



Research Paper

Effects of Innovation Mediation on the Influence of Knowledge Management and Entrepreneurial Orientation towards the Performance of Small Enterprises

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ABSTRACT:- Currently, the government and the wider community to give serious attention to the small business sector, because it is very obvious that small businesses are contributing to employment, growth in gross domestic product (GDP), and non-oil exports. Phenomena that exist indicate poor performance of small businesses caused by many factors. In fact, small businesses still lack competitiveness, less innovative, and market access. The purpose of this study was to examine the effect of mediation on the influence knowledge Innovation Management and Entrepreneurial Orientation on Small Business Performance. This research is an explanatory (explanatory research), which is a study conducted to examine the effect between the hypothesized variables (Cooper and Emoy, 1998). Data were collected by survey method. The study concluded that the presence of a significant indirect effect Knowledge Management for Small Business Performance through Innovation. Then there is a significant indirect effect on Oerientasi Entrepreneurial Small Business Performance through Innovation.

Keyword:- Innovation Mediation, Knowledge Management, Entrepreneurial Orientation, Performance of Small Enterprises

I. INTRODUCTION

Nowadays, the government and the public at large give serious attention to the sector of small enterprises as it is highly apparent that small enterprises give high contribution to employment, the growth of gross domestic product (GDP), and non-oil exports. According to Mulyoutami et al. (2003) the type of enterprises are capable of facing the exposure to crisis storm and having the ability to recover in a faster period than those of larger business units. In general, in 2006, the contribution of SMEs to Gross Domestic Product (GDP) reached 53.3%, while the work force absorbed was 85.4 million, or approximately 96.2% of the total labor force (Media Indonesia, Journal of SMEs, November 2007). It means half of Indonesia's economy today is driven and sustained by such sector. The condition and the fact are in line with the results of empirical research conducted by Demirbag et al., (2006) who conclude that the success of small and medium enterprises has a direct impact on economic development, both in the developed and developing countries. Small and medium enterprises have the ability to create jobs at minimum cost; they are the pioneers in the world of innovation and possess a high degree of flexibility allowing those enterprises to fulfill the customers' needs (Brock and Evans, 1986; ACS and Audretsch, 1990).

Low mastery of knowledge in SMEs is affected by internal and external factors. Internal factors are; (1) the lack of awareness and willingness to apply the appropriate knowledge, (2) the lack of capital to improve the mastery of technology, (3) the lack of ability to gain benefits of the enterprises and (4) the lack of access to resources of technology and knowledge. The affecting external factors are; (1) the results of research and development that are yet improper for the development of SMEs, (2) the non-maximum process of technology transfer to SMEs, (3) the lack of publication of results of research and development, and (4) the limited financing schemes in development of science and technology.

The knowledge management is a new concept in the business world that has been applied in various large companies in the world. In principle, the concept of knowledge management is aimed to increase the corporate profits by improving the communication between the entire corporate floors and improving the mastery of knowledge by the method of conducting knowledge transfer (knowledge sharing). Knowledge is

divided into two types, i.e. tacit knowledge and explicit knowledge. Tacit knowledge is the knowledge stored in human brain, such as thinking, memorizing and others. Explicit knowledge is the knowledge outside of the head, such as books, journals, and others. The concept of knowledge management seeks to integrate and combine such knowledge to improve the competitiveness.

The existing phenomenon shows poor performance of small enterprises resulted from a number of factors. In fact, small enterprises are still lack of competitiveness, less innovative, and have minus market access. Another obstacle encountered by small enterprises is related to product innovation in which small enterprises have not been able to respond to market changes and therefore is unable to optimize the marketing. Innovation is one of the key aspects of the corporate performance, especially in the growing competitive environment today. The companies which are able to innovate will allow themselves to survive in the competition and gain significant advantages. Based on the phenomena above, the objective of this research was to examine the influence of innovation mediation on the effects of knowledge Management and Entrepreneurial Orientation on the performance of Small Enterprises.

II. RESEARCH MODEL

According to Davenport and Prusak (1998), knowledge and information are distinctive; however, a connection exists between them. The distinction between those two can be said a level, knowledge has more complex meanings. Knowledge is combination composed of experiences, values, contextual information, and expert views providing a framework for evaluating and incorporating new experiences and information. Knowledge is generated and applied in the minds of individuals. Based on the resource, the knowledge of organizations may be obtained from internal and external resources. Internal knowledge is obtained from individuals or groups of people possessing knowledge or organizational routines. Knowledge may be obtained from structured media, such as books, documents, or relationship of person-to-person, ranging from mild talks to scientific talks (Setiarso et al., 2009). External Knowledge is the information obtained from the external environment of the organization with the methods such as: benchmarking, conference, hiring consultants, reading important things; such as magazines, newspapers, watching television, videos, monitoring economic trends of social and politics, retrieving data from consumers, competitors and other resources, hiring new staff, collaboration with other organizations or building alliances.

