, low technology adoption, and limited ability to respond to market dynamics. Additionally, land constraints in urban areas pose a significant challenge for MSMEs in dairy farming, as they affect production scale, operational efficiency, and environmental management. One of the most common weaknesses is a lack of focus on innovation, especially product innovation, a crucial element for maintaining business sustainability in a competitive, rapidly changing market environment. Without product differentiation and innovation, MSMEs find it difficult to compete with large companies or imported dairy products.

To address these challenges, the concepts of MO and EO have emerged as important strategic approaches to improve MSME performance. The term MO denotes an organization's capacity to produce, distribute, and respond to market information on customer wants and rival actions. Companies that effectively apply market-oriented techniques are more adaptable, consumer-focused, and responsive to market movements, enabling them to deliver superior value while maintaining client loyalty. In the context of dairy MSMEs, market orientation entails gaining a thorough understanding of consumer preferences — such as flavour, nutritional content, packaging, and product distribution — before modifying products accordingly.

Meanwhile, entrepreneurial orientation refers to a company's strategic approach to promoting innovation, taking risks, and proactively seizing market opportunities. This orientation is relevant for SMEs that generally operate under conditions of uncertainty and limited resources. (Lotz & Van Der Merwe, 2013) The corporate focus then shifts to identifying opportunities and creating new sources of valuable goods and procedures that can lead to greater success. In the context of dairy farming, these actions can include experimenting with new processing methods, developing value-added dairy products (such as flavored or fortified milk), and leveraging digital distribution channels, such as online sales and subscription services.

In this regard, product innovation plays a crucial role as a link between strategic orientations (both MO and EO) and business performance. Through innovation, companies can transform strategic insights into tangible offerings that provide value to consumers and differentiate their businesses from competitors. Product innovation can take the form of new milk variants, improved production quality, extended shelf life, or environmentally friendly or health-conscious packaging. For MSMEs in Pondok Ranggon facing diverse and changing market demands, the ability to innovate is not only a competitive advantage but also a basic necessity for survival and growth.

A previous study indicates a research gap in the MO variable for product innovation. According to Sari & Farida (2020), MO has a minor, negative impact on product innovation. This contradicts studies by Nianti et al. (2024), which found that MO had a strong and positive effect on product innovation.

According to Jaya Puspita et al. (2022), an entrepreneurial approach has little effect on creativity. This contradicts the conclusions of studies by Zidni Syukron (2016) and Massoudi (, which found a favourable relationship between EO and product innovation.

Based on prior studies, there appears to be a research gap regarding the relationship between product innovation and Performance. According to studies by Kusuma et al. (2022), Anderson & Hidayah (2023), Vu et al. (2023), and Yulianto & Supriono (2023), product innovation has favourable but not significant effects on Performance. This contradicts the conclusions of the studies conducted by Muhamad et al. (2024) and Fitriani & Noor Andriana (2024), which suggest that product innovation increases the Performance of MSMEs.

Jaya Puspita et al. (2022) Innovation cannot mediate market orientation and entrepreneurial orientation towards Performance. This contradicts the findings of studies undertaken by Ratang (2025), Sulaiman (2025), and Nguyen & Phan (2025), which found that MO and EO can increase Performance via product innovation.

This investigation aims to fill a research gap by examining the implications of MO and EO for MSMEs' efficiency, with product innovation serving as an intermediary factor. This research is unusual since it focuses on MSMEs in the livestock sector operating in urban environments. Urban environments bring their own challenges, such as land limitations, operational cost pressures, and the complexity of consumer preferences. Additionally, this research employs an Innovative products framework as an intermediary parameter, a strategy that has not been thoroughly investigated in the context of the urban cattle business.

MATERIALS AND METHODS

The research was conducted in August – September 2024 in the Pondok Ranggon area of Jakarta, one of the centres for MSMEs in dairy cattle farming in the urban area.

This study's population includes all MSMEs. Who are involved in dairy cattle farming operating in the Pondok Ranggon area, Jakarta? Based on the available data, there are 41 dairy cattle MSMEs in that location. Considering the limited population size, a total sampling approach was used, meaning the entire population was used as the research sample. Therefore, the sample size in this study is 41 MSMEs.

