IMPACT OF KNOWLEDGE MANAGEMENT ON BUSINESS PERFORMANCE IMPROVEMENT: A STUDY ON BATIK BUSINESS

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ABSTRACT
Entrepreneurial orientation is one of the antecedent variables that can improve small and medium enterprises' performance. This article provides a discussion on the scope of company performance, especially in small and medium enterprises. This article examines and analyzes the effect of entrepreneurial orientation on performance with management knowledge as a moderating variable in Indonesia's small and medium enterprises. The research sample, 45 small and medium batik enterprises in the city of Surakarta, Indonesia. Hypothesis analysis, using SPSS 22.00. The results showed that entrepreneurial orientation dimensions (innovation, proactive, risk-taking) significantly affected enterprise performance with β = .560 and sig $\leq$ 0.05. However, knowledge management does not influence moderation, where the effect is on performance with β = -.220 and sig > .112.

Keywords: Enterprise Performance, Entrepreneurship Orientation, Knowledge Management, Small and Medium Enterprises

1. INTRODUCTION

The development of small and medium enterprises in several countries is considered a shield for the economy. It is because large-scale businesses are faced with complex problems and are vulnerable to changes in the business environment. Small and medium scale enterprises experience different things, which are more robust to environmental changes (Audretsch & Thurik, 2004; Wilson & Martin, 2015).

Business is an activity that includes aspects and management criteria that impact the business potential, minimizing risks and failures. Dobbs and Hamilton (2007) state that business growth is considered a measure of business success (Smallbone & Wyer, 2000). A successful business is by increasing assets, which include growth in income and employees. W. Chen and Tan (2009) stated that business growth tends to be unstable, which causes changes in business actors' motivation (Westhead & Wright, 1999).

Burns and Dewhurst (2016) explained that growth instability arises because business actors underestimate the application of innovation, increasing knowledge, and skills. Fatoki and Garwe (2010) state that business owners have managerial abilities, which refers to a series of knowledge, skills, and competencies that can affect business effectiveness and efficiency. Tshikovhi and Shambare (2015) stated that knowledge emerges and develops from consistent action on business activities.

Turker and Selcuk (2009) identify two types of knowledge that determine the process of business development. First, it relates to the individual's ability to recognize

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business opportunities. This action involves finding and evaluating business opportunities and recognizing business opportunities, including identifying specific markets. Second, it refers to the success of exploiting the opportunities identified. A business actor develops a viable business model by involving the formation and development of profitable businesses around the environment.

Liñán and Chen (2009) state that the skills possessed by business actors refer to knowledge that builds success in running a business. Phelan and Sharpley (2012) explain that skills include the ability to sense, act, and turn a problem into a profitable business proposal (Teece, 2012). Siikonen et al. (2011) show that business skills are a learning process that affects individual characteristics, which combine talent and education or training (science) to become a strategist.

Competency development requires a set of skills (Kutzhanova et al., 2009). Enterprise competence is a set of specific quality characteristics representing the ability to do work (Man et al., 2002; Mitchelmore & Rowley, 2013). Competence arises because of the drive of aspirations to achieve superior performance in the end, aimed at obtaining economic benefits or business success (Spencer & Spencer, 2008). Boyatzis and Boyatzis (2009) define competence as a capability. Kaur and Bains (2013) said competence is several experiences, knowledge, skills, and attitudes that affect performance effectiveness. Spencer and Spencer (2008) define competence as individual essential characteristics referenced to superior performance results in business activities. Baum et al. (2001) describe competence as a character possessed by an individual concerning the knowledge, skills, and abilities required to carry out business activities. In other words, competence is a concept related to a person's knowledge, skills, and abilities to achieve high-performance results.

Discusses enterprise competence, relating to aspects of business owners in carrying out business activities according to expected standards (Woodruffe, 1990). The intended competence is how business owners can maximize their function in running their business. Business actors' competence is related to providing response opportunities and maintaining business continuity in producing superior products. Producing products that match buyers' needs, accompanied by attractive services, impacts business profits (Kotler, 2003).

