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The influence of knowledge sharing on business performance in MSMEs with dynamic capabilities, competitive advantages and innovation capability as mediation variables

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ABSTRACT
Micro, Small and Medium Enterprises (MSMEs) have a very important role for a country. This research aims to examine the variables that influence the business performance of MSMEs. This research uses a causal design approach to test the relationship between independent variables and dependent variables using Structural Equation Modeling (SEM) with the AMOS 24 statistical tool. The number of samples used in this research was 300 respondents from MSME activists in Indonesia. This research will also develop a model that looks at the indirect influence of dynamic capabilities, competitive advantages and innovation capability as mediating variables through a more comprehensive measurement construct so as to provide a broader perspective on results compared to previous research.

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INTRODUCTION

MSMEs, or micro, small, and medium-sized enterprises, are crucial to the economy of every nation. MSMEs have a crucial role in fostering innovation, enhancing welfare, and absorbing job possibilities (Nyoni & Bonga, 2018). Additionally, MSMEs support economic expansion, particularly in emerging nations (Porter and Kramer, 2011). If MSMEs continue to create market demands for both local and export markets, which supports sustainable growth, they have the ability to employ the majority of the jobless (Afriyie et al., 2019). MSMEs are seen to be the industry that may offer a nation's labor market the greatest number of job possibilities (Sulemana, 2014). In many developing nations, MSMEs employ at least 22% of the adult labor force on average, according to Burns (2016).

According to Burns (2016), MSMEs employ at least 22% of the adult population in developing nations on average in several of these countries.

MSMEs are the foundation of the national economy in a nation like Indonesia. The number is anticipated to rise further. 61.7 million business units were classified as MSMEs in Indonesia in 2016. With an example of the composition of small businesses reaching 783,132 units and medium businesses reaching 60,702 units, the number of MSMEs reached 63.5 million units in 2018. In 2017, the number increased by 2.06% to 62.9 million

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business units. (Ministry Data Cooperatives and SMEs, 2018). Additionally, Indonesia's MSME sector contributed 59.84% of GDP in 2016 and grew to 60.34% in 2017. In 2017, the MSME sector's labor absorption capability contributed significantly, employing up to 116.6 million people, or 97.22% of the labor force (Ministry of Cooperatives and SMEs, 2018). This demonstrates that one of the best ways to guarantee income stability, development, and employment is through the MSME sector (Abor & Biekpe, 2006; Rahayu, 2017).

The good news is that there are more MSMEs in Indonesia. However, for these businesses to survive and maintain their competitiveness over time, their growth must be matched by gains in their business performance. According to Porter (1991), a company's competitive advantage is directly linked to variations in business performance. Competitive advantage has the potential to influence not just a company's earnings but also its market share and operational performance depending on the situation (Harrison et al., 2010). Dynamic capabilities, in addition to sustainable competitive capabilities, are thought to have a big impact on corporate performance. Dynamic capabilities have been shown to positively impact firm performance in a number of ways, according to previous research findings. These include enhancing inter-company performance (Gudergan et al., 2012), matching the resource base to the changing environment (Teece et al., 1997), creating changing markets (Eisenhardt & Martin, 2000), and supporting mechanisms for extracting resources and building capacity that generates rents (Makadok, 2001).

Capabilities for innovation will also improve business performance. According to Lawson and Samson (2001, p. 384), "innovation capability is the ability to continuously transform knowledge and ideas into new products, processes, and systems for the benefit of the company and its stakeholders." Studies demonstrate that organizational innovation capabilities and performance, particularly in the financial domain, are positively correlated (Han et al., 1998; Hull & Rothenberg, 2008; Jansen et al., 2006). The same finding is reported in other studies: innovation has a major impact on SME company success in Indonesian small food processing enterprises (Najib & Kiminami, 2011). It has also been demonstrated that innovation has a statistically significant impact on SMEs' success in Dubai (Al-Ansari et al., 2013). Additionally, it has been discovered that performance and innovation are strongly correlated (Gunday et al., 2011; Saunila and Ukko, 2013). Nevertheless, contradictory outcomes were also attained, wherein innovation was perceived as a variable that lacked both a mediating effect and a substantial impact on firm performance, according to Saunila's (2014) findings (Huhtala et al., 2014; Bamfo & Kraa, 2019)

Additionally, MSME advocates are always in need of having up-to-date knowledge. Sharing knowledge is one way to advance knowledge. Since knowledge sharing allows for the dissemination, implementation, and development of both explicit and tacit information by individuals, it plays a significant role in enhancing individual competency within an organization (Tobing, 2007; Nonaka & Takeuchi, 1995; Alwis & Hartmann, 2008). The extent to which information exchange, dynamic capabilities, competitive advantages, and

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innovative capacities affect business success for MSME activists in Indonesia will be examined in this study. In order to provide a broader perspective on the results than previous research, this study will also develop a model that examines the indirect influence of dynamic capabilities, competitive advantages, and innovation capability as mediating variables through a more comprehensive measurement construct.

Literature Review

Knowledge Sharing

According to Hu (2009), knowledge is an idea combined with information, experience, and insight. To achieve a lasting competitive advantage, one of the strategic resources one has to possess is knowledge (Ragab & Arisha, 2013). Similar to natural resources or other forms of physical capital, knowledge is also seen as an endless source of power, meaning that its inherent qualities may be exploited via expansion and openness to further development and improvement (Egbu, Hari, & Renukappa, 2005). The idea of knowledge sharing refers to the process of transferring or sharing knowledge in order to increase, open, and grow it.

Knowledge sharing is a process activity that involves sending, sharing, and disseminating multidimensional knowledge and context from individuals or organizations to other persons or organizations who require it, using a variety of means and media (Lumantobing, 2011). Another definition of knowledge sharing is the extent to which an organization exchanges knowledge resources across functional boundaries. In order to promote improved performance from the company, companies need to be able to disseminate the information and expertise that individuals inside the business possess (Liao, Wang, Chuang, Shih and Liu, 2010).

Organizations can sustain their competitive position through knowledge exchange activities, which are a crucial step towards success (Tuomi, 2000). Knowledge sharing will enable the production of knowledgeable resources, enabling the creation of technologies and goods that are distinctive, difficult to copy, and have a sustained competitive advantage (Zannah, 2013: 2). A company's capacity for innovation can be enhanced by knowledge sharing (Rahab, 2011). Members of a company that share knowledge often come up with fresh concepts for creating innovative processes and products (Mehrabani, 2012). Companies may enhance their capacity for innovation by using the expertise and contributions of their people resources (Fen Lin, 2007). By sharing this implicit information, SMEs may become more inventive and creative, which will boost their performance (Ngah, 2009).

There are two categories of knowledge sharing: explicit knowledge and tacit knowledge. Tobing (2007) defines tacit knowledge as knowledge that is stored in the human mind as judgment, skills, values, beliefs, and intuition—knowledge that is extremely challenging to define and communicate with others. By definition, tacit knowledge is defined as information that is personal, that is, knowledge that is learned from people directly. Explicit knowledge is information that is or has been codified into written materials or other tangible forms that facilitate easy distribution across a range of media. Explicit

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information may be shared and communicated easily since it is formal and systematic (Carrillo et al., in Noviyanti. 2015).

The flow of information inside the company, stemming from both tacit forms and organizational knowledge, is one of the primary variables affecting the advancement of knowledge sharing (Nonaka & Takeuchi, 1995; Alwis & Hartmann, 2008). The rate and caliber of innovation are positively and significantly impacted by the exchange of explicit and tacit information (Mahmood, 2012). According to Capeda and Vera (2007), management knowledge is a process that aids in the development of dynamic capacities. Effective corporate performance and dynamic skills may be attained with knowledge (Tseng and Lee, 2014). Collective learning and the growth of dynamic skills are related, according to Zollo and Winter (2002). They created a framework that uses three learning mechanisms—the act of articulating information, codification of knowledge, and accumulation of prior experience—to create dynamic capacities.

Competitive Advantage

Porter (1985) defined competitive advantage as a company's ability to outperform its rivals due to its comparatively better position in the market. According to Vinayan et al. (2012), the foundation of the majority of modern enterprises is a sustained competitive advantage. According to recent research, excellent performance is a prerequisite for competitive advantage, and as such, performance and competitive advantage should be empirically assessed as linked but distinct notions (Navarro, Losada, Ruzo, & Diez, 2010; Spanos & Lioukas, 2001). According to Hult et al. (2005) and Ketchen et al. (2007), market orientation adds intrinsic value to the company's strategic management process by enhancing business performance and generating competitive advantages. According to Harrison et al. (2010), a company's competitive edge may influence not just its earnings but also its market share and operational performance depending on the situation. A company's ability to differentiate itself from competitors gives it a distinct edge in the market (Miller, 1988), which increases earnings or market share (Porter, 1985).

Innovation Capability

One of the most crucial facets of business studies is innovation. Product, process, marketing, and organizational innovation are the four main areas of concentration for innovation (Oslo Manual, OECD, 2005). According to Zaefarian et al. (2017), product innovation entails maximizing consumer benefits for functional or other enhancements in goods or services. Operating in novel and inventive methods is referred to as process innovation (Akgün et al., 2014).The introduction of new business procedures, workplace rules, decision-making processes, and methods for managing external connections are the main areas of attention for organizational innovation (Polder et al., 2010). According to Hassan et al. (2013), marketing innovation is the use of new techniques that entail substantial adjustments to product positioning, design, packaging, promotion, and price tactics.

Only when a corporation is capable of innovating can innovation take place (Laforet, 2011). According to Zehir et al. (2015), innovation capability refers to the skills and

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knowledge required to produce something new as well as the ability to manage and improve current technologies. According to Vicente, Abrantes, and Teixeira (2015), innovation capability is the ability of an organization to create new products by combining innovation behavior, strategic skills, and internal technology processes.

Numerous research on innovation capacities seek to uncover the necessary skills for businesses to innovate while also focusing on improving performance and good results (Yam, Lo, Tang, & Lau, 2011). According to Keskin (2006), an organization's potential to innovate is determined by its willingness to adopt novel concepts, create fresh approaches, and preserve originality in its daily operations. In addition, the company's emphasis on using concepts and experiences from many sources is linked to its innovation capabilities (Zhang & Hartley, 2018). Similarly, innovation capability is defined as having several aspects that contribute to creative output (e.g., leadership, competency management, organizational culture, use of outside information, and staff creativity) (Boly, Morel, Camargo, 2014; Saunila & Ukko, 2014). According to Oura, Zilber, and Lopes (2016), a number of scholars contend that innovation capability is comprised of certain capabilities including marketing, learning, entrepreneurial, networking, and resource exploitation capabilities.

It is attempted to connect the classification of innovation capability to updates in organizational structure, services, processes, and products (Hult et al., 2004; Saunila et al., 2014). Certain types of innovation capabilities, such process and product innovation (Martínez-Costa & Martínez-Lorente, 2008) and management and marketing innovation (Gunday et al., 2011), are the subject of some study. Avermaete et al. (2003) describe how some research employ a collection of collective innovation skills, including product, process, management, and marketing innovation capabilities.

It is thought that corporate performance, including financial performance, and innovation capabilities are positively correlated (Han et al., 1998; Hull and Rothenberg, 2008; Jansen et al., 2006). Businesses with strong innovation capacities can create cutting-edge goods and services to adapt to changing environmental conditions at various stages of the business cycle (Matsuo, 2006). It is thought that innovation can improve SMEs' business success (Najib and Kiminami, 2011; Al-Ansari et al., 2013). The capacity of a business to generate increased performance is intimately linked to innovation (Gunday et al., 2011; Saunila and Ukko, 2013).

Dynamic Capability

Conversely, dynamic capabilities aim to connect the company with its surroundings and implement strategic transformation (Zahra et al., 2006). According to Teece (2007), they may be conceptually divided into three categories: 1) identifying and shaping possibilities; 2) seizing opportunities; and 3) deploying and reconfiguring (i.e., creating, expanding, and modifying) a firm's resource base. Scan, seek, and explore activity across markets and technology in order to identify and shape possibilities and risks (Teece, 2007). Performance is eventually strengthened by dynamic capabilities, which improve organizational responses to environmental turbulence in terms of efficacy, speed, and

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efficiency (Chmielewski and Paladino, 2007; Hitt et al., 2001). Dynamic capabilities give businesses a fresh set of alternatives for making decisions through opportunity sensing and reconfiguration, which may enhance firm performance (Eisenhardt and Martin, 2000; Teece, 2007).

In terms of dynamic capacities, they let businesses develop new goods and procedures that let them adapt to the ever-changing market (Huang et al., 2012). Dynamic capabilities, according to Hsu and Wang (2012), appear as a supplement to RBV theory to explain competitive advantage in quickly evolving situations. Their potential impact on competitive advantage is the source of their dynamic capacities (Teece et al., 1997). Additionally, it is thought that retaining a competitive edge is largely dependent on dynamic capacities (Lee et al., 2002; Zahra & George, 2002; Li & Liu, 2014).

Innovation is greatly impacted by dynamic capacities (Fitriati et al., 2019). According to Teece et al. (1997) and Eisenhard & Martin (2000), dynamic skills are no longer just regular organizational capabilities; they also include those that generate breakthroughs through innovation (O'Reilly & Tushman, 2011). Dynamic capabilities have a major impact on innovation capacities, according to prior empirical study (Ferreira et al., 2017).

Conceptual framework

The following study framework may be constructed using the previous description as a basis:

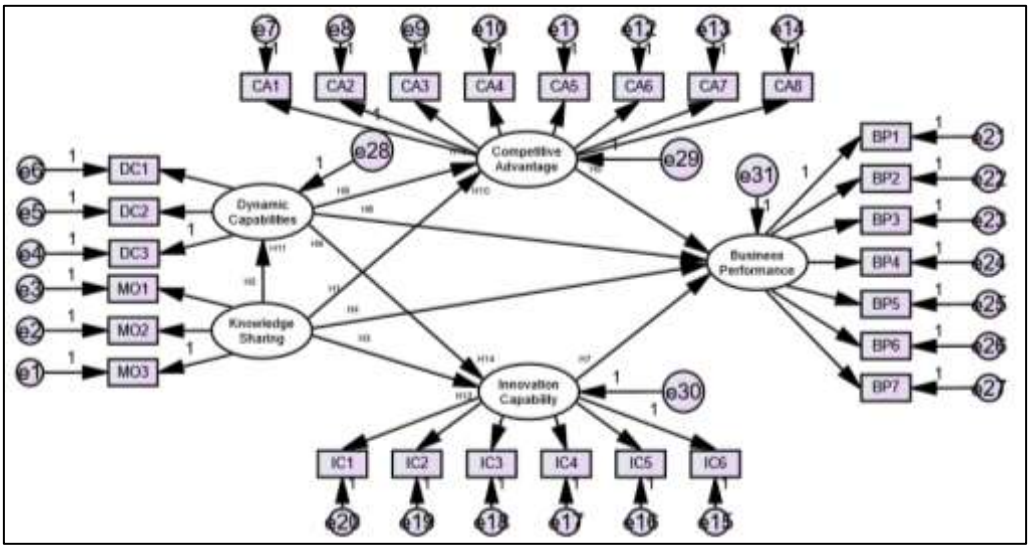

Figure 1. Research Framework

Research Hypothesis

Drawing on the issue formulation and conceptual framework mentioned above, the researcher has proposed the following study hypothesis:

1. Knowledge Sharing has an influence on competitive advantage
2. Knowledge Sharing has an influence on dynamic capabilities
3. Knowledge Sharing has an influence on innovation capability

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4. Knowledge Sharing has an influence on business performance
5. Competitive advantage has an influence on business performance
6. Dynamic capabilities have an influence on business performance
7. Innovation capability has an influence on business performance
8. Dynamic capabilities have an influence on competitive advantage
9. Dynamic capabilities have the influence of innovation capability
10. Knowledge Sharing has an influence on business performance through competitive advantage
11. Knowledge Sharing has an influence on business performance through dynamic capabilities
12. Knowledge Sharing has an influence on business performance through innovation capability
13. Dynamic capabilities have an influence on business performance through competitive advantage
14. Dynamic capabilities have an influence on business performance through innovation capability.

METHOD

The study's selected design is causal research. A questionnaire for this study is given to participants who are thought to fit the predetermined criteria. A Likert scale from 1 to 5 is used in the questionnaire. The categories are: Strongly agree (5 points), Agree (4 points), Indecisive (3 points), Disagree (2 points), and Strongly disagree (1 point). The study's participants are business players from Indonesia who are classified as MSME's. There were 220 responders in the sample size for this study. Purposive sampling is the sample strategy employed, and it meets the following requirements: 1) MSME players; 2) Indonesian-domiciled firm; 3) the enterprise has been in operation for a minimum of one year; 4) incorporates technology into its operations. The SEM AMOS 24 statistical analysis tool was used in this study to help with data analysis.

RESULT AND DISCUSSION

Respondent Characteristics

The profile of survey participants is analyzed using the following demographic data.:

Table 1. Characteristics of Respondents

Category	Item	f	%
Business Sector Run	Culinary	111	50
	Fashion	74	34
	Craft	17	8
	Publishing And Printing	11	5
	Design	7	3
	Total	220	100
Long Running Business	1 Year to <3 Years	33	15

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Category	Item	f	%
	3 Years to <5 Years	72	47,1
	> 5 Years	42	20,4
	Total	220	100
Use of Technology in Business	Involving technology in all business processes	34	15
	Involving technology in several business processes	186	85
	Does not involve technology in all business processes	0	0
	Total	220	100
Monthly Business Income	1 million to <10 million	112	51
	10 million to <25 million	56	26
	25 million to <50 million	29	13
	50 million to 100 million	16	7
	> 100 million	7	3
	Total	220	100

Measurement Models

The conformance, validity, and reliability test results are as follows.

Tabel 2. Value of Standardized Loading Factor, Construct Reliability (CR), and Average Variance Extracted (AVE) in Overall Model Fit

Variabel	Items	SLF	CR	AVE
Knowledge Sharing	Social interaction ties	0,911	0,88	0,89
	Social identification	0,974		
	Social trust	0,952		
Dynamic Capabilities	Sensing Capability	0,932	0,85	0,87
	Learning Capability	0,925		
	Reconfigurating Capability	0,934		
Competitive Advantages	Low Cost/ Cost Leadership	0,930	0,85	0,88
	High Quality	0,962		
	Differentiation	0,934		
	Quick Response	0,952		
	In Imitable	0,943		
	Unsubstituted	0,923		
	The company have known	0,941		
	The product have known	0,936		
Innovation Capability	Rapid rate of change in technical, process and procedure	0,946	0,85	0,88
	The level of innovation of	0,928		

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Variabel	Items	SLF	CR	AVE
	new products is very high			
	Fast in adopting the latest innovation technology in the production process	0,925		
	Fast in developing new products	0,940		
	We have technology that has a competitive advantage	0,946		
	Large number of new products introduced to the market	0,945		
Business Performance	Sales growth	0,961	0,87	0,92
	Profit growth	0,961		
	Market share growth	0,958		
	Growth in the number of shipment orders	0,958		
	Growth in supply to the market	0,963		
	Sales revenues	0,963		
	Performance sustainability	0,968		

Based on Table 2, the results of validity and reliability tests show that the indicators of the constructed model meet valid and reliable criteria. Existing indicators have standardized stress factor (SLF) values above 0.50. This indicates that all metrics are valid and adequate to measure the composition of the entire model produced. The Construct Reliability (CR) test score is over 0.70. This indicates that all instruments are reliable and can consistently measure the structure across the constructed model.

Tabel 3. Goodness of Fit Index

Goodness of Fit Index	Cut off Value	Results
χ^2	Expected to be low	462.523
Df		315
χ^2- Significance Probability	≥ 0.05	0.000
CMIN/DF	≤ 3.00	1,468
RMSEA	≤ 0.08	0,048
RMR	< 0,05	0,036
NFI	≥ 0.90	0,954
IFI	≥0.90	0,985
TLI	≥0.90	0,983
CFI	≥0.90	0,985

According to Table 3's model conformance test, it is possible to certify conformity since the model conformance conditions have been accepted. Good quality of fit is indicated

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by five measures. The research model configuration can be deemed sufficient and approved if three to four measurements have a high degree of agreement or are higher than the cut-off value.

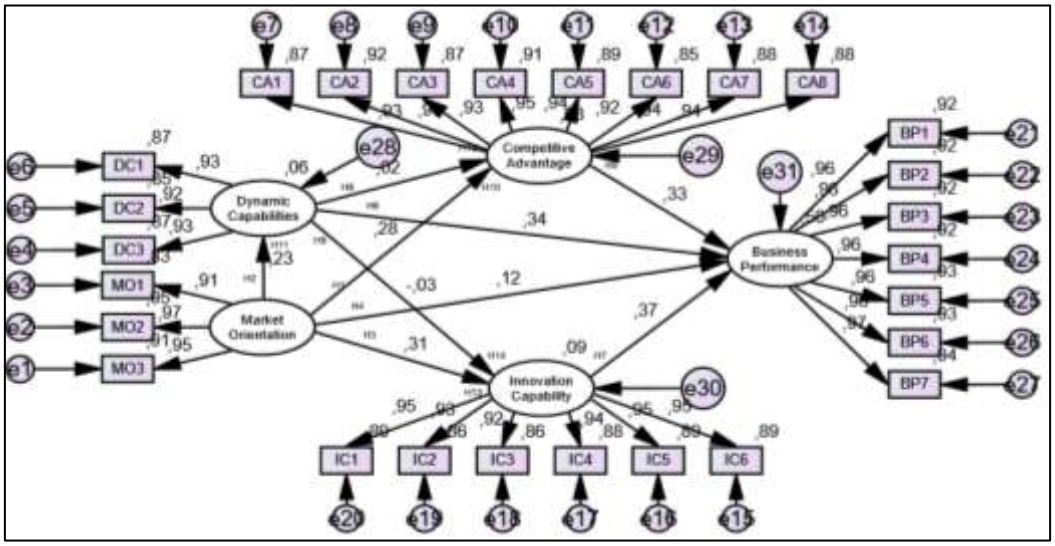

Figure 2. Full Model Testing

Hypotheses Testing

The results of testing the effects of relationships between variables in the study configuration constructed in this study can be conveyed as follows.

Tabel 4. Hypothesis testing

Path	Estimate	S.E.	C.R.	P	Conclusion
Dynamic_Capabilities<---Knowledge Sharing	,176	,051	3,411	***	*significan*
Innovation_Capability<---Knowledge Sharing	,276	,062	4,450	***	*significan*
Competitive_Advantage<---Knowledge Sharing	,235	,058	4,021	***	*significan*
Competitive_Advantage<---Dynamic_Capabilities	,026	,078	,335	,737	*not significan*
Innovation_Capability<---Dynamic_Capabilities	-,037	,083	-,448	,654	*not significan*
Business_Performance<---Knowledge Sharing	,120	,057	2,123	,034	*significan*
Business_Performance<---Dynamic_Capabilities	,467	,072	6,516	***	*significan*
Business_Performance<---Competitive_Advantage	,398	,063	6,310	***	*significan*
Business_Performance<---Innovation_Capability	,423	,060	7,053	***	*significan*

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Table 4 indicates that the p-value for Knowledge Sharing on Competitive Advantage, Innovation Capability, and Dynamic Capabilities is less than 0.05 (α = 0.05). Thus, it can be concluded that Knowledge Sharing significantly influences Competitive Advantage, Innovation Capability, Dynamic Capabilities, and Business Performance. Similarly, p-values less than 0.05 (α = 0.05) indicate a substantial effect on the following factors: innovation capability, competitive advantage, and dynamic capabilities on business performance. However, Innovation Capability and Competitive Advantage are unaffected by Dynamic Capabilities. The following is how the indirect impact test for this study is displayed in Table 5:

Tabel 5. Sobel Test - Significance of Mediation

	Sobel test statistic	Two- tailed probability
Knowledge Sharing --> Competitive Advantage --> Business Performance	3,54	0,0003
Knowledge Sharing --> Dynamic Capabilities --> Business Performance	3,31	0,0009
Knowledge Sharing --> Innovation Capability --> Business Performance	3,87	0,0001
Dynamic Capabilities --> Competitive Advantage --> Business Performance	0,29	0,7684
Dynamic Capabilities --> Innovation Capability --> Business Performance	0,37	0,7092

The effect of Knowledge Sharing on Business Performance through Competitive Advantage, Dynamic Capabilities, and Innovation Capability indicates a p-value that is less than 0.05 (α = 0.05) based on the Sobel test findings displayed in Table 5. This indicates that the Knowledge Sharing variable on Business Performance is mediated by Competitive Advantage, Dynamic Capabilities, and Innovation Capability. Competitive advantage and innovation capability, however, have no mediation effect on the relationship between dynamic capabilities and business performance.

CONCLUSION

Enhancing MSMEs' performance is essential to sustaining their presence as a viable solution to the country's economic issues. According to Huhtala (2013) and Talaja et al. (2017), good performance is defined as increasing sales, profits, market share, delivery orders, supply to the market, sales revenue, and performance sustainability. MSMEs need to focus on knowledge exchange, dynamic capacities, competitive advantage, and innovation capability in order to achieve this improvement in performance. Increasing corporate performance is mostly dependent on innovation. A company's success is contingent upon its capacity to evolve and adjust to shifting market conditions and technology advancements, in addition to preserving its current business model. Innovation

helps businesses satisfy the ever-changing needs of their customers, creates new possibilities, boosts operational efficiency, and lowers costs. In addition, MSMEs must evolve into dynamic organizations capable of integrating, growing, and adaptably using their internal resources in response to shifts in the business environment. With this capacity, firms will be able to see new possibilities, manage emerging risks, and be more flexible and quick to alter their strategy. Increasing corporate performance is mostly dependent on innovation. A company's success is contingent upon its capacity to evolve and adjust to shifting market conditions and technology advancements, in addition to preserving its current business model. Innovation helps businesses satisfy the ever-changing needs of their customers, creates new possibilities, boosts operational efficiency, and lowers costs. In addition, MSMEs must evolve into dynamic organizations capable of integrating, growing, and adaptably using their internal resources in response to shifts in the business environment. With this capacity, firms will be able to see new possibilities, manage emerging risks, and be more flexible and quick to alter their strategy.

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