We collected data using a questionnaire that measured the study's main variables: Market orientation (X1) and entrepreneurial orientation (X2) as independent variables, product innovation (Y) as a mediator, and MSME performance (Z) as a dependent variable. We measure each variable using

many specific indicators that is MO is measured based on customer comprehension, competitive orientation, and inter-functional coordination. EO emphasises creativity, proactiveness, and risk-taking. Product innovation is measured through aspects of new product development, quality improvement, and product differentiation. MSME performance is measured through financial indicators (sales and profitability) and non-financial indicators (customer satisfaction and business growth).

The chosen respondents are the owners or managers of dairy cattle SMEs in Pondok Ranggon, who are thought to have a thorough awareness of company operations and strategy. Respondents are asked to score each item on a 5-point Likert scale, from one (strongly disapproving) to 5 (extremely agree). The questionnaire is distributed directly to respondents to ensure clarity of understanding and data completeness.

We subsequently analyze the collected data using path analysis. Path analysis was chosen because it allows researchers to test both direct and indirect causal links between variables, especially to see how product innovation mediates the relationship between MO and EO in MSME performance. Before conducting a path analysis, validity and reliability tests are performed to ensure that the research instruments accurately and consistently measure the variables. Additionally, tests for normality, multicollinearity, and heteroscedasticity are conducted to ensure the data meet the statistical requirements for path analysis. (Syahidin et al., 2022) The goal of path analysis is to uncover both direct and indirect influences between variables using correlation and regression techniques. This method can determine whether the final dependent variable is directly affected by the independent variable or indirectly through an intermediary mediating variable. To determine the link among variables, we utilise the equation:

$$Y1 = b1X1 + b2X2 + b3X3 + e \quad (1)$$

$$Y2 = b1X1 + b2X2 + b3X3 + b4Y1 + e \quad (2)$$

The judgment criteria for the partial test (t-test) are as follows. If the estimated t-value is less than the t-table, we accept the assumption of null (H_0) while rejecting the alternative hypothesis (H_a). If the projected t-value exceeds the t-table, H_0 is rejected, but H_a is accepted. Furthermore, decisions may be based on the significance level (p-value). If the p-value is less than 0.05 (5% significance level), H_0 is disregarded, but H_a is allowed. This indicates that the independent variable has only a slight effect on the variable in question (Sumiatik et al., 2021).

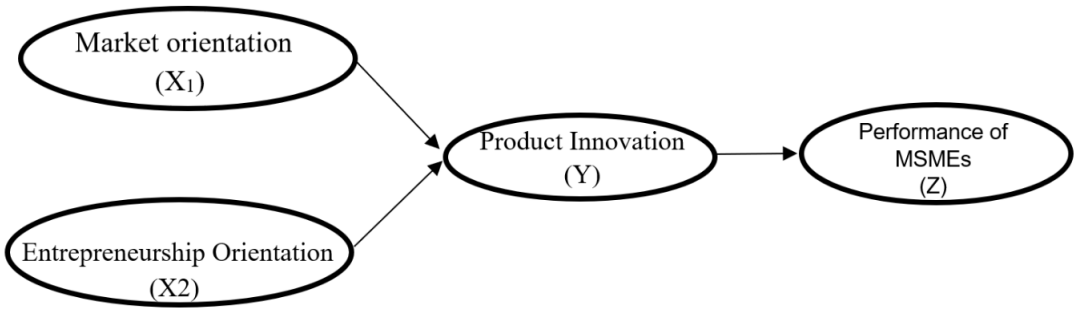

Figure 1. Path analysis

Hypothesis for the research Using the theoretical framework and study aims, we offer four basic hypotheses: H1: X1 has an important impact beneficial impact on Y. H2: X2 has an important and beneficial effect on Y. H3: Y has a positive and considerable influence on Z. H4: X1 and X2 have a positive and significant impact on Z, with product Y acting as a the factor that mediates.

RESULTS AND DISCUSSION

Business Characteristics

MSMs in Pondok Ranggon's dairy cattle farming sector exhibit a wide range of traits. Based on the type of business, all respondents work in the livestock industry, specifically dairy cattle farming. In terms of business size, the majority are micro and small firms, with assets under Rp300 million and annual turnovers under Rp2 billion for micro enterprises and Rp2-15 billion for small enterprises.

The form of business ownership is dominated by individual ownership or family ownership, although a small portion has taken the form of business entities such as CV (Commanditaire Vennootschap). The duration of business operations indicates that most MSMEs have been in operation for more than 5 years, reflecting the sustainability of their operations.