Knowledge management relates to people, processes, and technology (Pai et al., 2009). In other words, knowledge management gives rise to an approach to business activities based on the use of knowledge, competence, ideas, and potential in business actors. Laudon and Laudon (1999) say that management knowledge increases business actors' ability to understand the business environment by combining their knowledge in running a business.

This study analyzes the impact of entrepreneurial orientation on Indonesia's small and medium-sized enterprise performance using management knowledge moderation. The problem to be addressed in this study is to determine the role of management knowledge in improving enterprise performance. Although small and medium enterprises have various advantages, the phenomenon observed by researchers has drawbacks. The business owner himself determines the process for generating business performance. It is also what is currently being felt by small and medium batik entrepreneurs. Batik business actors face various challenges, including regeneration problems and not using sound production systems and techniques.

However, this business still has opportunities that business owners can exploit. The opportunities exist, among others, with the necessity of various government and private agencies and schools

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to make batik clothes as mandatory clothing on certain days. As a result, batik clothing is growing and entrenched in the community starting from children, adolescents, young people to the elderly. This opportunity is vital for business actors to capture and take advantage of business opportunities in it.

The city of Surakarta, Indonesia, is known as the largest batik production city in Indonesia. Therefore, batik is an icon of this city, where there are many batik entrepreneurs, both small and medium scale and large scale industry. To support small and medium Batik entrepreneurs' development, the Regional Government has supported several festivals to attract tourists. Small and medium business actors who have sufficient competence tend to apply relevant economic principles in their business. Competence is essential in developing a business, which from the knowledge of management. Papulová and Mokroš (2007) explain that small and medium enterprises are actors and executors of management who run their businesses.

2. LITERATURE REVIEW

2.1. Entrepreneurship Orientation

The abilities possessed by an entrepreneur much needed in maintaining business growth and development. Zimmerer et al. (2005) stated that entrepreneurship is an individual who creates a business and is brave enough to risk-taking. Drucker (1985) entrepreneurship is an individual who tries to find opportunities and avoid risks. Entrepreneurship's main essence is to create added value from their business by combining their resources by generating new ideas. Therefore, an entrepreneur must form characteristics that give rise to an entrepreneurial orientation in running a business.

Miller (1983) entrepreneurial orientation is an effort to create innovation, risk-taking, and be proactive in winning the competition. Porter (2008) said that entrepreneurial orientation is the ability to compete in the same market. Knight (2000) defines entrepreneurial orientation as the ability to look for opportunities and make the right decisions in business progress. Foltean (2007) defines entrepreneurial orientation as behavior that business actors have for improving business performance.

The development of the concept of entrepreneurial orientation raises several dimensions. Miller (1983) mentions that the dimensions are in three main aspects: innovation, risk-taking, and proactive. Meanwhile, Lumpkin and Dess (1996) stated five aspects of entrepreneurial orientation: innovation, risk-taking, proactive, aggressive competition, and autonomy. However, according to Miller (1983), this study uses the dimensions, including innovation, proactive, and risk-taking.

Schumpeter and Nichol (1934) said businesses' success in entering the market because of introducing new products/goods different from competitors. Rogers (1983) defines innovation as an idea, a new practice produced by a person (Hurley & Hult, 1998). Edquist et al. (2002) innovation results from new creations that have economic value for others. Rosenfeld (2002) states that innovation is a form of successful exploitation of knowledge, experience, and skills in producing a new product/service. Robbins et al. (2000) define innovation as applying a new idea by making it real, encouraging improvements from existing products (Ahmed & Shepherd, 2010).

Robbins et al. (2000) say that innovation arises from the processing of individual thoughts from observing the circumstances. This thinking eventually resulted in the emergence of new findings carried out to produce these findings. Daellenbach et al. (1999) said that innovation creates a competitive advantage by using existing resources (Barney, 1991; Thong, 1999). Ahmed and Shepherd (2010) say that innovation is related to producing a

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new product and includes attitudes, behaviors, and actions that lead to change.

