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The Role of Absorptive Capacity on Business Perform-ance in Distribution of Creative Industry

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Abstract

Purpose: This study discusses the creative industry phenomenon which has different business characteristics both from resources and production processes to distribution. The study intends to analyze the effect of entrepreneurial orientation and market orientation on business performance by using absorptive capacity as a mediator. **Research design, data, and methodology:** Using the quantitative method, data were collected from 97 respondents, who are managers or owners of creative industry businesses in Makassar City, South Sulawesi, Indonesia. Data analyzed used Partial Least Square - Structural Equation Model. **Results:** The results of this study reveal that entrepreneurial orientation has no significant effect on business performance and has indirectly a trough absorptive capacity. Market orientation has a significant effect on business performance and indirectly through absorptive capacity. Another result is that absorptive capacity has a significant effect on business performance. **Conclusions:** When absorptive capability stresses the assimilation and exploitation of knowledge and market intelligence that has been learned to boost business performance improvements, market orientation and entrepreneurial orientation offer knowledge and experience to business processes including the creation of value distribution in the creative industries.

Keywords : Entrepreneurial Orientation, Market Orientation, Absorptive Capacity, Business Performance, Creative Industry Distribution.

JEL Classification Code: L25, L26, M13, M31

1. Introduction

Currently, there are more than 8.2 million creative businesses in Indonesia, which are dominated by culinary, fashion, and craft businesses, which are the leading sub-sectors that make a major contribution to the national GDP. In addition, there are the creative economy sub-sectors with the fastest growth in film, animation video, performing arts, and visual communication design, which are priority sub-sectors and act as drivers for other sub-sectors. The rapid growth in this sector is supported by the increasing adoption of digital technology in society.

Since the late 1990s, when developed countries changed their production priorities from goods and services to ideas and knowledge to adapt their distribution strategy with businesses in a knowledge-related direction to sustain economic growth, the importance of the economy or creative industries has been widely acknowledged.

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(Mylonas & Petridou, 2018). To achieve high-income economic status, a nation with plentiful resources, like Indonesia, needs to use those resources wisely and productively. To do this, it should promote alternative sectors that support production activities and the distribution of goods and services. (Sanusi & Connell, 2018).

Because it includes such a wide variety of sectors kinds, the creative industry has distinctive characteristics (Purnomo, 2019). The creative industry, which has a wide range of businesses and various sub-sectors, can be very different from the business industry in general, which only pursues aspects commercial because it produces value for both products and production and distribution activities based on ideas, knowledge, creativity, culture, and technology.

In the competitive business environment of today, intangible assets such as learning skills and abilities, human resources, knowledge management, and stakeholder relationships have emerged as primary sources of competitive advantage (Rupcic, 2019). When businesses can adapt, change, and foster an innovative culture, competition sharpens and becomes the core of success. Academics and professional managers employ the notion of business performance as a central one in all areas of business study, but especially in strategic management (Selvam et al., 2016).

This internal behavior is called entrepreneurial orientation, which is directed at achieving a more significant competitive advantage (Karacaoglu et al., 2012). In this case that the fundamental purpose of entrepreneurial orientation is to generate encouragement from within that allows the development of organizational structures and ensures organizational sustainability.

Some of these empirical findings indicate that entrepreneurial orientation represents a strategic resource for the company because it reflects the company's philosophy on how to run a business through a set of deep-rooted values and beliefs, which guide the company's efforts to achieve superior performance (Usman & Mat, 2017). Entrepreneurship-oriented organizations are open to new business strategies, including the distribution of products and services that are not well recognized in the market, meaning that entrepreneurial-oriented companies tend to dominate the market through their aggressive and proactive actions.

Customer expectations in today's modern era are very diverse, as is the case with the creative industry. The company must be able to anticipate this well. One of the anticipations that can be made is market orientation. Market orientation is the company's view of the core of marketing, namely customer focus and coordinated marketing (Kohli & Jaworski, 1990). Market orientation is also defined as the organizational culture required to create superior value for buyers and superior performance for the company.

In general, several kinds of literature have documented that businesses that adopt more market orientation as an important corporate trait perform better. Market orientation emphasizes the extent to which a company builds customer satisfaction, needs, and wants as an organizational principle of the company. Meanwhile, research conducted by Neneh (2016) shows the results of research that market orientation has a positive relationship with company performance, although the results are not statistically significant.

