THE NEXUS OF ENTREPRENEURIAL ORIENTATION AND KNOWLEDGE MANAGEMENT ON BUSINESS PERFORMANCE OF SMES IN WEST JAVA: ROLE OF COMPETITIVE ADVANTAGE

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ABSTRACT

Purpose: The purpose of this study is to analyze the nexus of entrepreneurial orientation and knowledge management on the Business performance of SMEs mediated by competitive advantage.

Theoretical framework: The conceptual model for this study was developed based on previous research and resource-based theory as grand theory. The conceptual model has three factors that affect the Business performance of SMEs in West Java, Indonesia.

Design/methodology/approach: This study used verification methods with a number of samples of 200 respondents by using random sampling. The Structural Equation Models (SEM) analyzed the data using Lisrel.

Findings: The results show that entrepreneurial orientation and Knowledge Management have a significant effect on the competitive advantage and Business performance of SMEs and competitive advantage can be mediated by the nexus of Knowledge Management and entrepreneurial orientation on Business performance of SMEs in West Java.

Research, Practical & Social implications: The implications drawn from this research help owners or managers of human resources in existing SMEs to focus their performance by considering entrepreneurial orientation, Knowledge Management, and competitive advantage.

Originality/value: This study is important for owners of SMEs and the government because it confirms business owners' need to increase entrepreneurial orientation and Knowledge Management in order to boost a competitive advantage and business performance of SMEs in the marketplace.

Keywords: entrepreneurial orientation, knowledge management, competitive advantage, business performance, SMEs.

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A LIGAÇÃO ENTRE ORIENTAÇÃO EMPRESARIAL E GESTÃO DO CONHECIMENTO NO DESEMPENHO EMPRESARIAL DAS PME EM JAVA OCIDENTAL: PAPEL DA VANTAGEM COMPETITIVA

RESUMO

Objetivo: O objetivo deste estudo é analisar a relação entre orientação empresarial e gestão do conhecimento sobre o desempenho empresarial das PME mediadas por vantagens competitivas.

Estrutura teórica: O modelo conceitual para este estudo foi desenvolvido com base em pesquisas anteriores e na teoria baseada em recursos como grande teoria. O modelo conceitual tem três fatores que afetam o desempenho empresarial das PME em Java Ocidental, Indonésia.

Concepção/metodologia/abordagem: Este estudo utilizou métodos de verificação com um número de amostras de 200 inquiridos, recorrendo a amostragem aleatória. Os Modelos de Equação Estrutural (SEM) analisaram os dados usando Lisrel.

Constatações: Os resultados mostram que a orientação empresarial e a gestão do conhecimento têm um efeito significativo sobre a vantagem competitiva e o desempenho empresarial das PME e a vantagem competitiva podem ser mediadas pela relação entre a gestão do conhecimento e a orientação empresarial sobre o desempenho empresarial das PME em Java Ocidental.

Investigação, implicações práticas e sociais: as implicações decorrentes desta investigação ajudam os proprietários ou gestores de recursos humanos nas PME existentes a centrar o seu desempenho, tendo em conta a orientação empresarial, a gestão do conhecimento e a vantagem competitiva.

Originalidade/valor: Este estudo é importante para os proprietários de PME e para o governo, porque confirma a necessidade dos proprietários de empresas de aumentar a orientação empresarial e a gestão do conhecimento, a fim de impulsionar uma vantagem competitiva e o desempenho empresarial das PME no mercado.

Palavras-chave: orientação empresarial, gestão do conhecimento, vantagem competitiva, desempenho empresarial, PME.

1 INTRODUCTION

Development of Small and Medium Enterprises (SMEs) is an effort to improve national entrepreneurial orientation, because most businesses in Indonesia, both small and medium enterprises, are labor intensive and utilize domestic resources. Based on these conditions, it also encourages the Indonesian state to continue to develop MSMEs. Even though they are small in the number of workers, assets and turnover, because there are quite a lot of them, SMEs play an important role in supporting entrepreneurial orientation. It also can be stated that SMEs as part of entrepreneurship have the potential to support the country's economy both in quantity and quality shown by business owners (Parmitasari & Rusnawati, 2023).