Bateman and Crant (1993) define proactive as a form of behavior that a person has, characterized by an initiative to change circumstances. Seibert et al. (1999) stated that proactive is a form of behavior to recognize and take advantage of opportunities that arise supported by initiative and persistence. Robbins Jr (2001) said that proactivity by initiatives improves the situation by creating new methods and methods. Ng and Feldman (2013) say that being proactive is a form of personality that encourages persistence in improving the desired performance. In business development, business owners/actors need to be proactive.

Sharma and Dave (2011) state that business actors' proactive behavior can impact efforts to become leaders rather than followers. Lumpkin and Dess (1996) say that being proactive is the ability to see future developments by creating and introducing products to anticipate future conditions carried out by business actors. This study's proactive form in three indicators, including strategy implementation, market determination initiatives, and promotion ability (Morris et al., 2002).

Morris and Kuratko (2002) define risk-taking as a desire that appears to seize opportunities, even though the possibility of getting a failure. Risk-taking is an essential part that a business actor must do. It shows the willingness of business actors to seize and take advantage of opportunities that arise. However, business actors need to anticipate the risks that will be acquired.

Miller (1983) defines risk-taking as a business actor's courageous attitude in a new market by investing their resources. Steinberg (2008) defines risk-taking as a form of behavior to achieve high results characterized by identification. This identification relates to the alternative options, the consequences of the choices to be accepted, the evaluation of the possibilities that arise from the choices, examining all forms of consequences, and combining information to make decisions. Stone et al. (1994) define risk-taking as a form of behavior shown from readiness to get the possibility of failure. Therefore, this study uses indicators of risk-taking, readiness, and courage to try (Heflin, 2011).

2.2. Knowledge Management

Dalkir (2017) defines knowledge management as a form of systematic coordination in a business. There are arrangements for human resources, technology, processes, and structures to increase business value. The application of management knowledge for business actors is an integral part of forming a business identity, organizing, and developing a business (Turban et al., 2010). Knowledge management emphasizes knowledge as the basis for implementing business activities to produce balance (C. J. Chen et al., 2010). Gregory et al. (2010) define knowledge management in the business aspect as the process of placing knowledge in managing and managing the business resources to achieve success (Horwitch & Armacost, 2002). Zack et al. (2009) define knowledge management as knowledge utilization that encourages new products.

Fernandez and Sabherwal (2010) explain that management knowledge helps manage people, processes, products, and business performance. On the people aspect, knowledge management is concerned with the transfer of knowledge from owners to employees. In the aspect of the process, it relates to determining the time and cost of the implementation of the process to be carried out. In the product aspect, the knowledge possessed encourages creating products that are useful and affordable to buyers, as a final benefit, namely the aspect of business performance related to the accuracy of strategy choices to provide business success.

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Knowledge management is an essential part that business actors need to have and apply. This knowledge relates to the arrangement and organization of employees (Follet, 1997; Stoner et al., 2006; Terry, 1997); related to customer aspects (Mithas et al., 2005; Torbati et al., 2014; Tseng & Wu, 2014); and related to financial aspects (Braunstein & Welch, 2002). Based on the description, the indicators of knowledge management used in this study include the use of knowledge, transfer of knowledge, and identification of knowledge towards business (Davidson & Voss, 2002).

2.3. Enterprise Performance

Enterprise performance is the result obtained from management activities carried out by business owners/actors. In analyzing business performance, measures in financial aspects (Rhoades & Eisenberger, 2002; Slovin & Sushka, 1993). This financial measure is used, aims to see and analyze the effectiveness of business operations carried out. On another aspect, (Healy 1996) uses market performance measures to analyze business activities' effectiveness. In this aspect, analysis on how much strength the market/consumer accepts the product.

Business actors' measurement of enterprise performance needs to see the effectiveness of their strategies and capabilities. Hamel and Prahalad (1994) say that performance measurement shows how much management can support business activities. Baird (1986) defines business performance as an action orientation to be achieved rather than an accident. LEBAS and EUSKE (2004) define performance as a process that encourages business actors to act appropriately to produce business performance.