Some of the results of the research described above direct that there is a gap regarding the influence of the company's strategic resources consisting of entrepreneurial orientation and market orientation on business performance. Some of these studies explain that strategic resources which include entrepreneurial orientation and market orientation have a significant positive effect on performance. On the other hand, several research results empirically prove that there is no significant or simultaneous effect on performance. This is the problem in this study, so it becomes a research gap. Based on this, this study proposes the concept of absorptive capacity as a mediating variable.

The concept of absorptive capacity is receiving increasing attention as the emphasis on intangible assets such as knowledge, information power, innovation, rapid response, and technology, all of which are becoming more important due to the changing business environment (Seo et al., 2015). Absorptive capacity is one of the most important constructs that have emerged in business research in recent decades. Cohen and Levinthal (1990) argue that the ability to exploit external knowledge and information is a critical component of innovative capabilities and is largely a function of the level of prior knowledge associated with the firm, they call this ability absorptive capacity.

However, in a resource-based view (RBV), experts have shown that the relationship between internal resources and business performance is not inclusive but is influenced by controllable and uncontrollable factors. These include the availability of knowledge and associated resources and the nature of competition (Engelen et al., 2014). Indeed, knowledge and information as inherent forces and as potential resources for leveraging other intangible resources; entrepreneurial orientation and market orientation have been extensively researched.

This understanding is also in line with dynamic capability theory which explains company performance by overcoming interactions between resources or capabilities and environmental changes, Morgan (2012) which argues that creativity and innovation come not only from the exploitation of existing company-specific resources or capabilities but also from exploring new capabilities that enable companies to respond to changes in their business environment.

This research is expected to enrich the study of the concept of absorptive capacity which has been generally applied by large companies. The absorptive capacity developed in this study can also be effectively applied to small and medium-sized companies, especially creative industry players. The concept development can be in the form of novelty or empirical findings which are expected to have an important contribution to management and distribution science.

This research focuses on the role of intangible resources in shaping value and distribution strategies and improving business performance, with a special focus on creative industry businesses. Intangible assets such as human capital, formal and informal relationships, organizational culture, knowledge, reputation, skills, and competencies are core to gaining competitive advantage and superior performance.

2. Literature Review

2.1. Resource-Based View

The resource-based support that firms in an industry are different in various endowed with strategic resources, and that those resources' capabilities give firms that control and develop such resources a long-term competitive advantage (Barney, 1991). If a company's intangible assets are valuable, unique, difficult to duplicate, and structured (VRIO framework) at the same time, they are likely to boost performance. Intangible resources are socially complex and embedded in human resources.

The resource-based view seeks to explain the long-term sources of organizational success. In the concept of the resource-based view, companies are heterogeneous in terms of resources and capabilities, and competencies; The resource-based view argues that long-term success depends on how these firms most efficiently and effectively utilize these capabilities in a dynamic market (Helfat et al., 2003). The resource-based view (RBV) is generally known as a strategic approach to achieving competitive advantage and performance by focusing on managing the company's internal resources.

As an evaluation of the variables influencing company performance, this study placed itself in the resource-based view (RBV) domain. This is based on the idea that the company's internal assets and competencies produce a competitive advantage. The performance of a company is based on a certain set of resources that are difficult to duplicate and replace. The theory of the resource-based view offers a helpful conceptual framework for delineating the variables affecting business performance (Rahman & Ramli, 2014).

The theory of the resource-based view provides the perfect contextual framework for analyzing the performance of small businesses in developing countries, where firms are constrained by inadequate access to resources and expertise (Saffu et al., 2012). Thus, the resource-based view postulates that firm resources and capabilities are the main determinants of performance, which was adapted for this study.

2.2. Dynamic Capabilities Theory

When introducing the concept of dynamic capabilities, Teece (2007) also proposed a framework, namely processes, positions, and paths. Arguing that the competitive advantage of firms lies in their managerial and organizational processes, shaped by their specific asset positions, and the channels available to them. However, this framework focuses only on what companies do rather than why they do it.

Therefore, Teece and Teece (1998) proposed another framework, explaining dynamic capabilities from the perspective of opportunity sensing capacity and opportunity seizing capacity. Then after ten years, he proposed and outlined a new framework, namely sensing, seizing, and reconfiguring. Meanwhile, that dynamic capabilities consist of search, selection, and deployment capacity. Even if deployment capacity attracts more attention, search and selection capacities are also important.