In other words, with these SMEs, unemployment due to the workforce that is not
absorbed in the world of work is reduced. Even, the existence of SMEs is believed to be able to contribute to poverty alleviation through job creation (Nurjanah, et.al., 2023; Utomo, et.al., 2023). The SMEs sector has been promoted and made the main agenda for Indonesia’s development. The SMEs sector has proven to be resilient, when the entrepreneurial orientation crisis occurred in 1998, only the SME sector survived the collapse of entrepreneurial orientation, while the larger sector was actually overthrown by the crisis. SMEs always have an important position, because most of the population of Indonesia has a low educational background and lives from small business activities in both the traditional and modern sectors. The government hopes that developing SMEs can have a positive impact on the development of the entrepreneurial orientation of the Indonesian people

This statement is reinforced by data from the United Nations Conference on Trade and Development (UNCTAD) in its report, the ASEAN Investment Report 2022 which was published in October 2022 stated that there were 65.46 million MSME actors, contributed 60.3 percent of GDP and were able to absorb 97 percent of the workforce in Indonesia. Besides that, SMEs also have a good impact on a number of provinces in Indonesia, one of which is West Java that has SMEs with a total of 1.49 million business units. Second place is Central Java, which reached 1.45 million units. Third, there is East Java with 1.15 million units. West Java supports the national economy with a share of 13.02%, the third highest after DKI Jakarta (17.17%) and East Java (14.46%). (Indonesian Bank, 2022).

But in fact, MSEs in West Java 82.7 percent have problems running a business. The existence of competition and capital are the main problems faced. About 68 percent of MSEs stated that they had these obstacles (SE2016, BPS West Java, 2016). This is supported by the statement of Irjayanti and Azis (2012) that stated there are ten major barriers faced by SMEs: competition barriers; financial access; price of energy; technology; inefficient production cost; economic factors; management skill; process; limitation of sales; and raw material. Meanwhile Ananda (2022) stated that the weak foundation of MSMEs in terms of capital and marketing which is an obstacle in facing competition. While, Gunawan, et.al. (2022) stated that the lack of customer knowledge and socio-cultural and regulatory factors were found to be barriers to sustainability in batik SMEs. Therefore, this purpose of this study is to gain insight into the possible interaction some factors to overcome the barriers faced by SMEs in Indonesia, especially
West Java. Several factors are competitive advantages, entrepreneurial orientation and knowledge management.

2 LITERATURE REVIEW

This research used resource-based theory as grand theory. Because according to firm resource-based theory, companies that are able to manage and utilize strategic and important assets (both tangible and intangible assets) will survive the competition and produce good financial performance. As for what is meant by competitive advantage is the elaboration of the reality of management which is a process for identifying, developing and placint real advantages. All company resources that support competitive advantage are often used as research to form the basis of strategies that will be implemented in company management (Rumelt, 1984; Porter, 1985). While, according to Widodo, et.al., (2017) performance has several meanings which is one of is that the performance is emphasized in the outcome of the whole process of the activity. Performance reflects how well an employee fulfills the requirements of a job (Ambarwati, et.al., 2023). Further, Yaskun, et.al., (2023) stated that MSMEs business performance will be enhanced with competitive advantage through increased profits, increased sales and a large number of customer. So it can be stated that there is a relationship between competitive advantage and organizational performance. This is supported some previous research stated that competitive advantage is proven significantly to predict company performance (Andiyanto et al., 2017; Sinaga and Galena, 2018; Titien, 2019; Afiyati et al., 2019; Kiyabo and Isaga, 2020; Wibowo and Raharjo, 2021; Yulianti and Pramukki, 2022; Samoedra, et.al., 2022; Yaskun, et.al., 2023).

Further, several other findings indicate a relationship between entrepreneurial orientation and competitive advantage (Luu & Ngo, 2019; Okangi , 2019; Kiyabo & Isaga, 2020; Widyanti & Mahfudz, 2020; Yunus, et.al., 2021). Meanwhile, Hoque et al. (2018), Jin (2018), Hammerschmidt et al.(2019) and Hunt et al.(2121) in Yunus, et.al., (2021) stated that entrepreneurial orientation has no effect on competitive advantage. In addition, several empirical studies have determined that entrepreneurial orientation is associated with performance (Al-Henzab et al., 2018; Widyanti & Mahfudz, 2020; Abshar & Septrizola, 2023; Yaskun, et.al., 2023). Further, research by Puspita, et.al (2022) shown that entrepreneurial orientation with autonomy indicators that provide the greatest support can affect MSME performance. While, Kiyabo and Isaga (2020) stated
that competitive advantage mediates the relationship between entrepreneurial orientation and SMEs’ performance for both firm growth and personal wealth performance measures.