Armstrong and Baron (2005) state that the performance is by several business factors, including the individual owner's own and leadership factors. Individual factors, related to the knowledge, skills, and willingness shown by business actors in managing their business. The leadership factor relates to how business actors apply in determining the right strategy, managing employees, motivating employees, and establishing communication relationships with buyers (Armstrong & Baron, 1998; Cardy & Dobbins, 1994) to adapt to the business environment. Based on the description above, this study's business performance indicators include increasing profits, increasing consumers, and increasing employees (Dempsey et al., 1997).

2.4. Hypothesis

H_1: Entrepreneurial orientation has a positive and positive effect on the performance of small and medium enterprises.
H2: Knowledge management as a moderating variable can increase the influence and positivity of entrepreneurial orientation on small and medium enterprises' performance.
H3: Knowledge management moderator variable has a positive effect on the performance of small and medium enterprises.

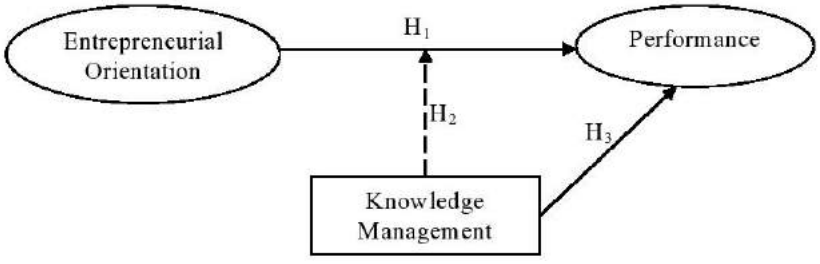

Figure 3.1. Research Framework

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3. RESEARCH METHODS

3.1. Research Design

Research design is a basic framework for preparing and resolving research problems (Aaker et al., 2008). This research design uses a quantitative approach to answer research questions (Malhotra, 2015). This research is explanatory, aiming to test and analyze the causality between variables (Sekaran & Bougie, 2011). Data collection, carried out by survey to obtain data from respondents (Creswell, 2012).

3.2. Data And Statistical Description

This study's populations are the owners/actors of small and medium Batik businesses in Surakarta, Indonesia. As for the total population, as many as 275 business owners/actors. The owner/actor has various activities, including only as Batik products, production, and seller and only as a production. Also, each business owner/actor sells his local Batik products and several business owners/actors who sell Batik from outside areas, namely Yogyakarta.

The sample used in this study amounted to 45 business owners/actors, determined by purposive sampling technique, namely by several criteria. The criteria for determining the sample include a business running for at least three years, a business with at least two branches, a business with at least four employees, and a business owner who is easy to find and willing to be respondents. A score of respondents' answers, using five Likert scales, including scale 5 (Strongly Agree), scale 4 (Agree), scale 3 (Somewhat Agree), scale 2 (Disagree), and scale 5 (Strongly Disagree). The answer category interval, determined by the formula:

$$i = \frac{\text{Highest score} - \text{Lowest score}}{\sum \text{Category}} = \frac{5-1}{3}$$

$$i = 1.33 \approx 1.34$$

Table 1. Respondents Statistical Analysis Tabulation

Sample	Respondents	EO		KM		EP	
		Scale	Category	Scale	Category	Scale	Category
Gender							
Male	28	3.36	Moderate	3.20	Moderate	3.49	Moderate
Female	17	3.52	Moderate	3.33	Moderate	3.55	Moderate
Academic							
Bachelor	31	3.30	Moderate	3.14	Moderate	3.33	Moderate
Diploma	14	3.67	Moderate	3.50	Moderate	3.90	High

3.3. Analysis

Analysis of the research data, using SPSS 22.00. Testing the validity of the entrepreneurial orientation variable is carried out by using Exploratory Factor Analysis (EFA). Malhotra (2015) said the validity test aims to measure the error of research indicators. Factor analysis test aims to test the feasibility of indicators against research variables (Field, 2009; Hair et al., 2010). EFA testing to obtain each factor's value through the Kaiser-Meyer-Olkin (KMO) test for the Measure of Sampling Adequacy (MSA) and Bartlett's Test of Sphericity. KMO and Bartlett's test aimed to determine to construct validity.