Globalization has changed market dynamics rapidly in the current era of hyper-competition. Every company, to meet the ever-changing customer needs and survive in the market, requires organizational change and sustainable competitive advantage, which must be built on dynamic capabilities (Li & Liu, 2014). Dynamic capabilities enable companies to produce, allocate, distribute and maintain intangible assets to maintain business performance in the long term.

2.3. Business Performance

Business performance is defined as a measure of performance level including sales turnover, number of buyers, profit, and sales growth. The organizational performance or often referred to as business or company performance is an indicator of the level of success in achieving company goals (Voss & Voss, 2000). Business success is about achieving company goals and objectives, which are not explicitly defined. It can be characterized as a company's ability to create acceptable results and actions. There is no universally accepted definition of business performance and most management studies measure

business success from a company performance perspective (Wang, 2020).

In the context of the creative industries, only a few kinds of literature address the issue of individual and business performance, which clarifies the differences from perceptions of performance in conventional business. According to Paige and Littrell (2002), arts-related businesses assess performance not only by profit and financial growth but also by achieving independence, generating creativity, strengthening cultural identity, and upholding traditions. Creative industry entrepreneurs rely more on creative performance by producing aesthetic results, enriching their talents and creativity, and combining their entrepreneurship with their artistic orientation.

Business performance in the creative industries is assessed in this study, by creating a new indicator consisting of two different existing scales. The first is a two-dimensional scale by Mylonas and Petridou (2018) namely financial performance and growth which assesses business performance from an economic perspective. The second is a three-dimensional developed to evaluate creative performance in creative industries. The dimensions are mainly corporate creativity, social reputation, and career achievement. Some examples of creative performance items are; work that includes business ideas, products, and services produced by the company, has a good reputation in the creative industry (social reputation) and the company has fulfilled several objectives to be achieved.

2.4. Entrepreneurial Orientation

Entrepreneurial orientation can be a resource in limited supply, and firms that possess this resource may be able to generate higher levels of performance than those that do not (Zellweger et al., 2012). Another perspective moves beyond a view of entrepreneurial orientation as a so-called static resource to a more dynamic one. In this respect, the following theories such as dynamic capabilities, knowledge-based view by Grant (1996), and the organizational learning perspective, entrepreneurship-oriented are believed to be rooted in the behaviors and processes that enable companies to configure and reconfigure resources to produce success.

Covin and Miller (2014) defines entrepreneurial orientation in three different dimensions; innovation, proactivity, and risk-taking. Miller's three dimensions of entrepreneurial orientation are then converted into a measurable scale that functions together to represent the one-dimensional strategic direction. Autonomy and competitive aggressiveness are two additional qualities put forward by Lumpkin and Dess (1996).

Proactivity refers to a company's capacity to identify and exploit new business possibilities, giving it a competitive advantage over its competitors. Risk-taking refers to a company's tendency to seize opportunities and engage in high-risk businesses in an uncertain environment to achieve its goals. Competitive aggressiveness refers to the company's willingness to take on competitors to gain access or improve market position, thereby increasing the company's competitiveness at the expense of competitors (Nohong et al., 2021). Then, autonomy refers to enabling business members to think independently when generating, planning, and executing entrepreneurial ideas, plans, and ambitions (Maharsa et al., 2020).

2.5. Market Orientation

Market orientation is valuable because it focuses a business on gathering information about target customer needs and competitors' capabilities, then using this information to create superior customer value on an ongoing basis (Slater & Narver, 2000). Scholarly attention has been focused on the definition, measurement, and impact of market orientation. Attention is also focused on the organizational drivers of market orientation and its improvement (Kohli & Jaworski, 1990).

The resource-based view (RBV) theorizes that firms gain and maintain competitive advantage or core capabilities by developing and using valuable capabilities and resources (Wernerfelt, 1984). Company resources include all assets, capabilities, organizational processes, company attributes, information, and knowledge controlled by the company, enabling the company to understand and implement strategy effectiveness.

Market orientation provides the information and knowledge a business needs to continue to operate successfully in uncertain times. The data is integrated into the company's operations and will be used as input for future actions. According to Herhausen (2016), businesses must take advantage of their ability to balance a responsive and proactive market orientation.