In terms of labor, most businesses employ 1–4 people, and only a small fraction have no permanent employees. The initial capital generally comes from personal funds, with some entrepreneurs obtaining additional funds from cooperative or bank loans.

Business revenues vary, with the average monthly turnover reflecting a micro- and small-scale operation. The business locations are primarily in household environments, and some have used social media and online platforms for marketing.

In terms of technology, most business operators still use traditional equipment, though some have begun switching to more modern tools. Access to the internet and social media is increasingly being used, especially for promotion and sales.

From a legal standpoint, some MSME actors hold business permits, such as NIB and IUMK, but some business operators have not yet obtained formal permits. Access to training shows that some MSMEs have participated in government- or institution-organized training, while others have never received any guidance. The primary market for these MSMEs is still local and regional, with fresh dairy products distributed directly to consumers and to dairy cooperatives.

Respondent Characteristics

The respondents in this study are 41 people. Regarding age, most farmers are in the 51-60 age range, accounting for 52.5%, while the youngest farmers, in the 20-30 age range, make up only 5%. The gender of farmers is predominantly male at 92.5%, while females account for only 7.5%; this is because farming work requires considerable physical strength. The majority of farmers have a high school education (50%), followed by junior high school (32.5%), elementary school (7.5%), and diploma or bachelor's degree (10%). The majority of farming experience (72.5%) falls within the range of 5–15 years, indicating a fairly adequate level of experience, while the rest have more than 26 years of experience. Regarding the number of dairy cows in the lactation period, 37.5% of farmers have less than 20 head, 55% have between 21 and 49 head, and only 7.5% have more than 50 head. Farmers' milk production volume and business income directly depend on the number of lactating cows they keep (Asmara et al. 2016). This characteristic shows that dairy farmers in Pondok Ranggon are mostly experienced individuals with a high level of education and varying numbers of lactating cows, which directly affects milk production in the area.

Validity and Reliability Test

1. Validity Test

One essential first step in quantitative research is validity testing to ensure that the instrument used —here, the questionnaire —can accurately measure the intended variables. In this study, validity testing is used to verify whether the questionnaire items correctly measure the variables X_1, X_2, Y, and Z.

The decision-making basis for the validity test uses the product-moment correlation technique, which compares the computed r-value (r count) to the critical r-value. If the projected r value exceeds the essential r value, the statement is considered valid. In this study, the degrees of freedom (df) are calculated as df = n - 2 = 41 - 2 = 39. At a significance threshold of $\alpha = 0.05$, the critical r-value is 0.308. As a result, any statement with a correlation value of more than 0.308 is considered valid.

Table 1 displays the findings of the validity test for all indicators in the Correction Item-Total Reliability column (estimated r) for each statement; values greater than the table r of 0.308 indicate that all statements are valid.

2. Reliability Test

The reliability test determines if the collection of statements in the questionnaire is consistent when used frequently. A Cronbach's Alpha value of ≥ 0.60 indicates that the questionnaire items are reliable.

The reliability tests for market orientation (Cronbach's alpha = 0.833;≥ 0.60), entrepreneurial orientation (0.786;≥ 0.60), product innovation (0.671;≥ 0.60), and MSME performance (0.693;≥ 0.60) indicate acceptable reliability. This implies that the statement list for X_1, X_2, Y, and Z is reliable and ready for additional testing.

Table 1. Validity test

Variable	Statement Item	Corrected Item – Total Correlation	R-Table	Explanation
Market Orientation	$X_{1.1}$	0,546		
	$X_{1.2}$	0,571		
	$X_{1.3}$	0,550		
	$X_{1.4}$	0,632		
	$X_{1.5}$	0,659		Valid
	$X_{1.6}$	0,643		
	$X_{1.7}$	0,795		
	$X_{1.8}$	0,754		
	$X_{1.9}$	0,686		
	$X_{1.10}$	0,512		
Entrepreneurship Orientation	$X_{2.1}$	0,834		
	$X_{2.2}$	0,773		
	$X_{2.3}$	0,685		
	$X_{2.4}$	0,634		Valid
	$X_{2.5}$	0,629		
	$X_{2.6}$	0,728	0,308	
Product Innovation	Y_1	0,611		
	Y_2	0,613		
	Y_3	0,349		Valid
	Y_4	0,651		
	Y_5	0,730		
	Y_6	0,786		
Performance of MSMEs	Z_1	0,734		
	Z_2	0,771		
	Z_3	0,706		
	Z_4	0,608		
	Z_5	0,329		Valid
	Z_6	0,381		
	Z_7	0,324		
	Z_8	0,536		

Hypothesis Testing

This study uses a series of linear regressions to assess the relationships between X1 and X2, the effect of Y on Z, and the mediating influence of Y on the relationship between X1 and X2 and Z.