Various theories and research in the field of entrepreneurship have been able to explain well the importance of the role and impact of entrepreneurial orientation on competitive advantage and its effect on business performance. The inconsistent results from previous studies provide an interesting research gap for further investigation.

Further, several researchers stated that knowledge management has a significant effect on competitive advantage (Elprisdat, et.al., 2022; Rehman, et.al., 2022; Kriswanto, et.al., 2023). Then knowledge management also has a significant effect on performance (Bakar, et.al., 2015; Hanif, et.al., 2018; Elprisdat, et.al., 2022; Kriswanto, et.al., 2023). But the research by Setiyono, et.al., (2022) and Nurung, et.al., (2023) stated that knowledge management is not a direct predictor of performance. This is an indication that the supremacy creation of SMEs performance could not depend heavily on knowledge management but rather, other driving forces.

Based on literature review and the framework stated earlier, the hypotheses that can be proposed in this study are as follows:

H1. Entrepreneurial Orientation has an effect on Competitive Advantage of SMEs
H2. Knowledge Management affects Competitive Advantage of SMEs
H3. Entrepreneurial Orientation affects Business Performance of SMEs
H4. Knowledge Management affects Business Performance of SMEs
H5. Competitive Advantage affects Business Performance of SMEs
H6: Competitive Advantage mediated relationships among Entrepreneurial Orientation and Knowledge Management on Business Performance of SMEs.

3 METHODOLOGY

This research is designed in the form of descriptive research and analyzed with a verification research approach, because there are variables that will be examined and the purpose is to present a structured, factual, and accurate picture of the facts and the relationships between the variables studied. Meanwhile, based on the variables used in this study, this research was conducted using a survey method (Churchill & Iacobucci, 2005), which is a method used in an effort to reveal the facts of a phenomenon, so that it can be evaluated based on theoretical reviews, or various previous studies, henceforth it can be drawn as conclusions about Business Performance.
The unit of analysis in this research is SMEs in West Java. Meanwhile, to determine the data to be used, it is necessary to know the population and sample that will be used. According to Cooper and Schindler (2014) population is a collection of all objects to be studied. In other words, population is a generalization area consisting of subjects/objects that have the same characteristics that are determined by the researcher for study, while the sample was elements of the population (Cooper & Schindler, 2014). In other words, the sample is part of the number and characteristics of the population.

The sample technique used is simple random sampling. Simple Random Sampling is a method for selecting samples where each member of the population has the same opportunity to be selected as the research sample. Because this study uses SEM analysis, according to Hair, et al. (2019) that the most common SEM estimation procedure is Maximum Likelihood Estimation (MLE), therefore the minimum recommended sample size to guarantee a stable MLE solution is 100 to 150.

The verification analysis used is the path analysis by Structural Equation Model (SEM). This research requires an analysis of data and its interpretation that will be used to answer research questions to reveal certain social phenomena. So that data analysis is the process of simplifying data into a form that is easier to read and interpret. The model to be used in this research is a model of causality or path analysis and to test the proposed hypothesis, with the analysis technique used is SEM (Structural Equation Modeling) from the statistical expert of Lisrel.