However, both market orientation approaches have the same goal which means that customers remain a major factor in thinking about market orientation and in explaining company behavior (Shehu & Mahmood, 2014). In this regard, much market-oriented literature considers that market-oriented culture is seen as a very important determinant of improving business performance because it makes customer needs a priority, while market-oriented companies try to work better on customer satisfaction, and in this way improve business performance.

2.6. Absorptive Capacity

Absorptive capacity is a multidimensional construct, with several researchers specifically trying to define its

dimensions in various ways. Many researchers have associated absorptive capacity with organizational resources and learning, innovation, and dynamic capabilities (Cohen & Levinthal, 1990; Zahra & George, 2002) and even offer resource-based and knowledge-based views.

Absorption capacity requires four interrelated abilities by Zahra and George (2002). Acquisition capability represents a company's ability to seek and identify knowledge that is relevant to the organization. The next step requires the absorption of newly acquired knowledge, this ability is known as the assimilation ability; which assists companies to analyze and interpret new knowledge within the context of existing knowledge (Jansen et al., 2005). At this stage, the company assesses whether the new knowledge structure is following the previous knowledge structure in the company.

The next stage involves modifying and adapting new knowledge and combining it with existing knowledge to discover new possibilities. This capability is called transformation capability and continues the final stage of knowledge management; exploitation, which entails using knowledge to create value for the company and its customers.

The acquisition and assimilation of external knowledge are collectively referred to as the potential absorptive capacity, while the transformation and exploitation of this knowledge are called the realized absorption capacity; realized absorptive capacity. Consistent with recent research, this study views absorptive capacity as a related but distinct component to understand its implications for creative industry performance.

2.7. Hypothesis Development

Empirical findings also show that entrepreneurial-oriented companies have better performance than companies that are not entrepreneurial-oriented, thus supporting that entrepreneurial orientation leads to increased organizational performance (Herlinawati, 2019). Entrepreneurial orientation as a source of capability in strengthening the role of human resources in the industrial sector, is a unique resource and becomes something valuable, cannot be imitated perfectly, and has business values leading to superior performance (Tricahyadinata et al., 2015).

H1: Entrepreneurial orientation affects business performance.

Market orientation drives increased organizational performance as organizations track, and respond to, customer needs and preferences gathered from market intelligence also resulting in improved customer service and satisfaction and thereby improved performance (Soriano, 2016). Furthermore, Buli (2017) concluded that future research is needed to examine the degree of influence of market orientation on business performance, and the differences that appear between the adoption of market orientation in small businesses in different business environments.

H2: Market orientation affects business performance.

Absorptive capacity is a company's ability to use external knowledge and can enable companies to make a difference from competitors who have the same new knowledge (Ibarra, 2020). Chaudhary (2018) conducted research on family companies in Spain, in his research resulting in a significant effect of absorptive capacity on business performance. Business development should be focused on internal capacity-building strategies consisting of human resources, production, and operations processes, market aspects, and marketing aspects rather than external capacity building.

H3: Absorptive capacity affects business performance.

Entrepreneurial orientation will encourage the identification of opportunities and exploitation, stimulation of skills, processes, and knowledge that will enable them to achieve their goals (Li & Liu, 2014). Several studies linking entrepreneurial orientation with the development of dynamic abilities (Griffith et al., 2006), are supported by the argument that dynamic abilities play a central role in the conversion of entrepreneurial orientation into superior performance and innovation.

H4: Entrepreneurial orientation affects absorptive capacity.

Dynamic absorption capacity will offer real value to consumers, as the successful launch of innovative products generally stems from ideas related to understanding consumers and their needs. These results, apart from reinforcing the importance of a market-oriented culture, according to research Gerschewski et al. (2015), have revealed that the development of such a culture, is characterized by better delivery of value to consumers through knowledge of needs and wants, and by a culture that supports courage, risk, discovery and exploits opportunities, positive impact on the deployment of dynamic absorptive capacity.

H5: Market orientation affects absorptive capacity.

Research from Navarro et al. (2014) that the transformation and application of external knowledge help companies to have better insights into their existing knowledge, thereby making changes to improve their

offerings and processes. Entrepreneurial-oriented companies are risk-takers, proactive and innovative, and are more likely to develop their abilities to exploit and transform external knowledge. Through the exploitation and adaptation of knowledge generated from outside, entrepreneurial-oriented businesses can develop new products and processes to suit changing market demands (Chaudhary, 2018).

