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Title and Abstract

Title Market Orientation and Innovation Performance: Mediating Effects of Customer Engagement in SMEs

Abstract This study's objective is to develop an innovation performance model based on the role of market orientation and customer engagement. Market-oriented practices through customer engagement will enable companies to achieve innovation performance. This research was conducted on small and medium enterprises (SMEs) engaged in manu-facturing in Bali. A conceptual model was developed to determine the mediating role of customer engagement in

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Market Orientation on Innovation Performance: The Mediating Effects of Customer Engagement of Manufacturing SMEs in Bali, Indonesia

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ABSTRACT

The purpose of this research is to develop an innovation performance model based influence of market orientation and customer engagement. The practice of market orientation through customer engagement enables companies to achieve innovative performance context of Balinese manufacturing. To achieve this goal, a conceptual model was developed that determines the mediating role of customer engagement in the relationship between market orientation and innovation performance. The study design was cross-sectional. Quantitative data were collected by 242 responses obtained through questionnaires conducted on manager or owners of manufacturing SMEs in Bali. The model was tested using Partial Least Square (PLS). The research findings show that having a strong market orientation practice and high customer of this study engagement is very important for achieving innovation performance. The practical implications of this study show the results that organizations can obtain by building and managing market oriented behavior and customer engagement. Therefore, understanding market orientation practices and customer engagement is important in creating better innovation performance. This research offers a greater understanding of market orientation practices through the involvement of customers contribution to innovation performance. This study also shows how the integration of market orientation constructs and customer engagement increases innovation performance.

ABSTRAK

Tujuan dari penelitian ini adalah mengembangkan model kinerja inovasi berdasarkan peran orientasi pasar dan keterlibatan pelanggan. Praktik orientasi pasar melalui keterlibatan pelanggan memungkinkan perusahaan mencapai kinerja inovasi konteks usaha kecil menengah (UKM) manufaktur Bali. Untuk mencapai tujuan penelitian ini, model konseptual dikembangkan yang menentukan peran mediasi keterlibatan pelanggan dalam hubungan orientasi pasar dan kinerja inovasi. Rancangan penelitian adalah cross-sectional. Data kuantitatif dikumpulkan dengan 242 responden yang diperoleh melalui penyebaran kuesioner yang dilakukan pada manajer atau pemilik UKM manufaktur Bali. Model diuji menggunakan Partial Least Square (PLS). Temuan menunjukkan bahwa memiliki praktik orientasi pasar yang kuat, dan keterlibatan pelanggan yang tinggi sangat penting bagi pencapaian kinerja inovasi. Implikasi praktis dari penelitian ini menunjukkan prestasi yang diperoleh organisasi ketika manajer membangun dan mengelola perilaku orientasi pasar dan praktik keterlibatan pelanggan. Oleh karena itu, memahami praktik orientasi pasar dan peran kemampuan melibatkan pelanggan dalam penciptaan nilai bersama dapat menciptakan kinerja inovasi yang lebih baik. Penelitian ini menawarkan pemahaman yang lebih besar tentang praktik orientasi pasar dengan melalui keterlibatan pelanggan berkontribusi pada kinerja inovasi. Penelitian ini juga menunjukkan integrasi konstruk orientasi pasar dan keterlibatan pelanggan meningkatkan kinerja inovasi.

1. INTRODUCTION

Small and medium enterprises (SMEs) play a role as a source of innovative new ideas. Globally, small and medium enterprises (SMEs) have a strategic role in the economy and can reach 99 percent of the total business (Buli, 2018). Gilmore (2012)

identifies SME's opportunities for employment, wealth creation, equitable distribution of income and economic growth. In Indonesia, the empowerment of manufacturing SME has a strategic role in driving economic activity as well as a source of welfare. In emerging markets like Indonesia, where

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massive transformation of structural changes occurs in the context of growth and prosperity by pursuing opportunities, business uncertainty occurs.

In the context of Bali manufacturing SME's they are engaged in export commodities and are categorized as export manufacturing SME's, namely wood crafts and the textile industry. The export SME sector can make a major contribution to Bali's exports and during 2017 generated foreign exchange of US \$94.308,024 (Central Bureau of Statistics of the Province of Bali, 2018). The data shows the potential and contribution of export leading SMEs to the Bali economy. However, SMEs are vulnerable to resource constraints, on the other hand, the need for rapid technological adaptation and the opportunity to play a role in the economy make SMEs and important area to be developed (Buli, 2018). The dynamics of business opportunities and challenges to respond to business opportunities, the era of the rapid development of information technology and rapidly changing customer preferences, the dynamics of opportunities and challenges of small and medium enterprises shape managerial assumptions and decision-making processes in many entrepreneurs including small and medium enterprises. Deciding on the right form of marketing capability to be developed and used is an important condition for achieving innovation performance, including strategic orientation decisions in pursuing opportunities and superior customer value (Boso et al., 2013).

Innovation is universally considered the key to a company's survival, by making the company better, different from competitors. Innovation performance is not the only determining factor for success, but it is the main factor to get profit. The innovation performance in this study shows the company's achievements in the both process and product innovation. Achievements, especially for the development of new products and processes, significantly improve performance in product and process innovation (Padilha, 2016). Understanding how SMEs succeed in achieving business performance and what positive factors lead to better performance from competitors is attractive to researchers and practitioners (Ndubisi and Iftikhar, 2012). The literature has proven that activities such as market orientation can improve innovation performance (Zhang and Duan, 2010; Raju et al., 2011; Padilha et al., 2016). However, other studies found no significant relationship between market orientation and innovation-related performance (Hilmi et al., 2010).

At present, the concept of customer engagement in delivering value becomes a relevant instrument developed in achieving innovation performance (Ayuso et al., 2011). Customer engagement is determined by market orientation (Mamun, 2018). However, to date, there has been no strategic orientation study that explains how investment in market orientation and customer engagement can improve innovation performance in the context of small and medium enterprises in Bali. Thus the purpose of this study is to examine whether simultaneous market orientation and customer engagement have a positive effect on the development of innovation performance, and secondly whether customer engagement mediates the relationship of market orientation with innovation performance. This study is the first research that holistically links market orientation practices and customer engagement with the results (output) of innovation performance.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

The resource-based view (RBV) theorizes that the company obtains and maintains a competitive advantage by using and developing valuable resources (Wernerfelt, 1984). Company resources include all assets, capabilities, company attributes, organizational processes, information and company knowledge that tends to enable companies to understand and be able to implement effective strategies (Barney, 1991). The RBV theory becomes the foundation in understanding market orientation relationship (O'Cass and Heirati, 2015), and customer engagement (Mamun, 2018) on innovation performance.

Innovation Performance. Performance shows a company's ability to achieve strategic objectives by interacting actions for competitive forces by managing internal resources and adapting to changes in the external environment (Al-Ansari et al., 2013). The concept of innovation is the foundation of the company to stay focused on the market, a source of competitive progress and economic growth (Buli, 2018). Favorable performance in innovation becomes a determinant for companies to remain competitive (Padilha, 2016). Innovation is related to performance that shows the generation and activity of implementing ideas, processes, and products. Innovation performance reflects the company's efforts to achieve a successful level of innovation (Alegre and Chiva, 2008). Innovation

performance is a construct with two different dimensions, namely product innovation and process innovation (Padilha, 2016). Product innovation reflects the company's ability to introduce more new products than competitors and the ability to introduce new ideas (Wahyuni, 2018). Process innovation reflects the company's behavior to continually update work practices to improve service quality and productivity (Nasution et al., 2011). The innovation performance referred to in this study refers to the company's ability to perform in innovation. According to Falasca (2016), innovation performance shows the company's ability in the process of developing new products and creating customer value through innovation. Improved company performance through innovation shows innovation performance (Weerawardena et al., 2015).

