

## THE INFLUENCE OF PRODUCT INNOVATION AND MARKET ORIENTATION ON COMPETITIVE ADVANTAGE AND BUSINESS PERFORMANCE: AN EMPIRICAL STUDY OF SONGKOK RECCA CRAFTSMEN IN BONE REGENCY

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### Article history:

Received

2 May 2025

Revised

19 May 2025

Accepted

11 August 2025

Available online

30 September 2025

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### Abstract:

**Background:** Songkok Recca, a traditional craft from Bone Regency, South Sulawesi, holds significant cultural value and continues to be used in traditional ceremonies.

In addition to its high quality and aesthetic value, this Songkok has commercial appeal in local, national, and international markets. This Songkok has long been one of the main sources of livelihood for a number of craftsmen in Bone. However, in facing the era of modernization, globalization, and increasingly tight market competition, not all traditional craftsmen are able to survive and thrive.

**Objective:** to empirically test the influence of market orientation, product innovation and competitive advantage on the performance of the Recca songkok craftsmen's business in Bone Regency.

**Design/methodology/approach:** This study employs a quantitative approach by distributing questionnaires to respondents. The population consists of all Recca Songkok craftsmen in Awampone District, Bone Regency, totaling 250 individuals. Sampling was carried out using inclusion criteria, resulting in a total sample of 200 respondents. The analysis technique used in this study is Structural Equation Modeling (SEM).

**Findings/Results:** Directly, market orientation and product innovation have a positive and significant effect on competitive advantage. Product innovation also has a significant effect on business performance, while market orientation does not have a significant effect on business performance. Indirectly, both variables have a significant effect on business performance through competitive advantage.

**Conclusion:** Market orientation and product innovation have a significant influence on the competitive advantage of Songkok Recca artisans in Bone Regency. Market orientation enables artisans to align products with consumer preferences, while product innovation enhances value creation and strengthens competitiveness. However, only product innovation has been proven to have a direct effect on improving business performance, while market orientation does not show a significant direct effect on business performance.

**Originality/value (State of the art):** Market orientation has not had a significant impact on improving the performance of Recca songkok craftsmen in Bone Regency.

**Keywords:** market orientation, product innovation, competitive advantage, business performance, Songkok Recca

### How to Cite:

Yasin, N. A., Sibali, A., Kurniawaty, Afriyani, & Akal, A. T. U. (2025). The influence of product innovation and market orientation on competitive advantage and business performance: An empirical study of songkok recca craftsmen in Bone Regency. *Jurnal Aplikasi Bisnis dan Manajemen (JABM)*, 11(3). <https://doi.org/10.17358/jabm.11.3.981>

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## INTRODUCTION

The Songkok Recca household industry has been well-known since its inception until today. Historically, the Songkok Recca was made by residents of Awangpone District, Bone Regency in 1683, and it was officially designated as a royal cap for kings, nobles, and royal officials in 1931 by the 32nd King of Bone, Lamappanyukki. Initially, the Songkok Recca was only allowed to be worn by the Bugis Bone tribe. However, in 1986, it was patented as the Songkok To Bone. Over time, however, it has become accessible for anyone to wear. The Songkok Recca also carries symbolic value, cultural identity, and serves as a marker of social status within Bugis society. Therefore, its existence is important not only in the context of the creative economy but also in the preservation of local culture.

This songkok is a traditional cap and a flagship product of Bone Regency at the local, national, and international levels, with a relatively high selling price ranging from tens of thousands to tens of millions (rupiah). However, along with the passage of time and modernization, the number of Songkok Recca artisans has significantly declined. Various sources indicate that the regeneration of artisans has not been optimal. According to data from the Department of Cooperatives and SMEs of Bone Regency in 2024, the number of artisans has continued to decline each year, accompanied by a decrease in the number of products from 2019 to 2024. The number of Songkok Recca MSME actors in Bone Regency, currently concentrated in the Awangpone District, has declined over the past six years from 2,684 artisans in 2019 to 2,025 artisans in 2024. This decline occurred despite the increasing demand for Songkok Recca products, which actually holds the potential for success and profitability for artisans and business actors.

Younger generations are less inclined to continue this tradition, perceiving it as economically unviable, time-intensive, and underappreciated compared to other occupations. In addition, the emergence of cheaper, mass-produced alternative products has further reduced the competitiveness of Songkok Recca in the market.