H6: Absorptive capacity mediates the impact of entrepreneurial orientation on business performance.

Fang et al. (2014) in their research suggest the importance of market orientation in building organizational capabilities. The concept of dynamic capability is an important mediating variable that, when coupled with market orientation, enhances the performance impact of market orientation. Companies must be able to improve organizational capabilities that enable companies to respond to changes in the market due to the emergence of new technologies (Aziz & Omar, 2013). Market orientation influences company performance through the mediation of dynamic capability concepts such as absorptive capacity.

H7: Absorptive capacity mediates the impact of market orientation on business performance.

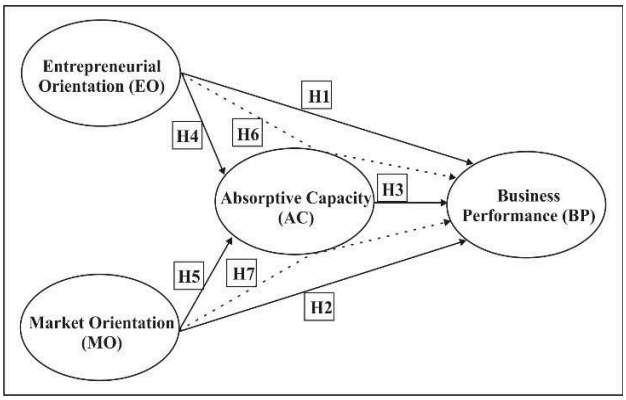

Figure 1: Research Model

3. Research Methods

This study used a quantitative approach, using primary data in the form of a survey by distributing questionnaires to the respondents. The questionnaire in this study was prepared based on items related to the variables studied, using Likert's Summated Rating method (Likert scale) at intervals of 1 to 5 (strongly disagree – strongly agree).

The research location is focused on Makassar City, South Sulawesi, Indonesia on creative industry businesses. Obtain data on creative industry businesses through the Makassar City Tourism Office in the Creative Economy Sector. The criteria used to select the unit of analysis are based on the willingness of the business owner or manager to fill out the research questionnaire and are seen as representative.

The population in this study are creative industry businesses that are included in the leading sector category and priority sectors and have been registered with the Makassar City Tourism Office in the Creative Economy Sector, which consists of eight sub-sectors. The sampling technique used was non-probability sampling, the samples selected by purposive sampling, were selected based on certain criteria, namely; 1) the respondent is a business owner or manager, 2) the business is engaged in the creative industry sector in Makassar City, especially the leading and priority sectors. 3) creative industry businesses that carry out production, distribution, and marketing activities.

Measurement for entrepreneurial orientation is based on the opinion (Anwar & Shah, 2020; Buli, 2017) with six indicators, market orientation dimensions consist of obtaining market information, disseminating market information, and responding to market information which includes six indicators. Absorptive capacity dimensions consist of acquisition, assimilation, transformation, and exploitation which use eight indicators (Chen et al., 2020). The business performance consists of increased sales, increased consumers, productivity, business creativity, and goal achievement are indicators of business performance variables (Chen, 2018; Laukkanen et al., 2013).

4. Results and Discussion

4.1. Demography of Respondent

Respondent demographics are based on five categories namely gender, age, education, creative sub-sector and length of business. The results show that the creative industry is dominated by men at 52.6%, and 47.4% female. In addition, most entrepreneurs are in the productive age range of 35 to 44 years. A total of 46 creative sub-sector have been running for 5 to 10 years. The fashion sub-sector is the largest sample among the other sub-sectors.

The growth of the creative industry in Indonesia is supported by a demographic bonus in Indonesia. The National Development Planning Agency in 2017 stated that the productive age population (15-64 years) is predicted to reach 64% of the total projected population of 297 million in the coming 2030-2040. Where the population working in the creative industry sector on 2019 the majority of the working population is in the adult category (25-59 years). These data and phenomena prove that the growth of the creative industry in Indonesia cannot be underestimated by having very good opportunities.