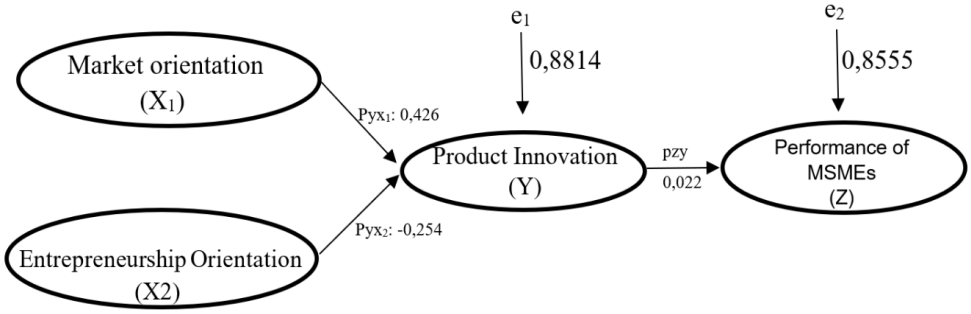

Figure 2. Research Model

1. Coefficient of Determination Test

Table 2**.** Coefficient of determination test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.472[a]	0.223	0.182	1.61917

a. Predictors: (Constant), EO, MO

In the model summary table, the R-squared value is 0.223, indicating that X1, X2, and Y account for 22.3% of the variance, with the remaining 77.7% attributable to features not included in the study.

2. F Test

Table 3. F Test result

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	68.077	3	22.692	4.527	0.008[b]
	Residual	185.484	37	5.013		
	Total	253.561	40			

a. Dependent Variable: Z

b. Predictors: (Constant), Y, X_2, X_1

The ANOVA test yielded an F value of 4.027, with a significance level of 0.000 (< 0.05). This demonstrates that the regression model is significant, implying that the variables HR Management, Innovation, and Entrepreneurial all have a meaningful impact on the UMKM Performance variable. As a result, the chosen regression model is appropriate for describing the link between the uncorrelated variables and the variable in question.

3. T Test

Table 4. T Test result

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.125	6.127		1.489	0.145
	MO	0.104	0.091	0.179	1.144	0.260
	EO	0.209	0.118	0.260	1.771	0.085
	Inovasi produk	0.537	0.224	0.382	2.392	0.022

a. Dependent Variable: Performance

The regression analysis of model 2 shows that MO has a direct influence on Performance of 0.260. Meanwhile, MO's indirect impact on Performance by Y equals the product of MO's beta on Y and Y's beta on Performance, which is 0.009372 (0.426 x 0.022). This conclusion shows that the indirect effect is less than the direct effect, implying that MO through product innovation has no meaningful effect on Performance.

The immediate effect of EO on Performance is 0.085. Meanwhile, the product of the beta values for EO on product innovation and product innovation on performance yields -0.254 x 0.022 = -0.005588, suggesting its indirect effect is weaker than the direct effect. This data suggests that, indirectly, EO with Y has no substantial effect on Z.

a. The Influence of MO on Product Innovation

MO significantly improves product innovation among dairy cattle farming SMEs in Pondok Ranggon. These findings are consistent with those of (Duwalang & Santika, 2020), (Mulyadi et al., 2021), (Soekotjo et al., 2021), (Omoregbe & Azage, 2022), (Rizqiyyah et al., 2023), and (Nianti et al., 2024), who found that market focus is critical for developing new products in the MSME sector.

Razak et al. (2024) Argue that a strong market orientation can help SMEs become more flexible and adaptable to market developments. Thus, MSME operators can quickly capitalise on new opportunities and develop product improvements that match market demands.