Market orientation. Market orientation refers to the ability of a company's strategy and operation to face and respond to changing market demands (Raju, 2011). The ability to develop market orientation interventions with other strategies to obtain greater returns shows market orientation (Boso et al., 2013). Market orientation as a company's resources can be transformed into outputs that are valued by customers (Mamun, 2018; Chen and Quester, 2006; Zhang and Duan, 2010). Market orientation determines the performance of innovation as an achievement of modification and change in products and processes (Roach, 2014). The purpose of the organization transmits organizational values including market oriented values encourages creativity to innovate (Padilha, 2016). The company's efforts to produce a lot of information about trends, speed in detecting changes in the business environment that might have an impact on the target market, and fast response to the actions of competitors who threaten the target market have a positive influence on the level of profit and return on capital (Boso et al., 2013). The ability of companies to understand and meet the needs of customer desires to offer superior customer value by collecting effective market intelligence, coordination of functions, communication, responsive actions on market intelligence gives the company an advantage in the speed of innovation (Zhang and Duan, 2010; O'Cass and Heirati, 2018). Thus, the following hypothesis is proposed:

H1: Market orientation positively influences performance on product innovation and process innovation.

Customer Engagement. Customer engagement is an important concept for organizational success (Sashi, 2012). Customer engagement is an intangible asset that is principally related to company culture (Cambra, 2016). Customer engagement refers to the mutual ability between sellers and buyers to share information and exchange information (Sashi, 2012). Social media by its interactive nature and ability to build conversations between companies and individuals involves potential customers to produce better products and services (Vivex et al., 2012). This study defines customer engagement as the ability to manage company relationships with customers to facilitate successful exchange relationships. The company's marketing actions affect the level of customer response. Implementation of marketing orientation such as building, developing and maintaining relationships by generating customer intelligence enables the development of customer engagement in the delivery of shared values (Hapsari et al., 2018).

Thus market orientation makes an important contribution to customer engagement (Javalgi et al., 2006). Market orientation directs the organization to produce market intelligence related to changing customer needs and maintain long-term relationships in creating superior customer value (Raju et al., 2011). Furthermore, an in-depth understanding of the concept of market orientation enables companies to expand and maintain connections, dialogue and good relations with customers to meet changes of existing customer needs, and potential ones (Mamun, 2018). Thus, the following hypothesis is proposed:

H2: Market orientation positively influences the level of customer engagement.

Marketing studies show customer engagement refers to a company's ability to engage its customers in meeting their dynamic needs to ensure their customers are satisfied and loyal (Sashi, 2012; Youssef et al., 2018). Customer engagement contributes to making the company-customer relationship last in the long run (Cambra, 2016). Customer engagement as a process of interaction and two-way communication company enables the company to get their needs and expectations, additional information and knowledge. Customer engagement encourages customer participation in the delivery of value and the adoption of new ideas, processes, and products (Newby et al., 2014).

Table 1
Validity and Reliability

Variables	Item	Cronbach'alpha	Comp reliabi
Market Orientation	9	0.816	0.891
Customer Engagement	7	0.909	0.928
Innovation Performance	4	0.879	0.925

Customer who are strongly involved and feel the benefits show higher loyalty than customers with low involvement do. Loyalty to the company's brand, word of-mouth and commitment as key indicators of customer engagement increases the opportunity to generate value for the company (Lin et al., 2010; Ayuso et al., 2011). Thus, the following hypothesis is proposed:

H3: Customer engagement positively influences performance on product innovation and process innovation.

Market orientation is defined as the company's ability to build and develop existing resources to provide superior customer value (Fang et al., 2014). RBV theory explains the ability of companies to obtain, manage, and maintain valuable resources that will create a competitive advantage and its consequences with company performance (Barney, 1991; Clulow et al., 2007). Customer engagement shows the company's ability to engage consumers to meet their dynamic needs, and ensure customer satisfaction and loyalty is achieved (Sashi, 2012). Market orientation significantly contributes to the social aspects of customer engagement such as building connections, participation, dialogue and creating shared creations with their customers (Mamun, 2018). Market orientation as the implementation behavior of marketing concepts is adopted to build long-term beneficial relationships with customers such as the intensity of communication, interaction, and dialogue (Javalgi et al., 2006). Thus, this study proposes the following hypothesis:

H4: Customer engagement plays a role in mediating the influence of market orientation on performance on product and process innovation.

3. RESEARCH METHOD

Cross-sectional study design was used in this study, and data collection was carried out using a structured interview method and questionnaire distribution. The list registered as manufacturing SMEs is handicraft products such as wood crafts and the textile industry totaling 561 manufacturing SMEs. Determination of the number of samples using the Slovin formula obtained a sample of 242 respondents.

The research instrument, the questionnaire, was adopted from several previous research finding with a few modifications to suit the research context in Bali. Market orientation practice refers to the ability of organizations to find, disseminate and respond to market information to create superior customer value. The measurement of market orientation was adopted by Chen and Quester (2006) and Zhang and Duan (2010). Customer engagement refers to the company's ability to approach an intense long-term relationship with customers, adopted by Lin et al. (2010) and Mamun (2018). Innovation performance refers to the ability of companies to excel in product innovation and the process of adopting previous research by Padilha (2016), and Falasca et al. (2017). Future studies use Partial Least Square (PLS) estimation because the research is exploratory. Analysis of the findings for PLS modeling follows the recommendations of Hair Jr. et al. (2014).

4. DATA ANALYSIS AND DISCUSSION

This study also briefly outlines the characteristics of research respondents, namely the SME owners or managers of the woodcraft and textile industries. The characteristics of the respondents include (1) age; (2) gender; (3) formal education level; and (4) length of employment as manager. Characteristics of respondents seen from age, dominated by the manager and /or owner of between 31 to 40 years old of 44.44 percent. Meanwhile, when viewed from gender, as many as 62.63 percent of respondents were male. The education level of the employment as a manager, most respondents have been working for 11 to 15 years, which is 32.38 percent.

Table 2
Cross Loadings

Item_variabel	Market orientation	Customer Engagement
MO-x1	0.888	0.536
MO-x2	0.904	0.661
MO-x3	0.772	0.529

Measurement Model. The use of criteria to evaluate research reliability is presented in Table 1. Table 1 shows the Cronbach's alpha values of all indicators of more than 0.70 which indicate the level of reliability of the items used. Composite reliability of all indicators shows values above 0.70 indicating all indicators are reliable. Furthermore, all AVE values for all constructs of more than 0.50 which indicate convergent validity is acceptable.

Validity discriminant checks are also carried out on all indicators, and indicators are considered valid if the outer loading is higher than 0.70. Table 2 illustrates the outer loading of all indicators. Using 0.70 as the threshold, the results of the study show there is no evidence of a lack of discriminant validity so that it can be concluded that all constructs meet valid criteria.