Table 1: Demography of Respondents

Attributes	Item	F	%
Gender	Male	51	52.6
	Female	46	47.4
Age (years)	Under 25 years	8	8.2
	26 – 34	33	34
	35 – 44	36	37.1
	45 – 55	18	18.6
	Over 55 years	2	2.1
Education	Senior High School.	9	9.3
	Diploma.	10	10.3
	Bachelor.	69	71.1
	Master.	9	9.3
Creative Sub-sector	Advertising.	9	9.3
	Craft.	21	21.6
	Film, Animation and Video.	8	8.2
	Performing Arts.	9	9.3
	Application.	10	10.3
	Photography.	11	11.3
	Fashion.	22	22.3
	Visual Comunication Design.	7	7.2
Length of operation	2 – 4 years	44	45.4
	5 – 10 years	46	47.4
	Over 11 years	7	7.2

4.2. Statistical Results

To analyze the data in this study, the researcher used Structural Equation Modeling with the help of the PLS application. This study analyzes the business performance of creative industry entrepreneurs in Makassar city. Smart PLS shows valid convergence for all indicators, indicated by the value (λ)>: 0.5. Therefore, the data can be analyzed further.

Based on the results of the distributed questionnaires, then a validity test is carried out by looking at the AVE (Average Variance Extracted) value for each variable must be more than 0.5, it can be said to be valid. After conducting the validity test, the measurement of the model was also carried out to test the reliability of the construct. The reliability test was carried out by looking at Cronbach's alpha and composite reliability values. The requirements for construct reliability values are Cronbach's alpha and composite reliability values must be more than 0.7 (Sarstedt et al., 2017). The results of the validity and reliability testing can be seen in table 2, which shows that all variables are valid because they have an Average Variance Extracted (AVE) value above 0.5 and all variables are reliable because Cronbach's alpha and composite reliability values are more than 0.7.

Table 2: Measurement Model Validity and Reliability

Variable	Average Variance Extracted	Cronbach's Alpha	Composite Reliability
Absorptive Capacity (AC)	0.551	0.883	0.907
Business Performance (BP)	0.741	0.930	0.945
Entrepreneurial Orientation (EO)	0.629	0.881	0.910
Market Orientation (MO)	0.583	0.856	0.893

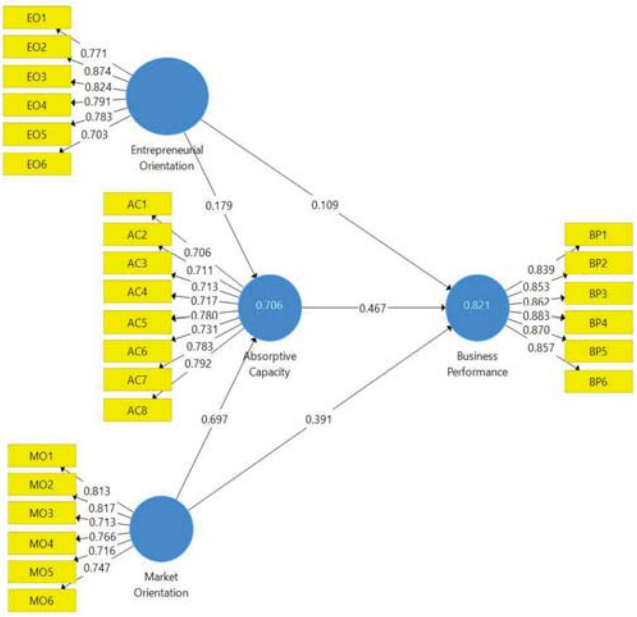

Figure 2: Algorithm Analysis

4.3. Hypothesis Testing Results

All hypotheses were tested using SEM-PLS through a bootstrapping process, also known as inner model assessment. In this case, statistical test is conducted by considering the significant level of path coefficient among the latent variables into effect.

The hypothesis testing for the direct effects of each latent variable in Table 3 showed that entrepreneurial orientation positively and not significantly affects business performance, with sig. P-value 0.056 > 0.05, rejected hypothesis H1. The result indicate that entrepreneurial orientation is not affecting business performance.