4 RESULTS AND DISCUSSION

The data in the research conducted from SMEs in West Java that used four variables, namely knowledge management (X1), entrepreneurial orientation (X2), competitive advantage (Y1), and performance (Y2). Respondents to be studied were 150 entrepreneurs of SMEs in West Java. However, of the 150 questionnaires that were distributed, due to various factors such as not returning the questionnaire and filling in the questionnaire that was not filled completely and correctly, the questionnaire was said to be unfit for testing or defective to be processed in the data, thus making the researcher receive 143 of the 150 questionnaires that given to SMEs entrepreneurs. Before analyzing the relationship between variables, the results of the Goodness of fit were first analyzed from the research data. The goodness of fit criteria of the structural equation model using SEM analysis is presented in the following table.
Based on the table 1, shown that SEM used to test the relationship between variables in showing that this model was acceptable. The level of significance for the difference hypothesis test (chi square) is 3.93. The test on the suitability of the model shows that this model is fit because almost all the cut off values of the test indicators can be fulfilled. Even though there is one test variable that is below the cut off value, the difference is not too significant, namely GFI shows a marginal or unfit level of acceptance, but because GFI is a goodness of fit, the value range close to 0.9 is still acceptable.

The results of structural modeling can be seen in the following figure:

Based on the picture above, the following structural equation is obtained:

\[ \text{CA} = 0.75 \times \text{KM} + 0.03 \times \text{EO}, \text{Errorvar.} = 0.47, R^2 = 0.63 \]

\[ (0.21) \quad (0.077) \quad (0.24) \]
From the results of statistical analysis testing shows the relationship between the independent variable and the dependent variable. That is, based on the results of the correlation test analysis, it can be said that knowledge management has a relationship with the competitive advantage variable. Thus, the conditions related to the competitive advantage of MSMEs in West Java can be explained by analyzing knowledge management.

After testing the hypothesis with correlation analysis using SEM analysis, the significance test is carried out with the intention of testing whether the effect of an independent variable on the dependent variable occurs in significance (meaningful), or just happens by chance. In this connection, the significance test used is the comparison test between the t-value and the t-table value. The value generated by the significance analysis has a significant value because the t-count is greater than the t-table.

From the results of statistical analysis testing, it is known that the relationship between entrepreneurial orientations has a positive and significant effect on the competitive advantage variable, so that hypothesis 1 can be accepted. This statement is strengthened by several previous studies conducted by (Luu & Ngo, 2019; Okangi, 2019; Kiyabo & Isaga, 2020; Widyanti & Mahfudz, 2020; Yunus, et.al., 2021) which states that entrepreneurial orientation has a significant positive effect on competitive advantage. Based on the above analysis, it can be stated that this finding also implies that the better the entrepreneurial orientation of MSMEs will increase their competitive advantage.

Based on the results of the significance test, it is known that the relationship between knowledge management and competitive advantage is significant, so that hypothesis 2 can be accepted. This statement is strengthened by several previous studies conducted by Elprisdat, et.al., (2022), Rehman, et.al., (2022) which states that knowledge management has a significant positive effect on competitive advantage. In addition, this finding also implies that the better the management of knowledge possessed will increase competitive advantage. Certain characteristics of knowledge management can affect the competitive advantage of an organization, in this case SMEs in West Java.

Based on the results of the significance test, it is known that the relationship
between entrepreneurial orientations has a positive and insignificant effect on the SMEs performance variable, so hypothesis rejected. This statement does not support several previous studies conducted by (Al-Henzab et al., 2018; Widyanti & Mahfudz, 2020; Puspita, et.al., 2022; Abshar and Septrizola, 2023; Yaskun, et.al., 2023) provide support for a positive relationship between entrepreneurial orientation and firm performance. This is possible because the scale of business in this study is mostly micro-enterprises, which in their operations do not have a medium-term business vision, let alone long-term and are still oriented towards very short-term operations, namely day-to-day operational oriented or very short term. With a simple work pattern, without a good business plan, it is relatively difficult to form a good performance in MSMEs.

Based on the results of the significance test, it is known that the relationship between knowledge management has a positive and insignificant effect on the SMEs performance variable, so hypothesis rejected. This statement does not support the previous research conducted by (Bakar, et.al., 2015; Hanif, et.al., 2018; Elprisdat, et.al., 2022) which states that knowledge management has a significant positive effect on performance. But the research by Setiyono, et.al., (2022) stated that knowledge management is not a direct predictor of SMEs performance.