Structural Model. Research using the bootstrap method for testing the significance of direct effects and mediation on hypotheses H1 through H4. Hypotheses testing of each pathway of the influence of exogenous variables on endogenous variables uses t-test and p-value, where the p-value is compared with α (5 percent). Overall, the results of the calculation of the hypothesis test by looking at the path coefficient, t-test, and p-value. If the p-value is smaller than 0.05, then the effect is declared significant, and vice versa (see Table 3).

Based on the results of the analysis of the data shown, Table 3 presents the results that the MO has a positive effect on innovation performance, and the data produce a coefficient value of 0.435, a statistical t value of $5.576 > 1.96$ and $p\text{-value} < 0.05$ ($\beta = 0.435; p = 0.000 < 0.05$), giving MO confirmation

has a significant direct effect on innovation performance, H1 is supported. Furthermore, H2 predicted that MO influenced the level of customer engagement, and the data produced a coefficient value of 0.677, a statistical t-value of $20.053 > 1.96$ and a $p\text{-value} < 0.05$ ($\beta = 0.677; p\text{-value} = 0.000 < 0.05$). The result confirms that MO has a positive effect on customer engagement, H2 is supported. And, H3 predicts the positive effect of customer engagement on innovation performance. Hypothesis testing of the direct influence of customer engagement on innovation performance produces a coefficient of 0.419 and a statistical t value of $5.501 > 1.96$ and $p\text{-value} < 0.000$ ($\beta = 5.501; p = 0.000 < 0.05$), hypothesis 3 is supported. Finally, the indirect effect of MO on the performance of innovation through mediation constructs of customer engagement shows a positive and significant coefficient ($\beta = 0.284; p\text{-value} < 0.05$), in which this indicates customer engagement partially mediates the relationship between market orientation and innovation performance (see Figure 1).

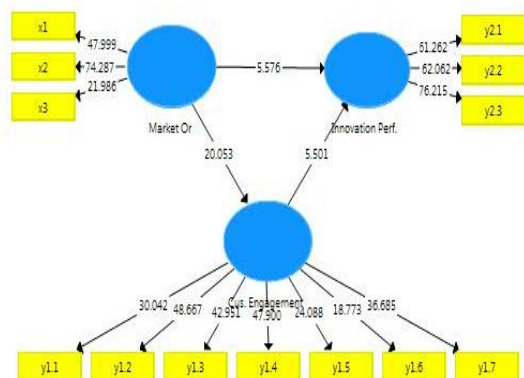


Table 3
Hypothesis Testing

Relationship	Beta	Sample mean	T-value	Significance	Decision
MO → IP	0.435	0.436	5.576	0.000	Accepted
MO → CE	0.677	0.681	20.053	0.000	Accepted
CE → IP	0.419	0.418	5.501	0.000	Accepted
Mediating effect of CE MO→CE→IP	0.284	0.285	5.222	0.000	Partial mediation

First hypothesis test market orientation on innovation performance. The path coefficient of market orientation and innovation performance is positive and significant. Market orientation is a cultural and behavioral aspect of being willing to collect market information (such as information about prices, products, customers, competitors, environmental changes, and regulations) and disseminate information throughout the organization to create superior value for buyers. Efforts to design processes to gather information and disseminate customer information and to monitor the level of commitment of companies serving the needs of current and potential customers is to show the identity of market orientation behavior. These results indicate that companies with a tendency toward market orientation make a positive contribution to innovation performance by adopting new ideas, processes, and products. This finding is in line with Roach et al. (2014) which states that the organization's efforts to collect relevant information, information acquisition, dissemination of information among relevant users, and utilizing information to make decisions have a positive effect on the ability to innovate.

The second hypothesis examines the positive effect of market orientation on customer involvement, from the results of research finding market orientation has an important role in the company's ability to build customer-company interaction. Market orientation reflects the company's ability to build strategies and operations to respond to changing market demands, while increasing the company's efforts to build, maintain, and manage long-term customer relationships. This finding is in line with Mamun et al. (2018) which confirm that culture and behavior understanding customer needs and desires tend to increase the company's ability to adapt to innovative approaches and build long-term intimate relationships with customers to create superior customer value. Javalgi et al. (2006) revealed a significant association of market orientation and customer relationship management.

These result indicate the development of market intelli

The market orientation path coefficient has a significant positive effect on customer engagement. These result indicate the development of market intelligence effectively tends to increase the ability to build a long-term relationship with customers.

The third hypothesis examines the positive influence of customer involvement on innovation performance, the results indicate that there is a positive influence of customer involvement on innovation performance. Customer engagement refers to the company's ability to adopt innovative approaches and efforts to build intimate long-term connections with customer that enable customers to be more loyal to the company. Customer involvement covers three main bases of activities namely the first company must have the desire to open a dialogue with customers. Second, companies must be able to interact with customers to get the latest information related to the market. Third, companies must have the ability to create together to create ideas and new products.

The path coefficient of customer engagement has a significant positive effect on innovation performance, these results indicate the company's ability to build long-term relationships with the customer in favor of positive product and management modifications in achieving superior performance and profitability. These results are following the findings of Lin et al. (2010) which states that the use of profitable customer relationships to understand demand and create customer satisfaction leads organizations to develop ideas, systems, programs, products, and new services for an organization.

The fourth hypothesis examines the mediating role of customer involvement in the relationship of market orientation and innovation performance. Market orientation is a resource as a company's ability to understand, anticipate information needs and customer preferences that encourage companies to implement strategies to expand long-term

relationship. Furthermore, customer involvement as a marketing capability enables the company to interact, retain existing customers and enhance the company client relationship to meet customer needs contributing to developing innovation performance.

The mediating effect of customer engagement shows that customer engagement indirectly is positive significant mediating the relationship of market orientation with performance on innovation.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

The effect of market orientation on the performance of innovation. This study examines the performance on innovation. The findings show first, the effect of market orientation positively increases innovation performance. The higher the market orientation level of manufacturing SME managers, the stronger the company's performance on innovation in both products and processes. The results of the study support Roach et al. (2014) which states market orientation as a more abstract culture and real behavior that reflects values that strengthen the identity of market-oriented behavior such as gathering information, disseminating information, monitoring organizational commitment to serve consumers to be the main driver for companies to adopt, develop ideas, products, and superior design. Market orientation has a positive effect on the development of new products (Zhang and Duan, 2010). A market oriented culture directs companies to explore current trends, explore customer information, allocate resources and tend to increase successful product development and launch.

The effect of market orientation on the level of customer engagement. The result of this study indicates that the tendency of companies to search for information to meet the needs and expectations of customers significantly increases the frequency of consumer engagement in the context of adopting innovative knowledge and technology.

The effect of customer engagement on innovation performance. This finding shows that the company's ability to build long-term relationships with customers significantly and positively support the achievement of performance on superior product and process innovations. Customer engagement is the intensity of the relationship and participation of individuals with the organization. Customer

engagement as a psychological process is reflected in the level of customer –company participation and interaction with a focus on customer satisfaction (Lin et al., 2010). The results of the study are following the findings of Vivex et al. (2012) who say customer involvement as the ability to build relationships and repeat interactions tends to strengthen to provide new and innovative ideas.

The mediating role of customer engagement. Customer engagement that reflects the ability companies to build and engage their customers in making shared value creation decisions determines a high level of performance on innovation. Furthermore, customer engagement is determined by the market orientation culture. A culture of caring about the needs and desires of customers and efforts to satisfy them through the creation of shares value encourages customer engagement. Managers need to utilize their competitive resources through strengthening market oriented culture and behavior so that customer engagement increases, and contributes to innovation performance.