Several scholarly studies, such as those by Ariandi (2022), Siri et al. (2023) dan Sumantri, Dody Syam & Faisal (2023) have attempted to capture the historical aspects, cultural values, and production process of the Songkok Recca, as well as the challenges in its preservation. However, these studies are generally

still descriptive-qualitative in nature and have not explored broader and deeper aspects. This research offers novelty by specifically focusing on Songkok Recca artisans as part of the traditional craft industry, which has previously received little attention in quantitative studies. In addition, this study proposes a new approach by examining the role of competitive advantage as a mediating variable in the relationship between market orientation and product innovation on business performance, thereby providing a theoretical contribution to understanding the dynamics of traditional industry sustainability amid modern competition.

Several other issues that need to be addressed in order to improve business performance include the lack of design innovation (Temeltaş, 2017), with products still maintaining classic designs without much modern variation (Zhang et al. 2016). In addition, competition with factory-made products is also a challenge, as factory-produced songkoks, which are cheaper, have become an alternative for buyers (Vadakepat & Al Khateeb, 2012). There is a lack of digital marketing, and many artisans still rely on conventional sales methods without implementing any online marketing strategies (Vaculčíková et al. 2020). These artisan businesses should be further developed and strengthened, as they have the potential to provide better economic contributions for the artisans. Therefore, artisans need to recognize and understand the importance of market orientation, product innovation, and competitive advantage in order to improve their business performance.

Meanwhile, previous studies have shown that market orientation and product innovation are key factors in driving improvements in business performance, particularly in the digital creative sector (Safira & Sukresna, 2024). Market orientation enables business actors to better understand and meet consumer needs, while product innovation allows them to differentiate themselves from competitors. The synergy between the two can create a sustainable competitive advantage in responding to market dynamics (Pramuki & Kusumawati, 2024).

In facing increasingly intense business competition, Songkok Recca artisans are required to not only to preserve traditional craftsmanship but also to comprehensively understand modern market dynamics to ensure the sustainability and growth

of their businesses. Market orientation becomes a crucial element as it enables artisans to anticipate changes in consumer preferences, respond quickly to market demands, and adapt their business strategies accordingly (Wilson & Liguori, 2022 ; Panasiuk, 2021; Redka & Ponomarenko, 2022). Market orientation should not only enhance customer satisfaction and loyalty but also provides a foundation for sustainable competitive advantage. Although some artisans are still oriented toward non-commercial values (Chutia, 2017), the pressure from the influx of machine-made and imported products has pushed them to become more competitive and start adopting market orientation principles (Siregar et al. 2021; Maruta et al. 2017). Angelina & Handoyo (2024) in their study showed that the stronger the market orientation possessed by artisans, the higher the business performance achieved.

Furthermore, product innovation is key to maintaining the sustainability and relevance of traditional crafts. Innovation is not only related to technology but also includes design, processes, and product value-added. Innovation can address social and economic challenges through the creation of new value that aligns with market trends (Shahinyan, 2024). It also contributes to improving efficiency and the company's adaptability in facing business disruptions (Zahrebelna et al. 2024). In the context of MSMEs and handicrafts, product innovation serves as a strategic framework to meet evolving customer expectations and strengthen market positioning (Lobo & Samaranayake, 2020).

Equally important, competitive advantage is a distinguishing factor that enables Songkok Recca artisans to compete in both local and global markets. This advantage may stem from product quality, unique design, cultural storytelling, and personalized service (Nguyen et al. 2021). In the context of traditional crafts, competitive advantage can be built through the strengthening of local values, proper branding strategies, and adaptive capabilities in responding to market changes (Distanont, 2020). This strategy becomes increasingly relevant in the era of globalization, where competition comes not only from local players but also from mass-produced foreign products. Previous studies have emphasized that competitive advantage can be achieved through human resource development, knowledge management, and the adoption of information technology (Kraja & Osmani, 2015; Behl et al. 2022; Chabalala et al. 2024; Okoli et al. 2024; Aneke & Garba, 2024).

Business performance is a key indicator in assessing the success of a business, encompassing operational efficiency, profitability, growth, and competitiveness. According to Artha & Satriadhi, 2023) business performance includes metrics such as revenue, profit margins, and return on investment. In addition, aspects such as customer satisfaction, brand reputation, and innovation capability also play a significant role in supporting long-term success. Several studies show that market orientation, innovation, as well as customer satisfaction and loyalty, have a significant relationship with improved business performance (Yu et al. 2024 : Alqahtani et al. 2024; de Andreis, 2023; Azhakaraja, 2020). Improved business performance drives growth, enhances competitiveness, and ensures business sustainability especially in the MSME sector such as the craft and culinary industries (Munawar et al. 2023).

In response to the low competitiveness and stagnant business performance of artisans, this study employs a quantitative approach to empirically examine the effects of market orientation, product innovation, and competitive advantage on the business performance of Songkok Recca artisans. Furthermore, the study analyzes the mediating role of competitive advantage in the relationship between market orientation and innovation on business performance. Through this approach, the study should not only offer data-driven solutions but also provides practical and theoretical contributions to the preservation and development of a competitive and sustainable traditional craft industry amid the dynamics of the modern market.