According to the study, the more market-oriented MSME players are, the more motivated they are to innovate the products they supply. A strong market orientation makes business actors more sensitive to consumer needs and preferences, allowing them to identify market opportunities more effectively. With a deep understanding of the market, MSME actors can design products that meet consumer needs and have added value that distinguishes them from competing products. (Venter & Hayidakis, 2021) The company must focus on providing the best and most unique products or services to meet consumer needs optimally.

b. The Influence of EO on Product Innovation

Its results show that EO has little effect on product innovation in dairy cattle farming SMEs in Pondok Ranggon. These findings do not correlate with previous investigations by Manalu et al. (2023), Istighfariani et al. (2024), and Massoudi (2025). It discovered a positive link between EO and Y. Although MSME actors demonstrate entrepreneurial traits such as risk-taking, daring, and a proactive approach to identifying opportunities, these attributes have yet to fuel the development of significant new products. The business's generational past influences this state; therefore, the primary

priority in running business activities remains providing everyday necessities. The company has not yet shifted its focus to a larger scale and a long-term direction.

Fatmah et al. (2024) Emphasise the importance of cultivating an entrepreneurial attitude and strengthening product orientation through market research to grasp consumer preferences and implement more innovative production processes. Entrepreneurs can relate their efforts to long-term market outcomes by focusing on products.

Hidayat et al., (2023) EO and product innovation are essential factors that agroindustry MSMEs must consider when looking to improve their business success. As a result, MSMEs in this sector require support through training, mentoring, and access to information to enhance entrepreneurial capacity, with immediate effects on Y development.

c. The Influence of Product Innovation on Performance

Studies have demonstrated that product innovation has a profound effect on the Performance of Pondok Ranggon's dairy cow MSMEs. The aftermath of this investigation is congruent with previous studies by Dahana et al. (2020), Marzuki et al. (2016), Paraswani et al. (2024), Abidin et al. (2024), and Muhamad et al. (2024), all of which demonstrate the importance of innovation in improving MSME performance. This study suggests that SMEs that actively engage in product innovation have better business success than those that do not innovate

According to Dewangga & Nugroho (2024), the greater the level of product innovation, the greater the likelihood of increased consumer purchases, which improves business performance. The research demonstrates that innovation drives consumer interest and loyalty, both of which are required for long-term success. (Amoa-Gyarteng & Dhliwayo, 2024) Product innovation is the primary driver of improved Performance for SMEs.

Product innovation in Pondok Ranggon dairy MSMEs can take several forms, including expanding product varieties, adapting previously unavailable items, and developing wholly new products that meet market preferences. (Safira & Sukresna, 2024) emphasise the importance of creating products that not only meet current demand but also anticipate future market trends.

Despite many of these SMEs operating on a small scale and having limited resources, the study shows that innovation remains an important factor in determining their profitability.

d. The influence of MO and EO on Performance is transmitted by product innovation

This study found that X1 and X2 do not improve Z through Y. This aligns with the study by Kusuma et al. (2022), which found that Y does not mediate the association between EO and Performance. Furthermore, Kusuma et al. (2022) state that increases in product innovation by various SMEs are often followed by imitation by other SMEs, which ultimately causes the innovation to lose its appeal and be considered outdated by customers.

These results contradict prior research findings from (Kesuma & Istanto, 2021), (Duwalang & Santika, 2020), (Tirtayasa et al., 2022), (Asad et al., 2024), and (Ratang, 2025), which claim that MO and EO can increase Performance through product innovation. The insignificance of this influence in the context of dairy farming MSMEs in Pondok Ranggon stems from the business orientation of these MSMEs, which still focuses on meeting daily survival needs rather than developing the business to an industrial scale. Land limitations are among the factors that restrict dairy cattle ownership among MSME actors, thereby limiting the amount of milk that can be produced and hindering increases in production capacity.

This condition causes businesses to prioritise short-term sustainability over long-term growth. This results in low investment in product innovation activities and minimal strategic planning for product differentiation. As a result, the existing product innovations are unable to enhance competitiveness or marketing performance significantly.

CONCLUSIONS AND SUGGESTIONS

This study demonstrates that MO plays an important role in generating Y, thereby contributing to the performance improvement of SMEs. Although Y does not significantly mediate the influence of MO and EO, its direct impact on Performance remains strong. In practice, MSMEs need to prioritize innovation strategies aligned with actual market needs, including developing product variants, packaging, and distribution that align with consumer preferences. The government and related institutions are advised to strengthen support for market-based innovation development through training, mentoring, and access to innovative financing that supports the transformation of livestock SMEs in urban areas. For further research, it is recommended to test other mediating factors, such as

business digitalization, dynamic capabilities, and quality orientation, as well as to expand the geographical context and the types of commodities to achieve stronger generalizations.

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