

The Role of Knowledge Management Orientation in Driving the Performance of MSMEs

***Dunga Dwi Barinta** 

Department of Management, Faculty of Economy, and Business, Universitas Airlangga, Surabaya, Indonesia

Correspondence*:

Address: Jl. Airlangga 4-6 Surabaya, Indonesia 60286 | e-mail: dunga.dwi@feb.unair.ac.id

Abstract

The evaluation of a company's performance is a critical aspect when assessing the alignment of business activities with established plans. Regular performance measurement is vital for small-scale enterprises like Micro, Small, and Medium Enterprises (MSMEs). Internal challenges encountered by MSMEs, such as ineffective knowledge and information management, along with misunderstandings about the market, impede these businesses from enhancing their performance. In this context, possessing an orientation towards knowledge management and market awareness is crucial for propelling company performance. This study aims to investigate the impact of knowledge management orientation and market awareness on improving the performance of MSMEs, addressing existing research gaps and the challenges faced by these enterprises. Both knowledge management orientation and market awareness are considered influential factors for boosting MSME performance. Employing a quantitative approach with purposive sampling for data collection, the research successfully compiled data from 112 MSME practitioners in Malang, utilizing 100 datasets for analysis. Structural Equation Modeling (SEM) via the SmartPLS 3.0 software was employed for data analysis. The study's findings support previous research, affirming the significance of both knowledge management orientation and market orientation in driving improvements in MSME performance. Effectively managing and processing knowledge can serve as a long-term intangible asset for attaining competitiveness in the business landscape.

Keywords: knowledge management orientation, market orientation, MSME performance.

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1. Introduction

The assessment of a company's performance plays a pivotal role in the conduct of business operations (Sarker and Palit, 2015). Performance evaluation serves as a tool to scrutinize and appraise the congruence between the outcomes of business activities and pre-established plans. The scrutiny of a company's accomplishments is gauged across financial dimensions (Financial Performance), as well as marketing, human resources, and operational aspects (Non-Financial Performance) (Al-Mamary, 2020; Anwar and Shah, 2020). The attainment of optimal company performance not only results in increased sales but also establishes a competitive edge (Le and Ikram, 2022; Tjiptono, 2008).

The significance of achieving peak company performance becomes evident in the context of prevailing market competition (Porter, 1996; Anwar and Shah, 2020). Companies strategically leverage their strengths to exploit potential opportunities, simultaneously addressing internal weaknesses, aiming for differentiation from competitors (Barney, 1995; Amin et al., 2016). This perspective aligns with Porter's (1996) assertion that a company can surpass its rivals by cultivating distinct and enduring differentiators, ultimately elevating overall company performance. The sustained achievement of optimal company performance becomes indispensable for long-term survival, particularly for micro, small, and medium-sized enterprises (MSMEs) (Amin et al., 2016; Ariasih et al., 2018; Sarker and Palit, 2015; Solikahan and Mohammad, 2019).

MSMEs in Indonesia play a central role in supporting the community's economy. MSMEs contribute to the GDP by reaching 61% and are capable of employing up to 97% of the total national workforce (Coordinating Ministry for Economic Affairs, 2022). The ability of MSMEs to drive the economy is inseparable from the larger proportion of MSME players compared to other business entities, thus promoting a higher turnover of economic transactions (Sijabat, 2018). Moreover, MSMEs exhibit resilience in facing economic crises, as evidenced by the increase in the number of MSMEs in Indonesia during 2021 and 2022, including in Malang City. MSME practitioners in Malang experienced a growth of 13% from 2021 to 2022 (Malang City BPS, 2022). Amidst the increasing number of MSMEs, practitioners require periodic performance measurement to evaluate the growth and development of their businesses.

Discussion regarding company performance at the SME level has garnered attention from many researchers (Amin et al., 2016; Ariasih et al., 2018; Sarker and Palit, 2015; Solikahan and Mohammad, 2019; A costa et al., 2018; Ali and Hilman, 2019). Company performance measurement can trigger business value and profit growth (Jalali et al., 2020). Companies can measure performance through both financial and non-financial aspects. Non-financial performance measurement is particularly suitable for small or micro-sized companies (Jalali et al., 2020). Non-financial performance refers to qualitative measures not interpreted in financial terms, such as customer satisfaction, employee loyalty, and product/service quality (Jalali et al., 2020; Tuffour et al., 2020).

Improving company performance can be understood and achieved by controlling and optimizing company resources (J. Barney, 1991). The utilization of company resources is reflected in the formulation of company strategies that align with its resource conditions. Knowledge management orientation and market orientation can be classified as intangible company resources that influence improvement (J. Barney, 1991; Amin et al., 2016; Al-Henzab, J et al., 2018; Acosta, A.S. et al., 2018; Al-mamary, 2020; Anwar and Shah, 2020; Hussein et al., 2019; Kmiecik and Michna, 2018).

Faroq and Vij (2009) asserted that Knowledge Management Orientation is crucial for enhancing the performance of Micro, Small, and Medium Enterprises (MSME). Knowledge Management Orientation is highly necessary for MSME to adapt to the high uncertainty of the business environment. It represents a company's ability to efficiently manage knowledge for business communication (Matusik and Heeley, 2005). The long-term implementation of knowledge management orientation can be used as an unseen asset to achieve a competitive advantage for the company. Knowledge Management Orientation is reflected through the attitudes and behaviors of business actors to record organizational memory, share knowledge, accept knowledge, and absorb knowledge (Wang et al., 2008; Wang et al., 2009; Hussein et al., 2019; Kmiecik and Michna, 2018). Business actors with a knowledge management orientation can use the company's knowledge and information to adapt to changes in the business environment (Faroq and Vij, 2019). Aliyu et al (2015) and Shafer Ali (2020) strengthen Faroq and Vij's (2019) findings that Knowledge Management Orientation plays a crucial role in influencing Company Performance. An attitude of knowledge management orientation is highly required in the strategic planning process and business innovation creation (Hussein et al., 2019). Business actors implementing knowledge orientation will leverage the entire company's knowledge as a performance and competitiveness lever (Faroq and Vij, 2019; Wang et al., 2009; Pengdu, 2011).

However, Peng Du (2011) and Wang (2009) concluded in their research that knowledge management orientation must be supported by other variables or factors to create an improvement in company performance. This conclusion differs from the research conducted by Faroq and Vij (2019), which states that knowledge management orientation can be formed and create performance without being accompanied by market orientation. Companies with special capabilities in managing knowledge and exploring new knowledge from the external or internal environment are highly needed to compete in the market (Kumasaru, 2021). The debate among researchers regarding the impact of Knowledge Management Orientation on improving company performance is the main focus of this research. As an extension of previous research, this study uses market orientation as a variable that can mediate the relationship between knowledge management orientation and company performance.

2. Literature Review and Hypothesis Development

The Role of Knowledge Management Orientation in Company Performance

The concept of knowledge management orientation is derived from the broader concept of knowledge management (Husein et al., 2018). This concept refers to an organization's ability to create a learning culture, engage in knowledge-sharing activities, and manage information effectively. Previous research has explained the relationship between knowledge management orientation and improved company performance (Faroq and Vij, 2019; Wang et al., 2008, 2009). This relationship is formed when the knowledge within an organization is used to enhance organizational performance by improving the company's capabilities to perform effectively (Hussein et al., 2019). In other words, the application of knowledge is believed to be a key to business success. Mahapa (2013), as mentioned in Faroq and Vij (2019), also states that effective knowledge application can reduce costs and gain a competitive advantage in the market, ultimately enhancing company performance.

Moreover, Knowledge Management Orientation in a business organization is linked to the absorption, utilization, and distribution of external knowledge in generating market competitiveness (Wang et al., 2009). Knowledge management orientation (KMO) can also drive companies to create an organizational environment or culture that supports the innovation process. An appropriate environment encourages employees to develop processes, procedures, and structures enabling timely

and effective production needed for creating innovative products or services. In turn, continuous innovation is essential for improving organizational performance (Hussein et al., 2019). In addition to the conducive environment, according to Kmiecik and Michna (2018) in their research, the codification and storage of past knowledge, including valuable information, can stimulate and motivate employees to solve problems more quickly and consistently, thus accelerating performance improvement.

H1: Knowledge management orientation significantly influences company performance.

The Role of Knowledge Management Orientation (KMO) in Market Orientation

Effective market orientation is formed by three dimensions: an organizational system that provides the company with the ability to track market trends, information dissemination within the company, and responsiveness to the market (Zahra, 2008). An effective market orientation facilitates the company's understanding of customer needs, both implicit and explicit, enabling the creation of superior customer value (Tang and Baker, 2016; Zahra, 2008). However, the establishment of effective market orientation is inseparable from the support of knowledge management orientation as an antecedent. A good knowledge management orientation encourages the balanced dissemination of information and knowledge within the company, creating an organizational culture with customers at the center of business operations, allowing effective information management. Ultimately, this supports the company in easily understanding customer needs and desires. According to Wang et al. (2009), the success of implementing market orientation is closely tied to the internal cultural support of the company. On the other hand, a positive internal culture can only be created if knowledge management orientation is applied correctly. Furthermore, the presence of knowledge management orientation significantly influences the value of the company's market orientation (Wang et al., 2009). Migdadi et al. (2017) state that knowledge management orientation (KMO) and market orientation are crucial elements for companies, where the involvement of knowledge management orientation (KMO) and market orientation can lead the company to better innovation capabilities. Research by Wang et al. (2009) also mentions a positive correlation between knowledge management orientation (KMO) and market orientation. Based on these descriptions, the hypothesis of this research is:

H2: Knowledge Management Orientation significantly influences Market Orientation.

The Role of Market Orientation (MO) in Enhancing Company Performance

The connection between Market Orientation and Company Performance has been a widely discussed subject in recent literature (Campos, 2018; Masood and Rizwan, 2020; Masa'deh et al., 2018; Solikahan and Mohammad, 2018). Utilizing market orientation can serve as a catalyst for improving company performance (Amin et al., 2016; Acosta et al., 2018; Solikahan and Mohammad, 2018). Anwar and Shah (2020) discovered that changes in growth, sales, and innovation measures can be inferred from the achieved impact on performance. This is evident in factors such as customer satisfaction, product quality, and employee loyalty (Al-mamary et al., 2020). Customer satisfaction stands out as a pivotal indicator influencing company performance, underscoring the importance of consumer involvement in all decision-making processes within a company (Anwar and Shah, 2020; Al-mamary et al., 2020). Fundamentally, market orientation revolves around meeting the needs and desires of consumers (Amin et al., 2016, Acosta et al., 2018). Originally defined as a set of activities derived from the application of marketing concepts (Narver and Slater, 1990; Al-Henzab, J et al., 2018; Acosta, A.S. et al., 2018), market orientation can be gauged through two approaches: behavioral (Kohli and Jaworsky, 1990) and cultural (Narver and Slater, 1990). Emphasizing that market orientation is

synonymous with customer focus and akin to the marketing concept that prioritizes customers as the central focus of the company, the cultural approach (Narver and Slater, 1990) is more prevalent. Prior research has identified the impact of market orientation on business performance (Amin et al., 2016; Al-Henzab, J et al., 2018; Acosta, A.S. et al., 2018; Lekmat et al., 2018; Baker and Sinkula, 2009; Jaworski and Kohli, 1990; Narver and Slater, 1990; Wang et al., 2009; Ferarresi et al., 2012; R. Farooq and S. Vij, 2019). For instance, Wang et al. (2009) revealed a substantial relationship between market orientation and both subjective and objective company performance. Du (2011) further suggested that companies with a high level of consensus in perception are more likely to build agreement to leverage the potential for improving performance and market orientation. Consequently, corporate decision-makers are encouraged to concentrate on enhancing innovation, with a particular focus on market orientation practices to elevate the performance of MSMEs (Amin et al., 2016; Al-Henzab, J et al., 2018; Acosta, A.S. et al., 2018).

H3: Market Orientation significantly influences Company Performance.

The Role of Knowledge Management Orientation (KMO) in Company Performance Mediated by Market Orientation (MO)

Market orientation is highly necessary to win business competition and improve company performance (Amin et al., 2016). The role of business actors in understanding the market can be used as a reference in determining company strategic planning (Porter, 1996). Understanding the market will optimize the knowledge possessed by the company. Pengdu (2011) states that knowledge is an intangible asset that can enhance the competitiveness of the company. However, knowledge in the company requires management and other driving factors to improve company performance (Farooq and Vij, 2019; Pengdu, 2011). Market orientation becomes a driver for business capabilities to provide superior products. Wang et al. (2009) state that market orientation is a perfect mediator between Knowledge Management Orientation and company performance. This finding forms the basis for this research to explore the role of market orientation in mediating the influence of Knowledge Management Orientation on company performance, especially for MSME practitioners. Based on this explanation, the hypothesis of this research is:

H4. The influence of Knowledge Management Orientation (KMO) on Company Performance is mediated by Market Orientation (MO).

This study identifies three main constructs: one independent variable (Knowledge Management Orientation) and one dependent variable (Firm Performance). This study adds one mediating variable (Market Orientation), which is illustrated as follows:

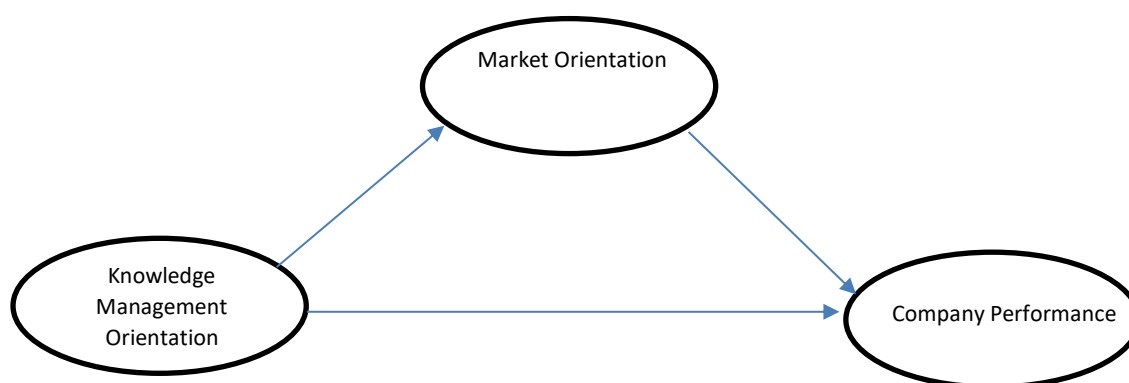


Figure 1. Conceptual Framework

3. Data and Methodology

This study focused on Micro, Small, and Medium Enterprises (MSMEs) located in Malang City, East Java, Indonesia. Malang City, recognized as a prominent tourist destination and an Educational City in Indonesia (Fauziyah, 2022), holds the second position in MSMEs after Surabaya City in East Java (BPS, 2022). The research's population was determined using ranking data from DISKOPINDAG, a governmental body overseeing MSME development programs in Malang City. Applying the Slovin Formula (Hair et al., 1998), a sample size of at least 82 MSMEs was determined. Through a simple random sampling technique, data were collected from 112 respondents, of which 101 responses were considered usable for data processing. Questionnaires were directly distributed to the respondents for data collection.

The study employed Structural Equation Modeling (SEM) for data analysis, encompassing three variables: knowledge management orientation, market orientation, and firm performance. Knowledge management orientation was assessed across four dimensions: Organizational Memory, Knowledge Sharing, Knowledge Absorption, and Knowledge Acceptance, drawing criteria from Wang et al. (2008), Wang et al. (2009), Hussein et al. (2019), and Kmiecik and Michna (2018). Market orientation was evaluated through customer orientation, competitor orientation, and coordination between functions, inspired by studies from Habib et al. (2020), Masa'deh et al. (2018), Narver & Slater (1990), Ali et al. (2019), and Acosta et al. (2018). Firm performance measurement criteria were adopted from Ahmad Zabri (2016), Al-mamary (2020), and Anwar & Shah (2020), with key performance indicators for MSMEs including customer satisfaction, worker loyalty, and product or service quality (Al-Mamary, 2020; Anwar & Shah, 2020).

Descriptive statistical analysis revealed that the majority of respondents were female, constituting 64% of the total respondents (101), while males accounted for 36%. Regarding age, respondents aged 18-27 constituted 19%, >27-37 years were 21%, >37-47 years were 36%, and those older than 47 accounted for 24%. The prevalent monthly business profits ranged from Rp3 million-5 million (61%), and most businesses had been operating for 2-4 years (31%). Furthermore, the majority of respondents belonged to the first generation (98%).

4. Results and Discussion

The research items tested through Convergent Validity and Discriminant Validity examinations to gauge the loading factor. Any indicator variable with a loading factor less than 0.6 is considered invalid and should be excluded from the research model. Indicators are considered valid if their outer loading values exceed 0.6, as outlined in Table 1.

Table 1. Outer Loading Value

Indicators	Outer Loading	Validation
KMO1	0,737	Valid
KMO2	0,733	Valid
KMO3	0,643	Valid
KMO4	0,666	Valid
KMO5	0,759	Valid
KMO6	0,714	Valid
KMO7	0,679	Valid
KMO8	0,764	Valid
KMO9	0,778	Valid
MO1	0,685	Valid
MO2	0,740	Valid
MO3	0,715	Valid
MO4	0,741	Valid
MO5	0,765	Valid
MO6	0,803	Valid
KP1	0,776	Valid
KP2	0,701	Valid
KP3	0,759	Valid
KP4	0,765	Valid
KP5	0,717	Valid
KP6	0,743	Valid
KP7	0,623	Valid
KP8	0,643	Valid
KP9	0,650	Valid

Moreover, the reliability of the research indicators was assessed using criteria such as Cronbach's Alpha value, which should exceed 0.6, Composite Reliability, which should be above 0.7, and Average Variance Extracted (AVE), which should surpass 0.5. All the items employed to gauge the variable exhibit values exceeding the stipulated standards for reliability measurement. Consequently, the research items demonstrate reliability in assessing the research variables. The outcomes of the reliability assessment are presented in Table 2.

Table 2. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
KMO	0,880	0,897	0,901	0,505
FP	0,891	0,899	0,910	0,505
MO	0,837	0,841	0,880	0,551

Assessment of the inner model involves examining various indicators, such as the coefficient of determination (R²) and the Goodness of Fit Index (GoF), as highlighted by Hussein in 2015. In terms

of R2, the impact of knowledge management orientation on market orientation is reflected at 36.9%, whereas the combined influence of knowledge management orientation and market orientation on Firm Performance stands at 38.5%.

Tabel 3 Path Coefficient

	Relationship Between Variable	Path Coefficient	T Statistics	P Values	Result	
H1	KMO -> FP	0,490	4,483	0,000	Significant	Accepted
H2	KMO -> MO	0,612	8,423	0,000	Significant	Accepted
H3	MO -> FP	0,196	2,076	0,038	Significant	Accepted
H4	KMO->MO -> FP	0,120	1,793	0,074	Not Significant	Declined

Notes: t-values > 1.65*(p < 0.10); t-values > 1.96**(p < 0.05)

From these findings, it becomes evident that the impact of knowledge management orientation on market orientation is substantial, as demonstrated by a path coefficient of 0.490, a T statistic of 4.483 (exceeding 1.96), and a p-value of 0.000 (below the critical threshold of 0.05). Consequently, the validation of H1 is supported. Additionally, the direct influence of knowledge management orientation on market orientation is also noteworthy, with a path coefficient of 0.612, a T statistic of 8.423 (exceeding 1.96), and a p-value of 0.000 (above the critical threshold of 0.05), leading to the acceptance of H2. The considerable impact of market orientation on firm performance is substantiated by a path coefficient of 0.196, a T statistic of 2.076 (exceeding 1.96), and a p-value of 0.038 (below the critical threshold of 0.05), supporting the acceptance of H3. However, the statistical evidence does not support the mediating role of market orientation in the link between knowledge management orientation and firm performance, as indicated by a path coefficient of 0.120, a T statistic of 0.074 (below 1.96), and a p-value of 0.074 (above the critical threshold of 0.05), resulting in the rejection of H4.

5. Conclusion

Theoretically, this research contributes to the development of studies related to the resource-based view. It reinforces previous research, demonstrating that knowledge management orientation can indeed drive improved company performance when the knowledge and information possessed by the company have specific characteristics. However, the impact of Knowledge Management Orientation is not significant on companies when the processes of acquisition, absorption, utilization, and acceptance of information are not systematically and measurably implemented by the company. This study supports earlier findings by Wang et al. (2009) and Farooq & Vij (2019).

The long-term application of knowledge management orientation in business enables entrepreneurs to be more effective and dynamic in their operations. The use of knowledge management in micro-scale businesses requires not only system support but also human resource capabilities in information management and the availability of systems supporting knowledge management implementation in the company, including company knowledge storage, knowledge sharing, knowledge absorption, and knowledge acceptance. Essentially, the application of knowledge management orientation is built on

the competence of human resources and mature company systems. Furthermore, this research found that most MSME practitioners in Malang City already have structured system plans for archiving company knowledge.

Therefore, business players in Malang City also need to be prepared to implement knowledge management orientation. Knowledge management orientation is an intangible asset for companies that can be utilized to enhance company performance and competitiveness. Entrepreneurs can start by preparing systems for storing and capturing knowledge. Information and knowledge with well-managed management systems can then be shared with all company human resources for absorption and acceptance. Thus, in the long run, knowledge management orientation can serve as a foundation for developing company strategic and tactical plans.

Furthermore, this research reveals that market orientation can drive improved company performance. A comprehensive understanding of the market will lead to positive performance. This aligns with the studies of Amin et al. (2016) and Solikahan & Mohammad (2018). Business players in Malang City need to adopt market orientation in their operations. Understanding the market is key to winning business competition. Market understanding will lead to prioritizing value to customers. Efforts that entrepreneurs need to undertake include identifying customer needs. Moreover, to build market orientation, a deeper understanding of competitors and their strategies is required. Additionally, entrepreneurs, in implementing market orientation, need to coordinate functions within the company to share information about the market and competitors.

Additionally, this research finds that knowledge management orientation can drive the formation of market orientation. Knowledge management orientation forms a critical foundation for development and success in orientation. By managing knowledge effectively, MSME can gain a deep understanding of customer needs and preferences. Information gathered through knowledge management becomes a strategic foundation, triggering product and service innovations that align with market dynamics. The quality of MSME's strategic marketing decisions also needs to be supported by well-managed data and information. Knowledge management serves not only as an information source but also supports better risk management, helping MSME identify and address market challenges. A learning culture enriched by knowledge management helps organizations continue learning from experience and evolving with changes in the business environment. Thus, knowledge management orientation is not just an effective tool for managing information but also a primary driver in shaping a dynamic and sustainable market orientation for MSME.

Finally, this research reveals that market orientation has not yet been able to mediate market orientation in company performance. Although market orientation and knowledge management orientation are considered critical elements in business strategy, several conditions can inhibit the ability of market orientation to mediate the influence of knowledge management orientation on organizational performance improvement. These conditions occur when there is a mismatch between the information managed by knowledge management orientation and market needs. When the knowledge collected does not align with the actual dynamics or needs of the market, market orientation cannot optimally provide accurate insights into market opportunities and challenges. Furthermore, the lack of MSME's ability to implement knowledge in an effective market strategy hinders the effectiveness of mediation in improving MSME performance. Therefore, continuous evaluation and adjustment are needed to ensure that the integration of MSME information alignment

with market conditions can achieve results and contribute maximally to MSME performance improvement.

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