The expected outcome of this study is the acquisition of empirical evidence regarding the positive influence of market orientation, product innovation, and competitive advantage on the business performance of Songkok Recca artisans. The study is also expected to demonstrate that competitive advantage plays a significant mediating role in strengthening the relationship between market orientation and product innovation toward improved business performance. With these findings, the study is anticipated to provide a theoretical contribution to the development of marketing management and entrepreneurship knowledge, particularly in the context of the traditional craft industry. Additionally, from a practical standpoint, the results of this research are expected to serve as a basis for consideration by artisans, MSME facilitators, and local governments in formulating strategies to enhance competitiveness and ensure the sustainability of culturally based local craft enterprises amid the challenges of the modern market.

## METHODS

In this study, the population consists of 250 Songkok Recca artisans located in the Awangpone District, Bone Regency, South Sulawesi. However, not all members of the population could be included in the sample. Therefore, inclusion criteria were applied to filter the sample for this study. The inclusion criteria used were: active artisans, those who have been running their business for at least three years, and those who are able to read and understand the contents of the questionnaire independently without assistance. Based on these criteria, a preliminary pre-screening stage revealed that only 200 artisans met all the requirements. The remaining 50 did not qualify due to reasons such as no longer actively producing, having been in business for less than three years, or having difficulty reading or understanding the questionnaire.

The data in this study were collected using a Likert-scale-based questionnaire, which was distributed directly to the respondents. The instrument in this study was designed to measure the business performance of Songkok Recca artisans by assessing the influence of the variables: market orientation, product innovation, and competitive advantage. The indicators of each variable served as the basis for the questionnaire design and were supported by interviews to obtain more in-depth data. The variables and indicators include: 1) Market orientation refers to a company's efforts to obtain market information related to customers, competitors, and inter-functional coordination within the organization (Lekmat et al. 2018; Fernandes et al. 2020) with indicators including customer orientation, competitor orientation, and inter-functional coordination within the organization; 2) Product innovation refers to innovation as a combination of various interrelated processes aimed at producing outcomes that differ from previous products (Saunila, 2020; Haug et al. 2023) with indicators including design based innovation, material development-based innovation, and effort-reduction based innovation; 3) Competitive advantage is a company's ability to create superior value by utilizing its available resources

(Kiyabo & Isaga, 2020; Rua et al. 2018) with indicators including product superiority, brand/image superiority, and cost advantage; 4) Business performance refers to the achievements attained by a business organization, as reflected in its performance outcomes (Bate & Pittaway, 2024) with indicators including sales growth, customer growth, and profitability.

The data analysis technique in this study uses a descriptive quantitative approach by applying the Partial Least Squares Structural Equation Modeling (PLS-SEM) method, which is a type of non-Covariance-Based SEM (non-CB SEM). This method was chosen because it fits the characteristics of the study, namely a medium sample size (200 respondents) and a structural model involving several latent constructs and complex path relationships, including mediation effects

## Hypothesis

- H1: Market orientation has a significant effect on competitive advantage
- H2: Product innovation has a significant effect on competitive advantage
- H3: Market orientation has a significant effect on business performance
- H4: Product innovation has a significant effect on business performance
- H5: Market orientation has a significant effect on business performance through competitive advantage
- H6: Product innovation has a significant effect on business performance through competitive advantage.

In an effort to improve business performance, Songkok Recca artisans should not only need to maintain the traditional quality of their products but also have strong market orientation, be capable of product innovation, and build competitive advantage. This study is based on the assumption that these three variables influence business performance both directly and indirectly. The research model is presented in Figure 1.

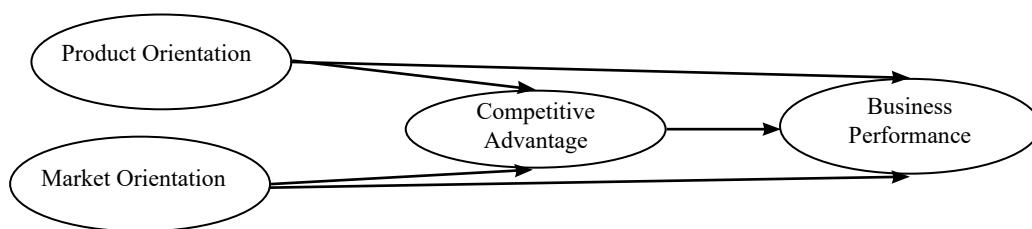


Figure 1. Research model

## RESULTS

The respondent profile is presented to describe the demographic and artisan characteristics, such as gender, age, education level, and length of business, as shown in Table 1. Based on data from 200 respondents, the majority of Songkok Recca artisans are female, totaling 138 people (69%), while males account for 62 people (31%). In terms of age, most artisans are between 31–40 years old, totaling 78 people (39%), followed by the 41–50 age group with 60 people (30%), the 21–30 age group with 34 people (17%), and those over 50 years old with 28 people (14%). Regarding education level, most respondents completed senior high school or equivalent, totaling 94 people (47%), followed by elementary school graduates with 52 people (26%), junior high school graduates with 38 people (19%), and higher education graduates (Diploma/Bachelor's