Hart (1994) states there are a set of organizational processes to create a strategic decision. It is manifested in the form of organizational behavior that can be characterized and identified (Rajagopalan, et al, 1993). The dimensions of the strategy-making process can be seen in the organizational activities covering the planning, decision making, and strategic management. Such processes are also contained in various aspects of organizational culture, the division of value systems, and organizational visions (Hart, 1992). In efforts to identify the relevant variables in forms and models of decision-making processes of organizational strategies, many researchers are focusing on the dimensions of strategy-making. For example, Miller (1988) identified 11 dimensions of the strategy-making process, including adaptiveness, analysis, integration, risk taking, and product-market innovation. In a study on the influence of structural factors on the strategy-making process, Fredrickson (1986) proposed dimensions, such as pro-activeness, rationality, comprehensiveness, risk taking and assertiveness. Hart (et. al) in an integrative framework for strategy-making process, different dimensions are combined in "different forms of strategy making", namely; command, symbolic, rational, transactive, and generative.

Innovation is one of the corporations in encountering market competition and sustainable management. Freeman (2004) considers innovation as an effort of the companies via the use of technology and information to develop, manufacture and market new products for the industry. In other words, innovation is a modification or invention of ideas for improvement and development in continuous basis to meet the customers' needs. In the present era, innovation can be said a mantra of business organizations in encountering the competition (Sumiyarto, 2006: 28). Companies which keep innovating will be able to survive and even become a leader in the business arena. Sumiyarto (2006: 28) states that essentially innovation is something "new" generated (as a corporate output) or a process of adoption or the application of something "new" by an organization in such a way that the organizations become more competitive. Something "new" in question may come in the forms of new products/ services capable of delivering more value compared to old products. It may also be a new process in creating efficiencies in the production, delivery (delivery) and services improvement. Greenberg and Baron (2008: 568) define innovation as the process of making changes to something that has been settled by introducing something new, a successful implementation of creative ideas within an organization.

Harris and Bonna (2001) state that the performance is a measure of success or achievement that has been accomplished by a company measured in each period of time. The corporate performance is the business achievement as of the objective of the establishment of the companies, i.e. to gain maximum benefit to be able to sustain the growth and development. Murphy et al (1990) state that the measurement dimensions of corporate performance which is commonly used in the research is the growth, profitability and efficiency. Johnson (2009)

in his research in the measurement of the performance of a company through the amount of market share, sales growth, and the importance of inter-partner turns out usable to measure the corporate performance. Chandler and Henks (1993) state there are two approaches in measuring the corporate performance, i.e. objective and subjective approaches. Objective approach is the type of approach using the data objectively, i.e. in the form of financial accounting data, whereas the subjective approach is to measure the corporate performance based on the perception of the managers on corporate performance.

III. RESEARCH METHODOLOGY

Based on the research problems and the conceptual framework presented earlier, this is included explanatory research, i.e. the research conducted to investigate the influence among hypothesized variables (Cooper and Emoy, 1998). The data collection was conducted by survey method. The data of the survey results were cross-section data, i.e. the collection of data obtained from the research at one point of time. The data collection in field of this research was conducted from August to October 2013.

The data sources used in this research were primary data and secondary data. The primary data were sourced directly from the respondents through the instruments of questionnaires, interviews and direct observation to respondents (the owner or manager of small enterprises); Meanwhile, according to Emory and Cooper, there are two sources in the secondary data, i.e. external and internal sources, in which the internal source is the data obtained from the inside of the companies (small enterprises). Meanwhile, the external data are sourced from outside the small enterprises, such as the data published by the Office of Municipal Industry and Trade, the Central Bureau of Statistics of Makassar, the Department of Cooperatives and SMEs of Makassar and other agencies associated with the development of small enterprises. Secondary data are the supporting data and information obtained and processed by the other parties (Natsir, 1988). The data used in this research were qualitative and quantitative data.

IV. RESULTS AND DISCUSSIONS

The loading factor value indicates the weight of each indicator as a measurement of each latent variable. The indicator with the largest factor loading indicates that it functions as a measurement of the strongest variable (the dominant). The results of measurement model are presented in the following table:

Table 1. Loading Factor on Measurement Model

indicator	Loading	P-Value	indicator	Loading	P-Value	indicator	Loading	P-Value	indicator	Loading	P-Value
X1.1	1.000	Fix	X2.1	1.000	Fix	Y1.1	1.000	Fix	Y2.1	1.000	Fix
X1.2	0.948	0.000	X2.2	0.782	0.000	Y1.2	1.583	0.000	Y2.2	1.297	0.000
X1.3	0.814	0.000	X2.3	1.024	0.000	Y1.3	1.528	0.000	Y2.3	0.955	0.000
X1.4	0.873	0.000							Y2.4	0.501	0.000

In Knowledge Management variable, it appears that the value of each indicator loading factor of more than 0.40. It shows that the six indicators forming the construct of knowledge management are all declared valid with an adequate level of internal consistency. Indicator possessing the highest value of loading factor is the knowledge acquisition, i.e. 1,000 and the indicator having the lowest value of the loading factor is knowledge sharing, i.e. 0.814. At Entrepreneurial Orientation variable, it appears that the value of each indicator loading factor is more than 0.40. It indicates that the three indicators forming entrepreneurial orientation construct are all considered valid with an adequate level of internal consistency. Indicator having the highest value of loading factor is extroversion, i.e. 1.024 and indicator having the lowest loading factor is the self-reliance, i.e. 0.782. At innovation variable, it appears that the value of loading factor of each indicator is more than 0.40. It indicates that the three indicators forming the innovation construct are all stated with an adequate level of internal consistency. Indicator having the highest value of the loading factor is imitation/ artificial product, i.e. 1583 and the indicator having the lowest value of the loading factor is the expansion of product lines, i.e. 1000. In Small Enterprise Performance variable, the loading factor value of each indicator is more than 0.40. It indicates that the five indicators forming the performance of small enterprises construct are all considered valid with an adequate level of internal consistency. The indicator having the highest loading factor value is customer perspective, i.e. 1.297 and the indicator having the lowest loading factor value is the growth perspective and learning, i.e. 0.501

The direct influence hypothesis testing is conducted with t test on each influence path partially. The direct influence is the direct influence measured from one variable to another. The mediation effect is the influence measured indirectly from one variable to another, via an intermediary (intervening).

The following is the complete mediation testing results of Innovation Mediation (Y1) on the influence of Knowledge Management (X1) on the Performance of Small Enterprises (Y2).

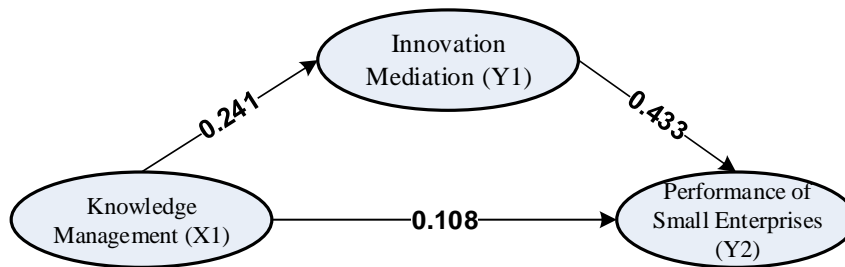


Figure 2. Structural Model Results SEM Mediation Effect Innovation in Knowledge Management for Small Business Performance

Table 2. Effect of Mediation Innovation in Knowledge Management for Small Business Performance

Relationship between Variables	Coefficient	P-value	Explanation
X1 → Y1	0.241	0.005	Significant 5%
Y1 → Y2	0.433	0.000	Significant 5%
X1 → Y2	0.108	0.046	Significant 5%
X1 → Y1 → Y2	0.104	0.011	Significant 5%

Source: Primary Data Processed, 2014

Based on Table 3.4 and Figure 3.2, the testing of the mediation effect between Knowledge Management (X1) on the Performance of Small Enterprises (Y2) via Innovation (Y1), the coefficient of Sobel test at 0.104 is obtained with p-value of 0.011 < 0.05, thus it can be said there is significant mediation effect of Knowledge Management on the Performance of Small Enterprises via Innovation. With a positively-marked coefficient, it indicates a positive relationship. It means the higher the taxpayers' Knowledge Management, will lead to higher Performance of Small Enterprises if the Innovation to behave is also high. The testing results indicate that the Innovation variable becomes the mediator of the influence of Performance of Knowledge Management on the Performance of Small Enterprises. The higher the Knowledge Management, accompanied by the higher Innovation, it will improve the Performance of Small Enterprises. These results indicate that in order to improve the corporate performance, small enterprises in Makassar City need Knowledge Management accompanied by increased innovation. It is due one of Knowledge Management is business concept, including the businesses implemented by mutual consent, coordinated and deliberately aimed to manage organizational knowledge through the process of creation, structuring, distribution and the application in order to improve organizational performance and create value. The testing results also indicate partial mediation effects since the influence of Knowledge Management on innovation is also significant, whereas the influence of Innovation on the Performance of Small Enterprises is significant.

The complete testing results of Innovation Mediation on the influence of Entrepreneurial Orientation towards the influence of the Performance of Small Enterprises are presented as the following.

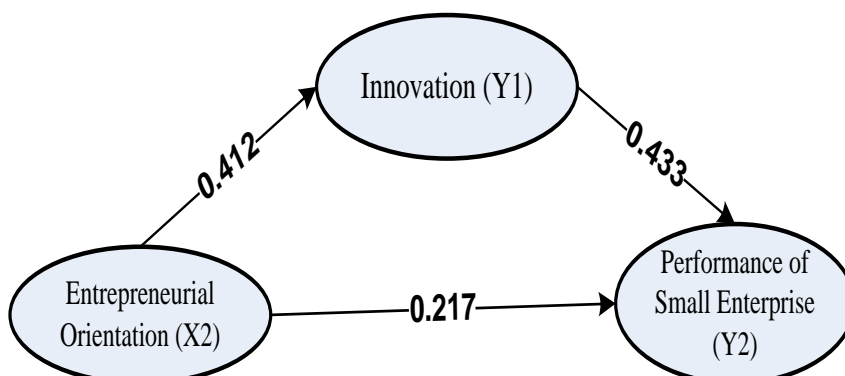


Figure 3. Structural Model Results SEM Mediation Entrepreneurial Innovation at Orientasi Effect on Small Business Performance

Table 3. Effect of Mediation Innovation in Entrepreneurial Orientation on Small Business Performance

Relationship between Variables	Coefficient	P-value	Explanation
X2 → Y1	0.412	0.000	Significant 5%
Y1 → Y2	0.433	0.000	Significant 5%
X2 → Y2	0.217	0.025	Significant 5%
X2 → Y1 → Y2	0.178	0.000	Significant 5%

Source: Primary Data Processed, 2014

Based on Table 3.5 and Figure 3.3, the testing the mediation effect of Entrepreneurial Orientation (X2) on the Performance of Small Enterprise (Y2) via Innovation (Y1), a coefficient of Sobel test is obtained at 0.178 with p-value of 0.000 < 0.05, thus it can be said that there is significant mediation effect between Entrepreneurial Orientation on the Performance of Small Enterprises via Innovation. With a positively-marked coefficient, it indicates a positive relationship. It means the higher the Entrepreneurial Orientation; it will lead to higher Performance of Small Enterprises, if the Innovation to behave obediently is also high. The testing results indicate that the Innovation variable becomes the mediator of the influence of Entrepreneurial Orientation on the Performance of Small Enterprises. The higher the Entrepreneurial Orientation, with the higher Innovation mediation, it will increase the Performance of Small Enterprises. Such results indicate that the entrepreneurial orientation in the form of need for achievement, self-reliance and extraversion is capable of improving the performance of small enterprises in Makassar City, followed by the improvement in innovation. Thereby, the success of business is very dependent on the level of motivation of the owners/ managers. In other words, entrepreneurial orientation determines the entrepreneurial performance. The testing results also indicate that there are partial mediation effects (partial mediation) as the influence of Entrepreneurial Orientation towards Innovation is significant, and the influence of Innovation on the Performance of Small Enterprises is also significant.

V. CONCLUSIONS AND SUGGESTIONS

The results conclude that there is a significant mediation effect of the Knowledge Management on the Performance of Small Enterprises via Innovation. Furthermore, there is a significant mediation effect of the Entrepreneurial Orientation on Performance of Small Enterprises via Innovation. This research finds that the corporate performance on small enterprises in Makassar City can be improved as a result of the strategies adopted by the owners/ managers of small enterprises in Makassar City, the management of organizational Knowledge Management via the process of creation, structuring, dissemination and application to improve performance via innovation of small enterprises agents in Makassar City as a part of a corporate mechanism in order to adapt in a dynamic enterprise environment.

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