Application of entrepreneur orientation in creative industries in Makassar city does not help in improving performance. This shows that business actors see entrepreneurial orientation from a risk-taking perspective as a challenge in finding a balance between playing it safe and taking risks, so that entrepreneurial orientation cannot affect company performance. Market orientation positively and significantly affects business performance with sig. P-value 0.000 < 0.05, accepted hypothesis H2. The result indicates that market orientation is affect business performance. Application of market orientation to creative industry businesses in the city of Makassar will help improve performance in terms of profits and increase in consumers. Businesses that implement market orientation can recognize and fulfill buyer desires and monitor competitors' actions to generate sustainable competitive advantages and superior performance. Absorptive capacity positively and significantly affects business performance, with sig. P-value

0.000 < 0.05, accepting hypothesis H3. The result indicates that Absorptive capacity is affect business performance. Entrepreneurial orientation positively and significantly affects Absorptive capacity with sig. P-value 0.031 < 0.05, accepted hypothesis H4. Market orientation positively and significantly affects Absorptive capacity with sig. P-value 0.000 < 0.05, accepted hypothesis H5.

Table 3: Direct Effect

Path	$T_{stattistic}$	P_{value}	Result
Entrepreneurial Orientation → Business Performance	1.601	0.056	Rejected
Market Orientation → Business Performance	3.814	0.000***	Accepted
Absorptive Capacity → Business Performance	5.278	0.000***	Accepted
Entrepreneurial Orientation → Absorptive Capacity	1.886	0.031**	Accepted
Market Orientation → Absorptive Capacity	7.865	0.000***	Accepted

Note: ***p<0.01 **p<0.05

The indirect effect test table 4 shows that absorptive capacity can mediate the influence of entrepreneur orientation and market orientation on business performance. It can be seen from the value of t statistic > t table of 1.66071 and P-values <0.05, so the sixth hypothesis (H6) and seventh hypothesis (H7) were accepted.

Testing the feasibility of the model to evaluate the structural model is carried out by looking at the R2 value of the endogenous variables. The results of the model feasibility test have 3 categories, namely the strong model

with an R2 value of 0.75, a moderate model with an R2 value of 0.50, and a weak model with an R2 value of 0.25 (Hair et al., 2006). Based on Table 5, the company's performance variable has an adjusted R2 value of 0.815 which is strong because it is more than 0.75.

This figure shows that the variables entrepreneurial orientation, market orientation, and absorptive capacity can explain the performance of the creative industry by 81.5%, and the remaining 18.5% is influenced by other variables outside the model. The adjusted R2 value for the absorptive capacity variable is 0.699 which indicates a moderate model because it is less than 0.75. The absorptive capacity variable can be explained entrepreneurial orientation variable, market orientation is 69.9%, and the remaining 30.1% is influenced by other variables outside the model.

Table 4: Indirect Effect

Path	$T_{statistic}$	P_{values}	Result
Entrepreneurial Orientation → Absorptive Capacity → Business Performance	1.781	0.039**	Accepted
Market Orientation → Absorptive Capacity → Business Performance	4.353	0.000***	Accepted

Note: ***p<0.01 **p<0.05

Table 5: R^2 Test Result

Variable	R Square	R Square Adjusted
Absorptive Capacity	0.706	0.699
Business Performance	0.821	0.815

4.4. Discussion

Entrepreneurial orientation has no impact on business performance, the creative industry in Makassar does not benefit from applying an entrepreneurial approach to boost business performance. This demonstrates how businessmen view the difficulty of establishing a balance between playing it safe and taking risks, so that entrepreneurial orientation cannot negatively impact business performance (Dijkhuizen, 2018). The results of this study weaken the findings of which found that entrepreneurial orientation can influence business performance.

Market orientation has an impact on business performance, the creative industry in Makassar will benefit from the adoption of market orientation because it will boost sales and company performance overall. Market-oriented creative industries can identify and meet customer needs and keep track of rivals' moves to build long-lasting competitive advantages and deliver superior results (Herhausen, 2016). According to the conclusions as well as the study's findings, applying a good market orientation will result in high performance.

In this study, potential absorptive capacity consists of efforts to quickly recognize changes in the market (competitors, production and distribution, demographic changes), creative industry actors gather information through informal means (eg discussions with business partners, friends, and discussions with consumers, new opportunities to serving and knowing the desires of consumers are quickly understood by creative industry players. Creative industry businesses need to recognize environmental changes so they can adjust the strategy to be taken.

Realized absorptive capacity that has been implemented includes consumer complaints, employees easily sharing practical experience, and the industry quickly recognizes the use of new external knowledge to add to existing knowledge and will be useful in production or distribution processes. The implementation of realized absorptive capacity will encourage an increase in business performance.

Entrepreneurial orientation has an impact on absorptive capacity, innovative creative industries will be eager to take part in new inventions that have an impact on absorptive capacity. This is because the corporation will need to take in more knowledge the more business players have an entrepreneurial orientation. Delmas et al. (2011) defined absorptive capacity as the ability of a corporation to use and sell newly acquired, assimilated, and previously altered

knowledge. Market orientation has an impact on absorptive capacity, absorptive capacity will be impacted by creative industries that regularly gather data on competitors' behaviors and assess the behavior of significant competitors. Additionally, businesses that share customer experiences, regularly poll customers, and track customer happiness will have an impact on absorptive capacity.

The impact of entrepreneurial orientation on business performance is mediated by absorptive capacity. Entrepreneurial orientation creative industries have an impact on absorptive capacity, which will subsequently affect business performance. Companies that are more entrepreneurially oriented will require knowledge that must be absorbed by the organization. According to Delmas et al. (2011), a company's absorptive capacity is how well it can use and market newly acquired, digested, and changed knowledge. To ensure the effectiveness of the information, businesses must be able to efficiently share information about these prospects.

Absorptive capacity mediates the effect of market orientation on business performance; creative sectors that are market-focused need to comprehend their customers and competitors. The impact of market orientation on organizational performance will develop with increased absorption capacity. Market orientation has an impact on the company's attempts to develop innovative products using absorbed market knowledge. (Aziz & Omar, 2013). Companies that are focused on the market are better able to absorb market information because they are more willing to introduce new items and simplify the distribution process which will delight customers and boost sales.

5. Conclusions

This research aims to examine the effects of entrepreneurial orientation, market orientation, and absorptive capacity on business performance. The purpose of this study was also to evaluate the effect of absorptive capacity as a mediating variable in the link between entrepreneurial orientation, market orientation and business performance. According to the study's findings, entrepreneurial orientation has no impact on business performance. Market orientation and absorptive capacity are essential variables in increasing company success in the creative industry because they are intangible resource capabilities in carrying out production activities to decide distribution methods. Market orientation, according to Soriano (2016), is a set of organizational capabilities that firms may utilize to better serve specific customers and keep track of their competitors.

Businesses were encouraged to innovate, to be more proactive and aggressive than their competitors, and to be more risk-taking by absorptive capacity. which affects business success (Engelen et al., 2015). The study focuses on creative businesses that require innovation as a requirement. As a result, the creative industries have adopted common values such as adapting products, creating new ideas, producing great products, distributing processes, regularly training personnel, and encouraging employee initiative. This is so that the creative industries should learn what the market wants. The aim of business owners to make the absorptive ability a major commodity for the company is unaffected by a lack of government support, including financing and information on grants and distribution.

6. Research Implication

Absorptive capacity has a direct, significant, and positive impact on business performance. This is a new finding in this study in which the ability of the company's internal resources to absorb, transform, and adapt current knowledge to produce the products and services desired by customers can be a differentiator. Entrepreneurial orientation has a positive and direct effect on business performance, but it is not statistically significant.

Therefore, absorptive capacity is one of the company's internal capabilities that can mediate this relationship, and companies that can use their internal resources well can improve business performance. Market orientation has a direct and significant effect on business performance (Shehu & Mahmood, 2014). Absorptive capacity is a strategic resource for companies to be able to differentiate themselves from competitors so that they have a higher competitive advantage to produce good business performance.

Strategic management studies focus on improving business performance to ensure corporate sustainability. The resource-based view (RBV) and dynamic capability theory show that business performance can be improved through intangible resource capabilities (Helfat et al., 2003). The findings of this study suggested that the company's entrepreneurial orientation and market orientation can directly improve business performance and mediate absorptive capacity. The novelty of this research is that absorptive capacity can be a strategic resource for companies to improve business performance in the context of creative industries in carrying out valuable distribution activities based on the information and knowledge that has been obtained.

In addition, what is considered important to support the creative industry is added value, creative industry is the creation of added value from an intellectual property right originating from human creativity, based on science, cultural heritage, and technology. So that the main elements of the creative industry are creativity, skills, and talents that

have the potential to improve welfare through offering intellectual creations. From this explanation, it can be said that the resources owned have roles and important factors in achieving business performance in the distribution of the creative industry.

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