degree) with 16 people (8%). This indicates that most artisans have a secondary level of education. In terms of business duration, most respondents have been running their businesses for 6–10 years, totaling 86 people (43%), followed by those who have been in business for more than 10 years with 58 people (29%), 3–5 years with 42 people (21%), and less than 3 years with 14 people (7%). This indicates that the majority of artisans have considerable experience in the Songkok Recca craft business.

### Normality Test

In PLS-SEM, normality is not strictly required, but skewness and kurtosis values between -2 and +2 are acceptable (Hair et al. 2014). Table 2 shows that all data has a distribution that is still within normal limits.

Table 1. Respondent characteristics

Characteristics	Category	Number (people)
Gender	Male	62
	Female	138
Age	< 25 years	18
	25–35 years	54
	36–45 years	73
	> 45 years	55
Last Education Level	Did not complete elementary school	7
	Completed elementary school	48
	Completed junior high school	60
	Completed senior high school	58
	Diploma/Bachelor's degree	27
Length of Business	< 5 years	35
	5–10 years	79
	11–15 years	52
	> 15 years	34

Table 2. Normality Test

Name	Excess kurtosis	Skewness
Consumer Orientation (X1.1)	0.31	-0.631
Competitor Orientation (X1.2)	-0.049	-0.58
Inter-functional Coordination (X1.3)	0.059	-0.706
Design Based (X2.1)	0.06	-0.62
Material Development (X2.2)	0.23	-0.746
Production Process Innovation (X2.3)	0.147	-0.676
Product uperiority (Y1)	-0.049	-0.58
Image Superiority (Y2)	0.059	-0.706
Cost Superiority (Y3)	0.194	-0.705
Sales Growth (Z1)	0.059	-0.706
Customer Growth (Z2)	-0.572	-0.415
Profit	0.06	-0.62

## Discriminant Validity Test

Discriminant validity aims to test the extent to which a construct is empirically different from other constructs in the model. In PLS-SEM, one way to do this is by looking at the Fornell-Larcker Criterion value (Table 3). This test compares the square root of the AVE (Average Variance Extracted) of each construct with the correlation between the other constructs, with the requirement that the square root of the AVE for each construct must be greater than the correlation of that construct with the other constructs.

All  $\sqrt{AVE}$  values (diagonal values) are greater than the off-diagonal values (correlation), so the discriminant validity is fulfilled. Convergent validity is known through loading factor. This value can be seen from

Figure 2. An instrument is said to meet the convergent validity test if it has a loading factor above 0.5.

Based on the Table 4, it can be seen that the discriminant reliability (AVE) value for the Market Orientation variable is 0.642, the Product Innovation variable is 0.711, the Competitive Advantage variable is 0.666, and the Business Performance is 0.748. Based on the calculation of discriminant reliability (AVE), all items are declared reliable in measuring their latent variables. Then the composite reliability value on the Market Orientation variable is 0.790, the Product Innovation variable is 0.904, the Competitive Advantage variable is 0.910, and Business Performance is 0.880. These results show a value greater than 0.7. Thus, based on the calculation of composite reliability, all items are declared reliable in measuring their latent variables.

Table 3. Fornell-Larcker Criterion

	Market Orientation	Product Innovation	Market Orientation	Business Performance
Market Orientation	0.801			
Product Innovation	0.751	0.843		
Market Orientation	0.247	0.303	0.816	
Business Performance	0.638	0.456	0.151	0.865