This research contributes to existing studies of strategic marketing in two main ways. First, this research can show that customer engagement explains the mechanism through which market orientation practices must influence innovation performance. Market orientation as a culture and values embraced in understanding and desires to provide superior customer value that triggers the growth of information seeking behavior and utilizing information into new knowledge tends to increase the ability to engage customers in to generate ideas, processes, and products. Second, on the other hand, a high level of market orientation plays a key role in building long-term relationships with profitable customers as an orientation of the company's marketing strategy.

The purpose of this study is to explore the extent to which market orientation and customer engagement strategies can contribute to business performance. Overall analysis and discussion results indicate that market orientation and customer engagement influence innovation performance. Likewise, the customer engagement variable can partially mediate the relationship between market orientation and innovation performance. However, the effect of market orientation on customer engagement and innovation performance still received little attention. The results of this study help add insight and understanding of managers about the mechanism of how market orientation practices and customer engagement in creating value contribute to the export-oriented SME innovation per-

formance. This research develops the RBV theory that explains the economic resources of a company capable of creating a competitive advantage (Barney, 1991).

Market orientation as a superior company resource shows generation behavior and information dissemination to strengthen understanding of customer needs and values that can improve innovation performance directly. The results of this study are consistent with the findings of Padilha (2016) who conducted a study of textile contexts where market orientation practices positively influence performance on product innovation and process innovation.

The study suffers from a number of shortcomings that must be considered and, in future research possibly addressed. First, this study used the company such as wood and textile as a research sample. Consequently, it would be interesting to investigate whether the finding in this study are replicated in specific industries. Future research is expected to use all manufacturing companies registered with the Department of Trade and Industry. Thus, it can detect the characteristics of companies in the manufacturing sector that affect regional economic growth. Second, developing a market orientation is considered a long-term endeavor that does not necessarily produce immediate pay-off. Consequently, may investigate the effects of market orientation, from other perspective, on new product and processes innovation. Finally, future research may investigate that other moderate variables into our research model is also very promising research field in the future research.

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Reviewer Evaluation Form

A. GENERAL DATA ON PAPER

Manuscript No: __1238_2040

Manuscript Title: Market Orientation on Innovation Performance: The Mediating Effects of Customer Engagement of Manufacturing SMEs in Bali, Indonesia

B. GENERAL EVALUATION OF THE PAPER

Please check the appropriate option

Aspect	Poor	Below Average	Average	Good	Excellent
Statement of the Problem				v	
Significance of Research				v	
Literature Review					v
Methodology			v		
Quality of Data or Findings				v	
Results and Discussion				v	
Conclusion				v	
Readability and Writing Style				v	

C. ORIGINALITY OF THE PAPER AND ITS CONTRIBUTION TO THE FIELD

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Aspect	None	Trivial	Modest	Important	Very Significant
Contribution to the field				v	

Other titles covering the same issues:

1. . Zhang, J., & Duan, Y. (2010). The impact of different types of **market orientation** on product **innovation performance**. Management decision.
2. Kaya, N., & Patton, J. (2011). The effects of knowledge-based resources, **market orientation** and learning orientation on **innovation performance**: An empirical study of Turkish firms. Journal of International Development, 23(2), 204-219.

D. OVERALL REVIEWERS COMMENTS AND IMPRESIONS

1. The topic is interested because it integrate the role of customer engagement on the model of market orientation and innovation performance.
2. Even though the discussion of market orientation, customer engagement and innovation performance is not new, but The topic integrating the constructs in a model is rare to be discussed in literature, in particular the background model is The resource-based view (RBV).

E. OVERALL EVALUATION

Please check the appropriate option

	Reject	Accept with major Revision and further review	Accept with minor revision without further review	Accept unconditionally
Evaluation			v	

Reviewers recommendations on improvements and revision (if any)

1. It is Needed to elaborate the instrument development steps or describe the measurement items.
2. “Future studies use Partial Least Square (PLS) estimation because the research is exploratory”. This statement need to be explained and confirmed.
3. “The education level of the employment as a manager, most respondents have been working for 11 to 15 years, which is 32.38 percent.” What the education level of respondent need to be confirmed.

F. CLASIFICACION OF THE PAPER

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Research Paper	<input checked="" type="checkbox"/>
Review Article	<input type="checkbox"/>
Short Communication	<input type="checkbox"/>

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SEGERA...HASIL REVIEW DAN PERMOHONAN REVISI ARTIKEL SAUDARA PADA JURNAL VENTURA

Ventura PPPM Perbanas <ventura@perbanas.ac.id>
to me

Jun 16, 2020, 3:13 PM

Kepada Yth. Sdr. Ni Made Wahyuni, I Made Sara,
Sehubungan dengan kiriman artikel Saudara yang berjudul:
Market Orientation on Innovation Performance: The Mediating Effects of Customer Engagement of Manufacturing SMEs in Bali, Indonesia (1238)
 maka dengan ini kami kirimkan hasil review dari Editor on Board/Reviewer serta Template Artikel Ventura. (attachment). Revisi artikel Saudara kami tunggu selambatnya tanggal **23 Juni 2020**.
 Demikian disampaikan, atas perhatian dan kerjasamanya, diucapkan terima kasih.
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Tritutik
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Made Wahyuni <mdwahyuni@gmail.com>
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Jun 17, 2020, 9:46 AM

Dear Head of Academic Journal, Book Publication, and Copyright Division, and Editor on Board & Reviewer JEBAV,
Tritutik dan Tim.

Trimakasih banyak atas masukan, komentar dan perhatiannya. Segera kami memperbaiki artikel dan mengirim kembali.
Salam hormat,
Dr Ni Made Wahyuni, Dr I Made Sara_Bali.

Made Wahyuni <mdwahyuni@gmail.com>
to Ventura

Jun 23, 2020, 7:27 PM

Dear Head of Academic Journal, Book Publication, and Copyright Division, and Editor on Board & Reviewer JEBAV,
Tritutik dan Tim.

Bersama email ini, saya mengirimkan Manuskrip_1238 dengan judul: Market Orientation on Innovation Performance: The Mediating Effects of Customer Engagement of Manufacturing SMEs in Bali, Indonesia.
 Saya kirimkan file-file sebagai berikut:
 1. Manuskrip_1238 beserta hasil perbaikan.
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 Atas segala kesempatan, waktu, dan komentar yang diberikan oleh Editor, Reviewer 1, Reviewer 2 beserta tim, saya mengucapkan terimakasih.
 Salam,
 Dr Ni Made Wahyuni

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Reviewer Evaluation Form

A. GENERAL DATA ON PAPER

Manuscript No: **1238.2040**

Manuscript Title: **Market Orientation on Innovation Performance: The Mediating Effects of Customer Engagement of Manufacturing SMEs in Bali, Indonesia**

B. GENERAL EVALUATION OF THE PAPER

Please check the appropriate option

Aspect	Poor	Below Average	Average	Good	Excellent
Statement of the Problem				X	
Significance of Research			X		
Literature Review				X	
Methodology				X	
Quality of Data or Findings			X		
Results and Discussion			X		
Conclusion			X		
Readability and Writing Style			X		

C. ORIGINALITY OF THE PAPER AND ITS CONTRIBUTION TO THE FIELD

Please check the appropriate option

Aspect	None	Trivial	Modest	Important	Very Significant
Contribution to the field					

Other titles covering the same issues:

Banyak penelitian dengan topik market orientation dan innovation performance, belum banyak yang mengkaitkan dengan customer engagement

D. OVERALL REVIEWERS COMMENTS AND IMPRESIONS

Referensi

E. OVERALL EVALUATION

Please check the appropriate option

	Reject	Accept with major Revision and further review	Accept with minor revision without further review	Accept unconditionally
Evaluation			X	

Reviewers recommendations on improvements and revision (if any):

- Banyak referensi tidak ada tahun publikasi : 1)Al-Ansari, Y, Pervan, S & Xu, J; 2)Alegre,J & Chiva, R, 3) Newby, M, Nguyen, TH & Waring, TS ; 4) Wahyuni, NM; 5) Nasution, HN, Mavondo, FT, Matanda, MJ & Ndubisi,
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- Referensi tahun tidak sama dengan yg dikutip dan referensi. **1)** Buli, BM, 2017, **2)** Cambra-Fierro, JJ, Melero-Polo, I & Vazquez-Carrasco, R, 2013 **3)** Hapsari, R, Clemes, MD, & Dean, D, 2017 **4)** Weerawardena, J, Mort, GS, Salunke, S, Knight, G & Liesch, PW, 2014

F. CLASIFICATION OF THE PAPER

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Research Paper	X
Review Article	
Short Communication	

Market Orientation on Innovation Performance: The Mediating Effects of Customer Engagement of Manufacturing SMEs in Bali, Indonesia

Ni Made Wahyuni^{1*}, I Made Sara²

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ABSTRACT

The purpose of this research is to develop an innovation performance model based influence of market orientation and customer engagement. The practice of market orientation through customer engagement enables companies to achieve innovative performance context of Balinese manufacturing. To achieve this goal, a conceptual model was developed that determines the mediating role of customer engagement in the relationship between market orientation and innovation performance. The study design was cross-sectional. Quantitative data were collected by 242 responses obtained through questionnaires conducted on manager or owners of manufacturing SMEs in Bali. The model was tested using Partial Least Square (PLS). The research findings show that having a strong market orientation practice and high customer engagement is very important for achieving innovation performance. The practical implications of this study show the results that organizations can obtain by building and managing market oriented behavior and customer engagement. Therefore, understanding market orientation practices and customer engagement is important in creating better innovation performance. This research offers a greater understanding of market orientation practices through the involvement of customers contribution to innovation performance. This study also shows how the integration of market orientation constructs and customer engagement increases innovation performance.

ABSTRAK

Tujuan dari penelitian ini adalah mengembangkan model kinerja inovasi berdasarkan peran orientasi pasar dan keterlibatan pelanggan. Praktik orientasi pasar melalui keterlibatan pelanggan memungkinkan perusahaan mencapai kinerja inovasi konteks usaha kecil menengah (UKM) manufaktur Bali. Untuk mencapai tujuan penelitian ini, model konseptual dikembangkan yang menentukan peran mediasi keterlibatan pelanggan dalam hubungan orientasi pasar dan kinerja inovasi. Rancangan penelitian adalah cross-sectional. Data kuantitatif dikumpulkan dengan 242 responden yang diperoleh melalui penyebaran kuesioner yang dilakukan pada manajer atau pemilik UKM manufaktur Bali. Model diuji menggunakan Partial Least Square (PLS). Temuan menunjukkan bahwa memiliki praktik orientasi pasar yang kuat, dan keterlibatan pelanggan yang tinggi sangat penting bagi pencapaian kinerja inovasi. Implikasi praktis dari penelitian ini menunjukkan prestasi yang diperoleh organisasi ketika manajer membangun dan mengelola perilaku orientasi pasar dan praktik keterlibatan pelanggan. Oleh karena itu, memahami praktik orientasi pasar dan peran kemampuan melibatkan pelanggan dalam penciptaan nilai bersama dapat menciptakan kinerja inovasi yang lebih baik. Penelitian ini menawarkan pemahaman yang lebih besar tentang praktik orientasi pasar dengan melalui keterlibatan pelanggan berkontribusi pada kinerja inovasi. Penelitian ini juga menunjukkan integrasi konstruk orientasi pasar dan keterlibatan pelanggan meningkatkan kinerja inovasi.

1. INTRODUCTION

Small and medium enterprises (SMEs) play a role as a source of innovative new ideas. Globally, small and medium enterprises (SMEs) have a strategic role in the economy and can reach 99 percent of the total business (Buli, 2017). Cronin-Gilmore (2012) identifies SME's opportunities for employment, wealth creation, equitable distribution of income and economic growth. In Indonesia, the empowerment of manufacturing SME has a strategic role in driving economic activity as well as a source of welfare. In emerging markets like Indonesia, where massive transformation of structural changes occurs in the context of growth and prosperity by pursuing opportunities, business uncertainty occurs.

In the context of Bali manufacturing SME's they are engaged in export commodities and are categorized as export manufacturing SME's, namely wood crafts and the textile industry. The export SME sector can make a major contribution to Bali's exports and during 2017 generated foreign exchange of US \$94.308,024 (Bali Provincial Statistics Agency, 2018).

The data shows the potential and contribution of export leading SMEs to the Bali economy. However, SMEs are vulnerable to resource constraints, on the other hand, the need for rapid technological adaption and the opportunity to play a role in the economy make SMEs and important area to be developed (Buli, 2017). The dynamics of business opportunities and challenges to respond to business opportunities, the era of the rapid development of information technology and rapidly changing customer preferences, the dynamics of opportunities and challenges of small and medium enterprises shape managerial assumptions and decision-making processes in many entrepreneurs including small and medium enterprises. Deciding on the right form of marketing capability to be developed and used is an important condition for achieving innovation performance, including strategic orientation decisions in pursuing opportunities and superior customer value (Boso, Story, & Cadogan, 2013).

Innovation is universally considered the key to a company's survival, by making the company better, different from competitors. Innovation perfor-

mance is not the only determining factor for success, but it is the main factor to get profit. The innovation performance in this study shows the company's achievements in the both process and product innovation. Achievements, especially for the development of new products and processes, significantly improve performance in product and process innovation (Padilha & Gomes, 2016). Understanding how SMEs succeed in achieving business performance and what positive factors lead to better performance from competitors is attractive to researchers and practitioners (Ndubisi & Iftikhar, 2012). The literature has proven that activities such as market orientation can improve innovation performance (Zhang & Duan, 2010; Raju, Lonial, & Crum 2011; Padilha & Gomes, 2016). However, other studies found no significant relationship between market orientation and innovation-related performance (Hilmi & Ramayah, 2010). At present, the concept of customer engagement in delivering value becomes a relevant instrument developed in achieving innovation performance (Ayuso et al., 2011). Customer engagement is determined by market orientation (Mamun et al., 2018).

#This topic is interesting because it integrates the role of customer involvement in the market orientation model and innovation performance (Zhang & Duan, 2010; Kaya & Patton, 2011; Mamun et al., 2018). Although discussions on market orientation, customer engagement, and innovation performance are not new, this topic integrates constructs in a model that is rarely discussed in the literature, especially research models with a background theory of resource-based views (RBV).#

Thus the purpose of this study is to examine whether simultaneous market orientation and customer engagement have a positive effect on the development of innovation performance, and secondly whether customer engagement mediates the relationship of market orientation with innovation performance. This study is the first research that holistically links market orientation practices and customer engagement with the results (output) of innovation performance.