The KMO test to verify the sample's adequacy for analysis, the Bartlett test was used to determine whether there was a correlation between research indicators. Bartlett's Test of Sphericity must reach a significance of ≤ 0.05 (Hair et al., 2006; Malhotra, 2010). Malhotra (2010) states that

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the KMO value ≥ of 0.6 indicates a feasible factor analysis. The measure of Sampling Adequacy (MSA) aims to determine which variables are suitable for use in the analysis with the condition that > 0.50 is considered feasible (Hair et al., 2006). To determine a valid indicator, if it has a loading factor value ≥ of 0.50 in the component matrix table (Hair et al., 2010; Malhotra, 2010).

After the validity test is complete, then the reliability test of each variable indicator is carried out. The reliability test aims to test the consistency and stability of the effect of indicators on research variables (McMillan, 2003). As for the consistency requirements for reliable indicator values, Cronbach's alpha value is > 0.6 (Hair et al., 2006; Malhotra, 2010; Van Reijmersdal et al., 2005).

4. RESEARCH RESULTS AND DISCUSSION

4.1. Respondent Description

Based on the demographic analysis of statistical analysis (Table 3.1), 28 male business actors (62.22%) and 17 female business actors (37.78%) obtained data. Based on the respondents' education, 31 people (68.89%) had a Bachelor's degree, while 14 respondents (31.11%) had Diploma degrees. Based on statistical analysis, 20 male business actors had Bachelor's degrees (44.44%), while eight people had Diploma degrees (17.78%). There were 11 female business actors with a Bachelor's degree (24.44%) and six female business actors with a Diploma (13.33%). Based on the statistical test results, data that men with a Bachelor's degree dominate the respondents. These results indicate that the increase in knowledge of business actors from improving education.

Based on the statistical test of the respondent's answer scale, the results of male business actors for the Entrepreneurship Orientation (EO) variable have a scale of 3.36 (Moderate), for the Knowledge Management (KM) variable on a scale of 3.20 (Moderate), and the Enterprise Performance (EP) scale variable. 3.49 (Moderate). Whereas for female entrepreneurs, the Entrepreneurship Orientation variable has a scale of 3.52 (Moderate), for the Knowledge Management (KM) variable on a scale of 3.33 (Moderate), and the Enterprise Performance (EP) variable on a scale of 3.55 (Moderate). Based on the education of a business actor, for the Entrepreneurship Orientation (EO) variable on a scale of 3.30 (Moderate), for the Knowledge Management (KM) variable on a scale of 3.50 (Moderate), and the Enterprise Performance (EP) variable on a scale of 3.90 (High). The respondent's answer scale's statistical findings are quite interesting. Business actors with a diploma degree provide a larger scale of answers for Enterprises Performance than the scale of answers to a Bachelor's degree.

4.2. Validity and Reliability Test

The validity test looking value at KMO ≥ 0.6 (Kaiser, 1974), the MSA value > 0.50 (Malhotra, 2010), the significant value of Bartlett's Test of Sphericity ≤ 0.05 (Hair et al., 2006; Malhotra, 2010), and test results. Loading factor ≥ 0.50 (Hair et al., 2006; Malhotra, 2010). The reliability test looks at the alpha Cronbach's value of > 0.6 (Hair et al., 2006; Malhotra, 2010; Van Reijmersdal et al., 2005). Testing by looking for the value obtained from the indicators of each variable first. The results of testing the validity and reliability of each variable in Table 5.1. below this.