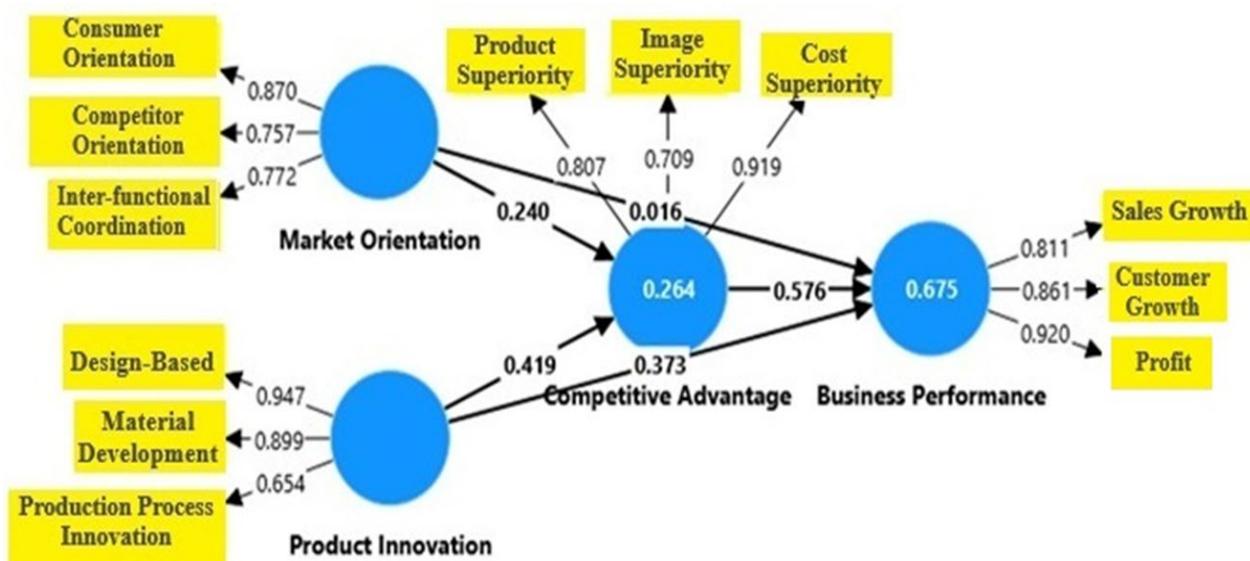


Figure 2. SEM –PLS (Outer Model) Measurement Model

Furthermore, the Cronbach's Alpha value on the Market Orientation variable is 0.730, the Product Innovation variable is 0.833, the Competitive Advantage variable is 0.759, and Business Performance is 0.880. These results show a value greater than 0.6. Thus, based on the Cronbach's Alpha calculation, all sub-variables are declared reliable in measuring their latent variables.

The R-square of the Competitive Advantage variable is 0.264 or 26.4%. This shows that the diversity of the Competitive Advantage variable can be explained by the Market Orientation variable, and Product Innovation by 26.4%. The R-square of the Business Performance variable is 0.675 or 67.5%. This can show that the diversity of the Business Performance variable

can be explained by Market Orientation, Product Innovation, and Competitive Advantage by 67.5%, while the remaining 32.5% is the contribution of other variables not discussed in this study.

Table 5 shows that market orientation and product innovation exert a positive and significant direct effect on competitive advantage. Product innovation also has a significant positive effect on business performance, whereas market orientation does not. Furthermore, for indirect influences, it was found that market orientation has a significant effect on business performance through competitive advantage, product innovation has a significant effect on business performance through competitive advantage.

Table 4. Discriminant reliability test results

	Cronbach's alpha	Composite reliability	AVE	R Square
Market Orientation	0.730	0.790	0.642	
Product Innovation	0.796	0.904	0.711	
Competitive Advantage	0.759	0.910	0.666	0.264
Business Performance	0.833	0.880	0.748	0.675

Table 5. Coefficient of direct and indirect influence test results

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values	Information
Market Orientation → Competitive Advantage	0.240	0.245	0.067	3.610	0.000	Sig
Product Innovation → Competitive Advantage	0.419	0.422	0.076	5.545	0.000	Sig
Competitive Advantage → Business Performance	0.576	0.571	0.062	9.301	0.000	Sig
Market Orientation → Business Performance	0.016	0.018	0.038	0.414	0.339	No Sig
Product Innovation → Business Performance	0.373	0.379	0.057	6.508	0.000	Sig
Market Orientation → Competitive Advantage → Business Performance	0.138	0.139	0.039	3.580	0.000	Sig
Product Innovation → Competitive Advantage → Business Performance	0.242	0.238	0.036	6.801	0.000	Sig

## Market orientation and product innovation have a significant influence on competitive advantage of recca songkok craftsmen in Bone Regency

Market orientation is an approach that focuses on understanding, providing the needs and desires of consumers to provide satisfaction. Of course this is very important in maintaining and increasing competitive advantage in the midst of increasingly tight competition. Unfortunately, many of these craftsmen lack understanding and lack sufficient access to broader market information. They focus more on the production process and skills of making songkok that have been passed down from generation to generation without considering changes in market preferences and trends. The lack of knowledge about consumer behavior or market trends makes craftsmen less aware of the importance of adjusting products to market desires. The next weakness of craftsmen is the lack of resources, both in terms of time, energy, and costs. They work with limited resources, find it difficult to conduct market research or even perform market needs analysis and concentrate more on day-to-day production and operations rather than understanding larger market trends. This research is in line with the research of Dahmiri et al. (2024), and Buli (2017) which states that market orientation has a significant influence on marketing performance in MSMEs, because market orientation is not just a strategy, but is the main foundation in building sustainable competitive advantage.

From the results of the indicator analysis that has the highest value of the market orientation variable is consumer orientation with an indicator value of 0.870. This is true because so far the craftsmen have only focused on Consumer Orientation by trying to understand what consumers want in terms of design, material, size, and quality of the songkok. Every consumer who comes has different preferences, both in terms of tradition and modern style. By understanding these needs, craftsmen can produce songkok that are more in line with consumer expectations, thereby increasing customer satisfaction and triggering repeat purchases. Bezmaternykh & Fayzrakhmanova (2023) said that a consumer-oriented approach ensures that services and products are in accordance with consumer preferences, and leads to high satisfaction, then Redka & Ponomarenko (2022) said that consumer orientation is very important because it prioritizes the needs and expectations of clients, so that consumers are satisfied. Of course this leads to repeat purchases.

However, there are also quite a few craftsmen who have started to try to develop their businesses by improving their market orientation. With market orientation, they can adapt more quickly to dynamic market trends and demands, in addition to strengthening their brand and product image. Craftsmen who are able to adapt to market demand and prioritize quality will be more easily recognized and remembered by consumers, both locally and nationally. For example, if there is a change in preference for traditional or cultural events that require a songkok with a certain design or model, craftsmen can respond more quickly to create relevant products. The better the market orientation of the craftsmen, the better the competitive advantage of their business.

Furthermore, the product innovation variable has a significant influence on the competitive advantage of recca songkok craftsmen. Product innovation plays a very important role in increasing competitive advantage, especially for recca songkok craftsmen in Bone Regency. Product innovation refers to product development or improvement, improving quality, or offering something different and better than competing products. For songkok craftsmen, innovation is not only limited to the design aspect, but also involves various elements, such as raw materials, production techniques, and marketing methods. This finding is in line with the research results of Євсейцева & Mihalatii (2024), Adewumi et al. (2024) which state that product innovation is significantly correlated with competitive advantage. Every business unit must be able to innovate to increase competitiveness in the market, especially in the manufacturing and service industries..

The results of the study found that the indicator with the largest value of the product innovation variable was design-based innovation with a value of 0.947. This is reflected in the field that these craftsmen are indeed able to innovate by designing the pattern and color of the recca songkok weaving without eliminating its traditional value. The ability to create new designs and patterns is a form of product innovation which is one form of their competitive advantage. In an increasingly competitive industry, innovation in design and patterns can be a key differentiator that allows artisans to attract more consumers and maintain the relevance of their products in the market. By creating new variations of designs or patterns, craftsmen can reach various market segments, both those who like classic and traditional designs, as well as those who are more modern or trendy.

For example, craftsmen can create songkok with distinctive ethnic motifs combined with contemporary design elements, which can attract young consumers who want to preserve cultural heritage but also follow fashion trends. In line with the opinions of Lin (2022) and Huang & Anderson (2019) that new designs on traditional craft products can increase consumer interest, create new markets, and add value. New designs also help traditional businesses compete with mass production, ensuring sustainability and revitalization of local communities. Although product innovation has many benefits, songkok recca craftsmen in Bone Regency also face some shortcomings in terms of implementing innovation. Product innovation often requires knowledge of new technologies or current design trends. Many artisans lack the knowledge needed to innovate effectively. Without skills in digital design, advanced production techniques, or market research, they may struggle to develop new products that can compete in the global marketplace. For them, excessive innovation can change the traditional characteristics of the songkok recca, which is a strong cultural identity. Sometimes Craftsmen feel trapped between maintaining tradition and adopting change, this causes confusion or concern about the sustainability of innovation without losing the cultural value inherent in the product.

### **Market orientation has an insignificant influence on business performance, and product innovation has a significant influence on business performance in recca songkok craftsmen in Bone Regency**

From the results of the study, it was found that market orientation did not have a significant effect on the business performance of the recca songkok craftsmen in Bone Regency, because  $t$  count  $< t$  table or  $0.414 < 1.692$ . Many factors can cause this to happen, including because most craftsmen do not understand the concept of business orientation so that its implementation is still less than optimal. They tend to focus more on the production process without considering marketing strategies or customer relationships. Sometimes the adopted business orientation does not match the needs or characteristics of the local market. For example, using a modern approach to marketing that is less effective if consumers still tend to transact traditionally. Souisa (2018) and Octavia & Ali (2017) said the same thing that market orientation does not significantly affect business performance when associated with differences in business size, industry, and cultural context.

The dominant indicator of business orientation is consumer orientation, and the dominant indicator of business performance variables is profit, if these two indicators are linked then the clear relationship is that songkok recca may have an established market, where consumers buy based on habits, traditions, or cultural factors, not because of the focus of consumer orientation. In this context, efforts to better understand consumer needs may not have a major impact because consumption patterns are already stable. Likewise, with many other craftsmen offering similar products, consumer orientation may not be enough to differentiate them from competitors. In a highly competitive market, price competition tends to be more dominant. And most importantly, many traditional craftsmen focus more on business sustainability than pursuing maximum profit, so most of these craftsmen prioritize customer relationships without maximizing profitability.

In contrast to product innovation, this variable has a significant influence on business performance for recca songkok craftsmen in Bone Regency, where the calculated  $t$  value is  $> t$  table or  $6.508 > 1.692$ . If product innovation is proven to have a significant influence on the business performance of recca songkok craftsmen in Bone Regency, then this shows that product renewal and development play an important role in increasing competitiveness and business sustainability. According to craftsmen, innovation, such as variations in design, color, or material, can attract younger market segments or consumers from outside the region who want traditional products with a modern touch. There are even some craftsmen who have partnered with local and national designers to create songkok models that are more attractive to certain segments, such as young people or professionals, so that a new product is born where there is a combination of innovation with a unique cultural story about the songkok recca to attract a market that appreciates cultural values. In line with research from Turnbull et al. (2019) and Peredy & Gao (2023) which states that both product and process innovation are very effective in increasing turnover, employment, and productivity growth. The complexity of product innovation is considered a key factor in increasing company competitiveness, market share, and economic efficiency, so creativity is very necessary in this regard (Tanoto & Soenyoto, 2024).

Design based innovation is the most dominant indicator of product innovation variables, and profit is the dominant indicator of business performance variables.

If design-based innovation is proven to have a significant effect on the profits of Recca songkok craftsmen, this shows that aesthetic elements and creativity in products play an important role in increasing sales value and attracting consumer interest. An attractive or unique design makes the songkok recca have a greater appeal, so that craftsmen can set a premium price. In addition, certain modern or personalized designs can attract the younger generation, urban consumers, or other market segments who want traditional products with a new touch. Songkok recca with unique and aesthetic designs are usually valued higher by consumers because they see the artistic value and exclusivity, and songkok recca with attractive designs are easier to market, both directly and through digital platforms such as social media or e-commerce.

### **Market orientation has a significant influence on business performance through competitive advantage, and product innovation has a significant influence on business performance in recca songkok craftsmen in Bone Regency**

From the research results, it was found that market orientation has a significant effect on business performance through the competitive advantage of the recca songkok craftsmen in Bone Regency, because  $t \text{ count} > t \text{ table}$  or  $3.580 > 1.692$ . Market orientation plays an important role in improving business performance, especially in the context of recca songkok craftsmen. This is because market orientation includes the ability of a company or craftsman to understand customer needs, monitor competitor activities, and adapt to market changes. According to these craftsmen, by being market-oriented, craftsmen can develop innovations in design, materials, or recca songkok production techniques that provide added value to customers. This innovation creates a competitive advantage because the product becomes more unique compared to competitors, in addition, market orientation allows recca songkok craftsmen to better understand customer preferences, such as the design, quality, or price they want. By understanding these needs, craftsmen can create more appropriate products, increase customer satisfaction, and strengthen their loyalty. The competitive advantage resulting from this market orientation ultimately improves business performance in the form of increased sales, market share growth, and higher profits. Craftsmen who successfully integrate market orientation into every aspect of their business

tend to have better business sustainability in the future. In conclusion, market orientation encourages songkok recca craftsmen to create unique value for customers, which then increases their competitiveness in the market. This competitiveness is the main key to achieving and maintaining optimal business performance.

Talaja et al. (2017) and Achmad et al. (2022), emphasized that market orientation directly affects competitive advantage, its impact on business performance may not always be significant without the mediating effect of competitive advantage. They emphasized the importance of market orientation in creating competitive advantage and ultimately improving business performance.

Furthermore, product innovation has a significant effect on business performance through the competitive advantage of the songkok recca craftsmen in Bone Regency. This can be proven by the  $t$ -count value  $> t$ -table, or  $6.801 > 1.692$ . The significant influence of these three relationships is because the design innovation of traditional songkok recca craftsmen can introduce new motifs that still maintain local cultural values, such as lifting the typical Bone elements, this creates differentiation that is difficult for competitors to imitate. Songkok recca designed according to the taste of the younger generation or modern formal needs will be more easily accepted by the market. Some of the methods used by these craftsmen include completing the songkok with a premium packaging box or making the songkok recca as a typical cultural souvenir marketed to tourists. What is less realized by craftsmen is that unique, innovative products with high cultural value can more easily penetrate the international market by utilizing digital marketing technology, such as social media or e-commerce. Traditional product innovations can be marketed more widely and attract the attention of global consumers. Traditional craftsmen of songkok recca in Bone Regency who integrate innovation in the production process can create a strong competitive advantage. This advantage should not only support business continuity, but also increases the attractiveness and relevance of songkok recca as a local cultural product that has high economic value in the national and international markets. Research consistently shows that innovation, especially product innovation, has a positive impact on business performance both directly and indirectly through competitive advantage. Various studies have shown that product innovation has a

significant positive effect on business performance (Saraswati & Sudarmiati, 2024 ; Gwee & Giantari, 2021; Murniningsih et al. 2023). Furthermore, product innovation increases competitive advantage which in turn has a positive impact on business performance

### Managerial Implication

For traditional craftsmen, market orientation is not just a choice, but a strategic necessity. Without understanding the market, traditional products can lose out or be considered obsolete. With a strong market orientation, craftsmen can preserve culture while developing economically. For traditional craftsmen, innovative products are a bridge between preserving culture and adapting to the needs of the modern market. Innovation does not have to eliminate traditional values, but rather process them to be more relevant and competitive. This is the key to surviving and developing in business, because innovative products are more in demand and can help expand the market.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

Based on the research findings, it can be concluded that market orientation and product innovation have a significant influence on the competitive advantage of Songkok Recca artisans in Bone Regency. A strong market orientation enables artisans to accurately understand customer needs and preferences, while product innovation adds value and differentiation that enhance the appeal and competitiveness of the products in the market. However, the study also found that market orientation does not have a direct and significant effect on business performance, in contrast to product innovation, which has been proven to contribute positively to improving business performance in terms of sales growth, customer satisfaction, and competitive positioning.

Safira & Sukresna (2024) emphasize the importance of synergy between market orientation and innovation as a foundation for building sustainable competitive advantage. However, the results of this study show differences in the influence of market orientation

on business performance. The findings of this study indicate that understanding the market alone is not able to directly drive improved business performance if it is not accompanied by adaptive strategies and adequate distribution systems. This is in line with D'Souza et al. (2022) who stated that in the MSME sector, limited resources, managerial capabilities, and market access often hinder the effectiveness of market orientation in achieving performance. Conversely, the results of this study align with the findings of Pantjologiningroem et al. (2022) who emphasized that innovation plays a key role in increasing the productivity and competitiveness of small businesses.

Theoretically, these findings broaden the understanding within the framework of the Resource-Based View and Dynamic Capabilities Theory by demonstrating that internal capabilities such as innovation and market orientation do not automatically lead to improved business performance without competitive advantage as a mediating variable. This approach enriches the model proposed by Shahinyan (2024) which emphasizes the importance of product differentiation in creating sustainable competitive advantage before it can have an impact on business performance.

Practically, this study provides guidance for stakeholders involved in the development of MSMEs, particularly in the cultural-based handicraft sector. Artisans should be encouraged to strengthen product innovation through designs, materials, and production processes that align with market trends. Market orientation must be accompanied by concrete strategies, such as improving managerial capacity, strengthening distribution networks, and utilizing digital technology. Local governments, MSME support institutions, and educational institutions need to collaborate in providing training, access to capital, and sustainable support for innovative business development.

Thus, it can be concluded that product innovation is a key factor in improving business performance, while market orientation plays an important role in creating competitive advantage, although it is not yet effective without the support of other factors. Competitive advantage serves as a strategic bridge linking these two variables to the improvement of business performance among Songkok Recca artisans in Bone Regency.

## Recommendations

Some suggestions that researchers can provide for further research are that this research can be used as a basis for further studies with a wider coverage area or with a qualitative approach to explore more deeply other factors that influence business performance, and further researchers can consider external factors such as policy support and technological developments.

**FUNDING STATEMENT:** This research did not receive any specific grant from public, commercial, or not-for-profit funding agencies.

**CONFLICTS OF INTEREST:** The author declares no conflict of interest.

**DECLARATION OF GENERATIVE AI STATEMENT:** During the preparation of this work the authors used ChatGPT in order to check grammar and polish text. After using this tool/service, the authors reviewed and edited the content as needed and take(s) full responsibility for the content of the publication.

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