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2. THEORETICAL FRAMEWORK AND HYPOTHESES

The resource-based view (RBV) theorizes that the company obtains and maintains a competitive advantage by using and developing valuable resources (Wernerfelt, 1984). Company resources include all assets, capabilities, company attributes, organizational processes, information and company knowledge that tends to enable companies to understand and be able to implement effective strategies (Barney, 1991). The RBV theory becomes the foundation in understanding market orientation relationship (O’Cass & Heirati, 2015), and customer engagement (Mamun et al., 2018) on innovation performance.

Innovation Performance. Performance shows a company’s ability to achieve strategic objectives by interacting actions for competitive forces by managing internal resources and adapting to changes in the external environment (Al-Ansari, Pervan, & Xu, 2013). The concept of innovation is the foundation of the company to stay focused on the market, a source of competitive progress and economic growth (Buli, 2017). Favorable performance in innovation becomes a determinant for companies to remain competitive (Padilha & Gomes, 2016). Innovation is related to performance that shows the generation and activity of implementing ideas, processes, and products. Innovation performance reflects the company’s efforts to achieve a successful level of innovation (Alegre & Chiva, 2008). Innovation performance is a construct with two different dimensions, namely product innovation and process innovation (Padilha & Gomes, 2016). Product innovation reflects the company’s ability to introduce more new products than competitors and the ability to introduce new ideas (Wahyuni, 2019). Process innovation reflects the company’s behavior to continually update work practices to improve service quality and productivity (Nasution et al., 2011).

The innovation performance referred to in this study refers to the company’s ability to perform in innovation. According to (Falasca et al., 2017), innovation performance shows the company’s ability in the process of developing new products and creating customer value through innovation. Improved company performance through innovation shows innovation performance (Weerawardena et al., 2014).

Market orientation. Market orientation refers to the ability of a company’s strategy and operation to face and respond to changing market demands (Raju, Lonial, & Crum, 2011). The ability to develop market orientation interventions with other strategies to obtain greater returns shows market orientation (Boso, Story, & Cadogan, 2013). Market orientation as a company’s resources can be transformed into outputs that are valued by customers (Mamun et al. 2018; (Chen & Quester, 2006; Zhang & Duan, 2010). Market orientation determines the performance of innovation as an achievement of modification and change in products and processes (Roach, Ryman, & White, 2014).

The purpose of the organization transmits organizational values including market oriented values encourages creativity to innovate (Padilha & Gomes, 2016). The company’s efforts to produce a lot of information about trends, speed in detecting changes in the business environment (Jaworski & Kohli, 1993), that might have an impact on the target market, and fast response to the actions of competitors who threaten the target market have a positive influence on the level of profit and return on (Boso et al., 2013). The ability of companies to understand and meet the needs of customer desires to offer superior customer value by collecting effective market intelligence, coordination of functions, communication, responsive actions on market intelligence gives the company an advantage in the speed of innovation (Zhang & Duan, 2010; O’Cass & Heirati, 2015). Thus, the following hypothesis is proposed:

H1: Market orientation positively influences performance on product innovation and process innovation.

Customer Engagement. Customer engagement is an important concept for organizational success (Sashi, 2012). Customer engagement is an intangible asset that is principally related to company culture (Cambra-Fierro, Melero-Polo, & Vázquez-Carrasco, 2013). Customer engagement refers to the mutual ability between sellers and buyers to share information and exchange information (Youssef et al., 2018). Social media by its interactive nature and ability to build conversations between companies and individuals involves potential customers to produce better products and services (Vivek, Beatty, & Morgan, 2012). This study defines customer engagement as the ability to manage company relationships with customers to facilitate

successful exchange relationships. The company's marketing actions affect the level of customer response. Implementation of marketing orientation such as building, developing and maintaining relationships by generating customer intelligence enables the development of customer engagement in the delivery of shared values (Hapsari, Clemes, & Dean, 2017).

Thus market orientation makes an important contribution to customer engagement (Javalgi, Martin, & Young, 2006). Market orientation directs the organization to produce market intelligence related to changing customer needs and maintain long-term relationships in creating superior customer value (Raju, Lonial, & Crum, 2011). Furthermore, an in-depth understanding of the concept of market orientation enables companies to expand and maintain connections, dialogue and good relations with customers to meet changes of existing customer needs, and potential ones (Mamun et al., 2018). Thus, the following hypothesis is proposed:

H2: Market orientation positively influences the level of customer engagement.

Marketing studies show customer engagement refers to a company's ability to engage its customers in meeting their dynamic needs to ensure their customers are satisfied and loyal (Sashi, 2012; Youssef et al., 2018). Customer engagement contributes to making the company-customer relationship last in the long run (Cambra-Fierro, Melero-Polo, & Vázquez-Carrasco, 2013). Customer engagement as a process of interaction and two-way communication company enables the company to get their needs and expectations, additional information and knowledge. Customer engagement encourages customer participation in the delivery of value and the adoption of new ideas, processes, and products (Newby, Nguyen, & Waring, 2014).

Customer who are strongly involved and feel the benefits show higher loyalty than customers with low involvement do. Loyalty to the company's brand, word of-mouth and commitment as key indicators of customer engagement increases the opportunity to generate value for the company (Lin, Chen, & Chiu, 2010; Ayuso et al., 2011). Thus, the following hypothesis is proposed:

H3: Customer engagement positively influences performance on product innovation and process innovation.

Market orientation is defined as the company's ability to build and develop existing resources to provide superior customer value (Fang et al., 2014). RBV theory explains the ability of companies to obtain, manage, and maintain valuable resources that will create a competitive advantage and its consequences with company performance (Barney, 1991; Clulow, Barry, & Gerstman, 2007). Customer engagement shows the company's ability to engage consumers to meet their dynamic needs, and ensure customer satisfaction and loyalty is achieved (Sashi, 2012). Market orientation significantly contributes to the social aspects of customer engagement such as building connections, participation, dialogue and creating shared creations with their customers (Mamun et al., 2018). Market orientation as the implementation behavior of marketing concepts is adopted to build long-term beneficial relationships with customers such as the intensity of communication, interaction, and dialogue (Javalgi, Martin, & Young, 2006). Thus, this study proposes the following hypothesis:

H4: Customer engagement plays a role in mediating the influence of market orientation on performance on product and process innovation.

3. RESEARCH METHOD

Cross-sectional study design was used in this study, and data collection was carried out using a structured interview method and questionnaire distribution. The list registered as manufacturing SMEs is handicraft products such as wood crafts and the textile industry totaling 561 manufacturing SMEs. Determination of the number of samples using the Slovin formula obtained a sample of 242 respondents.

The research instrument, the questionnaire, was adopted from several previous research finding with a few modifications to suit the research context in Bali. #All items are answered on a 5-point Likert scale. Market orientation practice refers to the ability of organizations to find, disseminate and respond to market information to create superior customer value. Market orientation measurement scale consists of searching for information, responding to customer needs quickly, and being able to react to changes in the environment for customer value creation. measurement items adapted from Jaworski & Kohli (1993), Chen & Quester (2006) and Zhang and Duan (2010).

Customer engagement refers to the company's ability to approach an intense long-term relationship with customers. According to Lin, Chen, & Chiu (2010) and Mamun et al. (2018) the scale of measuring customer engagement includes dialogue activities with customers, interwoven interactions, the ability to solve customer problems for value creation, connections, and interwoven relationships with customers. Innovation performance refers to the ability of companies to excel in product innovation and the process. Finally, the scale of innovation performance measurement adapts previous research covering innovation achievements in products, innovations in management, and modification of company administration processes by Padilha & Gomes (2016) Padilha & Gomes (2016), and Falasca et al. (2017).#

#Because this research is exploratory, furthermore, data analysis uses variance-based structural equation modeling or known as partial least square (SEM-PLS) with SmartPLS software. The reason is that the use of PLS to estimate path relationships in research models that use latent constructs with several indicators can maximize the explanation of variance in the dependent constructs of structural equation models (Mamun et al., 2018). In situations where the theory has not yet developed and the theory is still limited about the structural relations between latent variables, the research objective is more exploratory than confirmation (Sholihin et al., 2011). Besides, our research is recommended using PLS, because it has a greater ability to predict and understand the formation of individual constructs or latent variables, as well as the relationships of constructs with one another (Chin & Dibbern, 2010).# Analysis of the findings for PLS modeling follows the recommendations of Hair et al. (2013).

4. DATA ANALYSIS AND DISCUSSION

The study collected demographic characteristics data from export manufacturing SMEs in Bali. Types of manufacturing companies are processed forest products and wood or handicraft products (n = 79, 33 percent); textile and apparel products (n = 163, 67 percent). Their average year of operation is more than 15 years (69 percent). The average number of employees is 5-19 (70 percent). This study also briefly outlines the characteristics of research respondents, namely the SME owners or managers of the woodcraft and textile industries. The characteristics of the respondents include (1) age; (2) gen-

der; and (3) length of employment as manager. Characteristics of respondents seen from age, dominated by the manager and /or owner of between 31 to 40 years old of 44.44 percent. Meanwhile, when viewed from gender, as many as 62.63 percent of respondents were male. The dominance of women as SME owners/managers is motivated by an interest in earning income, internal motivation, environmental influences, life impulses, family factors (Azmi, 2017).

Most respondents have been working for 11 to 15 years, which is 32.38 percent. This means that respondents have experience in innovation capability, are better able to see market changes, more able to develop business and marketing techniques. It means that the respondent has experience in innovation capability, is better able to see market changes, more able to develop business and marketing techniques.

#The SmartPLS 3.0 analysis tool in this study produced two levels of model evaluation, namely (1) the construct measurement model with reflexive indicators to determine the validity of indicators and construct reliability, and (2) the model evaluation (Hair et al., 2014).#

Measurement Model. #The use of criteria to evaluate the validity and reliability of research is presented in Table 1. For validity criteria, construct indicators are also assessed with convergent validity, and can be considered reliable if outer loadings of all construct measurement items are at least 0.70 but for exploratory research that requires further research, 0.40 is still acceptable (Mamun et al., 2018). Finally, reliability analysis to ensure construct consistency is measured by Cronbach's alpha and composite reliability. Cronbach's alpha all indicators that have values above 0.70 indicate the reliability of the items in the study. Likewise, the composite reliability value of all indicators must be above 0.70 (Sholihin et al., 2011).#

All measurements used in this study use a 5-point Likert scale. Table 1 lists constructs, measurement items, loading results, Cronbach's alpha, composite reliability used in our study.#Table 1 shows the discriminant validity checks on all indicators and the results show all indicator loadings that have values above 0.70. so that it can confirm the construct indicator meets valid criteria. As shown in Table 1, using a threshold of 0.70, the results of the study showed a Cronbach alpha value above 0.70 which means that

Table 1.
Measurement items and results

Factor	Item	Factor Loadings	Cronbach's α	Composite reliability
Market orientation (MO)	X1.1 My company is effectively developing the market intelligence process	0,888	0,816	0,891
	X1.2 My company has a high interest in the rapid response to customer needs	0,904		
	X1.3 My company responds well to changes in the business environment	0,772		
Customer engagement (CE)	Y1.1 My company opens a dialogue with customers	0,770	0,909	0,928
	Y1.2 There is openness to customers	0,852		
	Y1.3 My company builds interactions with customers	0,859		
	Y1.4 Exchange ideas to solve customer problems	0,857		
	Y1.5 Creating together creates customer value	0,726		
	Y1.6 My company has a connection	0,731		
	Y1.7 Emotional ties with customers are tightly woven	0,837		
Innovation performance (IP)	Y2.1 Increased product compatibility with market demands	0,895	0,879	0,925
	Y2.2 Increased management involvement	0,892		
	Y2.3 Improvements to the modification of the administrative process	0,905		

Source: Author's data analysis.

all items used were reliable. And, composite reliability shows values above the threshold of 0.70 for exploratory research which means that measurement items meet the criteria for a reliable level of reliability.#

Structural Model. #Research using the bootstrap method for testing the significance of direct effects and mediation on hypotheses (Sholihin *et al.*, 2011).# Hypotheses testing of each pathway of the influence of exogenous variables on endogenous variables uses t-test and p-value, where the p-value is compared with α (5 percent). Overall, the results of the calculation of the hypothesis test by looking at the path coefficient, t-test, and p-value. If the p-value is smaller than 0.05, then the effect is declared significant, and vice versa (see Table 2).

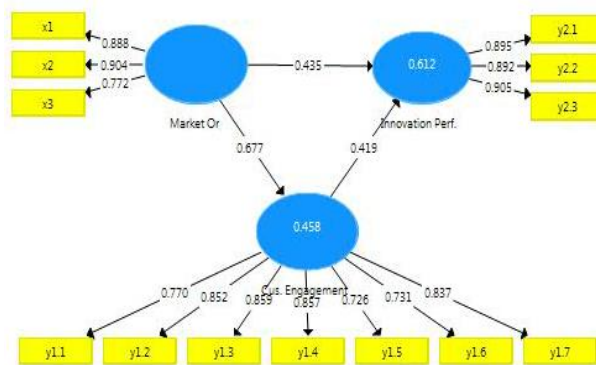


Figure 1.

Research Model

Based on the results of the analysis of the data shown, Table 2 presents the results that the MO has a positive effect on innovation performance, and the data produce a coefficient value of 0.435, statistical t value of 5.576>1.96 and p-value<0.05 ($\beta=0.435; p<0.05$), giving MO confirmation has a significant direct effect on innovation performance, H1 is supported. Furthermore, H2 predicted that MO influenced the level of customer engagement, and the data produced a coefficient value of 0.677, a statistical t-value of 20.053>1.96 and a p-value<0.05 ($\beta=0.677; p<0.05$). The result confirms that

Table 2.
Summary of hypothesis test results

Hypothesis	Path coefficient	T-statistics	Significance	R-square	Decision
H1. MO→ IP	0,435	5,576	0,000	0,612	Diterima
H2. MO→CE	0,677	20,053	0,000	0,458	Diterima
H3. CE→ IP	0,419	5,501	0,000		Diterima
The mediating role of customer engagement					
H4. MO→ CE→ IP	0,284	5,222	0,000		Partial media- tion

Remarks: MO=Market orientation; CE=customer engagement; IP=innovation performance

Source: Author’s data analysis.

MO has a positive effect on customer engagement, H2 is supported. And, H3 predicts the positive effect of customer engagement on innovation performance.

Hypothesis testing of the direct influence of customer engagement on innovation performance produce a coefficient of 0,419 and a statistical t-value of 5,501>1,96 and p-value<0,000 ($\beta=5,501; p<0,05$), hypothesis 3 is supported. Finally, the indirect effect of market orientation on the performance of innovation through mediation constructs of customer engagement shows a positive and significant coefficient ($\beta=0,284; p\text{-value}<0,05$), in which this indicates customer engagement partially mediates the relationship between market orientation and innovation performance.

First hypothesis test market orientation on innovation performance. The path coefficient of market orientation and innovation performance is positive and significant. Market orientation is a cultural and behavioral aspect of being willing to collect market information (such as information about prices, products, customers, competitors, environmental changes, and regulations) and disseminate information throughout the organization to create superior value for buyers. Efforts to design processes to gather information and disseminate customer information and to monitor the level of commitment of companies serving the needs of current and potential customers is to show the identity of market orientation behavior.

These results indicate that companies with a tendency toward market orientation make a positive contribution to innovation performance by adopting new ideas, processes, and products. This finding is in line with Roach, Ryman, & White (2014) which states that the organization’s efforts to collect relevant information, information acquisition, dissemination of information among relevant users, and utilizing information among relevant

users, and utilizing information to make decisions have a positive effect on the ability to innovate.

The second hypothesis examines the positive effect of market orientation on customer involvement, from the results of research finding market orientation has an important role in the company’s ability to build customer-company interaction. Market orientation reflects the company’s ability to build strategies and operations to respond to changing market demands, while increasing the company’s efforts to build, maintain, and manage long-term customer relationships. This finding is in line with Mamun et al. (2018) which confirm that culture and behavior understanding customer needs and desires tend to increase the company’s ability to adapt to innovative approaches and build long-term intimate relationships with customers to create superior customer value. Javalgi et al. (2006) revealed a significant association of market orientation and customer relationship management. The market orientation path coefficient has a significant positive effect on customer engagement. These result indicate the development of market intelligence effectively tends to increase the ability to build a long-term relationship with customers.

The third hypothesis examines the positive influence of customer engagement on innovation performance, the results indicate that there is a positive influence of customer involvement on innovation performance. Customer engagement refers to the company’s ability to adopt innovative approaches and efforts to build intimate long-term connections with customer that enable customers to be more loyal to the company. Customer engagement covers three main bases of activities namely the first company must have the desire to open a dialogue with customers. Second, companies must be able to interact with customers to get the latest information related to the market. Third, companies must have the ability to create

together to create ideas and new products. The path coefficient of customer engagement has a significant positive effect on innovation performance, these results indicate the company's ability to build long-term relationships with the customer in favor of positive product and management modifications in achieving superior performance and profitability. These results are following the findings of Lin, Chen, & Chiu (2010) which states that the use of profitable customer relationships to understand demand and create customer satisfaction leads organizations to develop ideas, systems, programs, products, and new services for an organization.

The fourth hypothesis examines the mediating role of customer involvement in the relationship of market orientation and innovation performance. Market orientation is a resource as a company's ability to understand, anticipate information needs and customer preferences that encourage companies to implement strategies to expand long-term relationship. Furthermore, customer involvement as a marketing capability enables the company to interact, retain existing customers and enhance the company client relationship to meet customer needs contributing to developing innovation performance.

The mediating effect of customer engagement shows that customer engagement indirectly is positive significant mediating the relationship of market orientation with performance on innovation (Table 2).

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Previously, the effects of market orientation, customer engagement, and innovation performance in one research model received limited attention. The current study tries to help fill the research gap and offer how market orientation and customer engagement contribute to the innovative performance of manufacturing SMEs in Bali.

The effect of market orientation on the performance of innovation. This study examines the performance on innovation. The findings show first, the effect of market orientation positively increases innovation performance. The higher the market orientation level of manufacturing SME managers, the stronger the company's performance on innovation in both products and processes.

The results of the study support Roach et al. (2014) which states market orientation as a more abstract

culture and real behavior that reflects values that strengthen the identity of market-oriented behavior such as gathering information, disseminating information, monitoring organizational commitment to serve consumers to be the main driver for companies to adopt, develop ideas, products, and superior design. Market orientation has a positive effect on the development of new products Zhang & Duan (2010). A market oriented culture directs companies to explore current trends, explore customer information, allocate resources and tend to increase successful product development and launch.

The effect of market orientation on the level of customer engagement. The result of this study indicates that the tendency of companies to search for information to meet the needs and expectations of customers significantly increases the frequency of consumer engagement in the context of adopting innovative knowledge and technology.

The effect of customer engagement on innovation performance. This finding shows that the company's ability to build long-term relationships with customers significantly and positively support the achievement of performance on superior product and process innovations. Customer engagement is the intensity of the relationship and participation of individuals with the organization. Customer engagement as a psychological process is reflected in the level of customer -company participation and interaction with a focus on customer satisfaction (Lin et al., 2010). The results of the study are following the findings of (Vivek, Beatty, & Morgan, 2012) who say customer involvement as the ability to build relationships and repeat interactions tends to strengthen to provide new and innovative ideas.

The mediating role of customer engagement. Customer engagement that reflects the ability companies to build and engage their customers in making shared value creation decisions determines a high level of performance on innovation. Furthermore, customer engagement is determined by the market orientation culture. A culture of caring about the needs and desires of customers and efforts to satisfy them through the creation of shares value encourages customer engagement. Managers need to utilize their competitive resources through strengthening market oriented culture and behavior so that customer engagement increases, and contributes to innovation performance.

This research contributes to existing studies of strategic marketing in two main ways. First, this research can show that customer engagement explains the mechanism through which market orientation practices must influence innovation performance. Market orientation as a culture and values embraced in understanding and desires to provide superior customer value that triggers the growth of information seeking behavior and utilizing information into new knowledge tends to increase the ability to engage customers in to generate ideas, processes, and products. Second, on the other hand, a high level of market orientation plays a key role in building long-term relationships with profitable customers as an orientation of the company's marketing strategy.

The purpose of this study is to explore the extent to which market orientation and customer engagement strategies can contribute to business performance. Overall analysis and discussion results indicate that market orientation and customer engagement influence innovation performance. Likewise, the customer engagement variable can partially mediate the relationship between market orientation and innovation performance. However, the effect of market orientation on customer engagement and innovation performance still received little attention. The results of this study help add insight and understanding of managers about the mechanism of how market orientation practices and customer engagement in creating value contribute to the export-oriented SME innovation performance. This research develops the RBV theory that explains the economic resources of a company capable of creating a competitive advantage (Barney, 1991).

Market orientation as a superior company resource shows generation behavior and information dissemination to strengthen understanding of customer needs and values that can improve innovation performance directly. The results of this study are consistent with the findings of Padilha & Gomes (2016) who conducted a study of textile contexts where market orientation practices positively influence performance on product innovation and process innovation.

The study suffers from a number of shortcomings that must be considered and, in future research possibly addressed. First, this study used the company such as wood and textile

as a research sample. Consequently, it would be interesting to investigate whether the finding in this study are replicated in specific industries. Future research is expected to use all manufacturing companies registered with the Department of Trade and Industry. Thus, it can detect the characteristics of companies in the manufacturing sector that affect regional economic growth. Second, developing a market orientation is considered a long-term endeavor that does not necessarily produce immediate pay-off. Consequently, may investigate the effects of market orientation, from other perspective, on new product and processes innovation. Finally, future research may investigate that other moderate variables into our research model is also very promising research field in the future research.

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