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Table 2. Validity and Reliability Test Results

No.	Indicator	Cut of value	KMO	MSA	Bartlett's Test of Sphericity	Loading factor	Criteria	Alpha Cronbach	Criteria
Entrepreneurial orientation									
Innovation									
1.	Product Innovation			.653		.914			
2.	Market Innovation		.681	.623	76.777, sig 0.000 ≤ 0.05	.939	Valid	.872	Reliabel
3.	Process Innovation	KMO ≥ 0.6		.843		.829			
Proactive									
4.	Strategy	MSA > 0.50		.935	141.560,	.880			
5.	Market-Setting		.694	.625	sig 0.000 ≤	.969	Valid	.930	Reliabel
6.	Promotions	Bartlett's Test of		.639	0.05	.962			
Risk-taking									
7.	Avoiding Risks			.761		.906			
8.	Readiness for Risk	Sphericity sig ≤ 0.05	.746	.773	77.603, sig 0.000 ≤ 0.05		Valid	.893	Reliabel
9.	The Courage to Try	Loading factor ≥ 0.50		.709		.901			
Knowledge Management						.926			
1.	Use of Knowledge			.644		.976			
2.	Transfer of Knowledge	Alpha Cronbach > 0.6	.717	.672	155.681 sig 0.000 ≤ 0.05	.967	Valid	.951	Reliabel
3.	Identification of Knowledge			.912		.920			
Enterprise Performance									
1.	Increase in Profits			.758		.944			
2.	Increase in Consumers		.765	.731	110.603 sig 0.000 ≤ 0.05	.951	Valid	.937	Reliabel
3.	Increase in Employees			.811		.932			

4.3. Hypothesis

Based on the validity and reliability tests (Table 5.1), all indicators were valid and reliable for testing the hypothesis. This study examines and analyzes the effect of entrepreneurial orientation on enterprise performance with knowledge management interaction as a moderator. This study uses a two-way test in hypothesis testing—first, a path test between the entrepreneurial orientation and the enterprise performance (H1). Then test the knowledge management variable hypothesis on the enterprise performance variable (H3). Second, the indirect path test between the entrepreneurial orientation variable on enterprise performance with the knowledge management variable as a moderator (H2). Following is Table 5.2. direct hypothesis test results and test results with moderator variables.

Table 3. Hypothesis Results

Dependent Variable	Independent Variable	Moderation Variables	Constant	Coefficient	Beta	T Count	Sig	R Square
Enterprise Performance	Entrepreneurial Orientation		1.095	.338	.829	9.722	.000	.687
Enterprise	Knowledge		1.198	.868	.743	7.275	.000	.552

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Performance	Management							
Enterprise Performance	Entrepreneurial Orientation	Knowledge Management	3.178	-.570	-.488	-1.286	.205	.838

4.4. Discussion

Based on the regression hypothesis test (Table 5.2.), the entrepreneurial orientation variable positively affected enterprise performance with the value of β .829 and significant .000 ≤ 0.05. So, these results indicate that H1 is accepted. These results indicate that business owners/actors' entrepreneurial orientation affects the enterprise performance of small and medium-sized Batik businesses in Surakarta, Indonesia. These results indicate that the dimensions of entrepreneurial orientation, namely innovation, proactive and risk-taking, can encourage increased enterprise performance (Adegbuyi et al., 2018; Fairoz et al., 2010; Shehu & Mahmood, 2014).

Based on the regression hypothesis test (Table 5.2.), H2 says that knowledge management influences accepted performance. The test results show knowledge management on performance, with a value of β .743 and significant .000 ≤ 0.05. These results indicate that business owners/actors' knowledge management supports small and medium Batik enterprises' improved performance in Surakarta, Indonesia. The knowledge possessed by business owners/actors includes determining strategies in determining the direction that the business wants to achieve. With this knowledge, businesses can compete in the market (Abu Bakar et al., 2014; Aymen et al., 2019; Maziriri et al., 2018).

The final hypothesis test (H3), the effect of entrepreneurial orientation on performance knowledge management as moderation, is rejected. The test results show that knowledge management moderation reduces the impact and does not significantly influence entrepreneurial orientation on performance. The test results showed the value of β -4.88 with a significance level of .205> 0.05. The results of this test are quite exciting research findings. It contradicts previous studies' results (Alshanty & Emeagwali, 2019; Calabrò et al., 2020; