

ABSTRACT

Innovation Capacity can improve business performance for micro-entrepreneur in fish processing in Demak. There is affecting factor for product innovation such as new product, developing product, distribution system, and creativity. The problem of this research is how to improve business performance through product innovation and what factor affect business performance.

The sample of this study amounted 141 unit small entrepreneur of fish processing in Demak which spread in three subdistrict that is Bonang. Determine of sample is done by census, which all member of population become sample. Respondent in this research is owner of small entrepreneur of fish processing in Demak. The Data Analysis tool used in this research is Structural Equation Modeling (SEM) in AMOS 23 program.

There is six hypotheses in this research and there four hypotheses accepted. In this research market orientation affected on innovation capacity, then innovation capacity affected on competitive advantage, then competitive advantage affected on marketing performance. Meanwhile product adaptation cannot give affect to marketing performance.

Keyword: *Market Orientation, Innovation Capacity, Competitive Advantage, Product Adaptation, Marketign Performance*