The value of the standardized regression weight coefficient between the competitive advantage variable and the SMEs performance variable is 0.55 (positive) and has a greater t count, H0 is accepted. This means that the competitive advantage variable has a positive and insignificant effect on the SMEs performance variable. After testing the hypothesis with correlation analysis using SEM analysis, the significance test is carried out with the intention of testing whether the effect of an independent variable on the dependent variable occurs in significance (meaningful), or just happens by chance. In this connection, the significance test used is the comparison test between the t-value and the t-table value. The value generated by the significance analysis has a significant value because the t-count is greater than the t-table. Based on the results of the significance test, it is known that the relationship between competitive advantages has a positive and insignificant effect on the performance variable. This statement does not strengthen the previous research conducted by (Andiyanto et al., 2017; Sinaga and Galena, 2018; Titien, 2019; Afiyati et al., 2019; Kiyabo and Isaga, 2020; Wibowo and Raharjo, 2021; Yulianti and Pramukki, 2022; Samoedra, et.al., 2022; Yaskun, et.al., 2023), that competitive advantage is proven to significantly predict company performance. Based on the above
opinion, it can be concluded that today’s competitive advantage can be a reference for MSMEs in increasing better performance.

Further, for mediated variable by using Sobel test can be found that competitive advantage can only mediate the relationship between entrepreneurial orientations and performance, while on the other hand competitive advantage cannot mediate the relationship between knowledge management and performance.

Overall the results of this study produce findings that are not the same as previous studies, for example for indicators / dimensions forming knowledge management variables and also for measuring the relationship between entrepreneurial orientation and variables of competitive advantage and SMEs performance, where the findings indicate knowledge management and entrepreneurial orientation and excellence. Competing does not have a significant effect on the performance of SMEs.

5 CONCLUSION

The results of this study indicate that knowledge management and entrepreneurial orientation can improve the competitiveness of SMEs in West Java. These show that high knowledge management and entrepreneurial orientation can lead to the increased competitiveness. Based on the results of the analysis in the previous chapter and the conclusions above, it can be recommended that some suggestions can be used as consideration in increasing the competitive advantage and performance of SMEs, including: SMEs must maintain management, but for better SMEs must pay more attention to the competitive advantages of SMEs. If the competitive advantage is achieved, the performance of SMEs will increase.

The research results are expected to contribute to the science of human resource management, especially concerning entrepreneurial orientation, knowledge management, competitive advantage and performance. The results of this study are expected to be considered by researchers, especially researchers who will conduct further research on entrepreneurial orientation, knowledge management, competitive advantage and performance to examine other variables that have not been studied in this study, such as adding learning orientation variables and market orientation. Besides that, need to be considered for continuous improvement, especially those related to competitor orientation which contributes the lowest to the formation of market orientation variables namely; owner of SMEs must be active in seeking information about competitors, making
strategies in dealing with competitors (both in product and in price). There needs to be further consideration for owner of SMEs for continuous improvement in terms of risk-taking, which contributes the lowest to entrepreneurial orientation, namely, owner of SMEs must be brave to take risks and dare to invest. For example, owner of SMEs must dare to borrow money from the bank to purchase milking equipment in ownership of production machines. They must dare to increase the number of livestock even though they are uncertain. It needs to be further considered for owner of SMEs for continuous improvement, in terms of process innovation and marketing innovation that contributes the lowest in the innovation variable, namely by updating processes and marketing. Marketing updates were originally carried out door to door into an online system using marketplace services. In addition, owner of SMEs must also have the ability to manage MSME assets. It should be a consideration for the government in particular (relevant agencies) to provide guidance and training to SMEs about producing quality and competitive advantage, providing entrepreneurial motivation and business opportunities to owner of SMEs, as well as providing capital solutions for SMEs.

One of the major methodological implications in this study is the use of SEM. The use of this methodological implication enabled the specification and estimation of a complex model of relationship of knowledge management and entrepreneurial orientation, competitive advantage and performance of SMEs in West Java. The mediating effects of competitive advantage towards performance of SMEs could not have assessed without the use of this methodology. Most other multivariate procedures are descriptive by nature that emphasizes on exploratory factor analyses. This made the hypothesis testing difficult although it was not impossible.

By contrast, SEM takes a confirmatory factor analysis. SEM provides a method to understand the antecedents and effects of the knowledge management and entrepreneurial orientation, competitive advantage and performance of SMEs and can contribute to more sophisticated theoretical explanations of the three variables in the different company contexts.
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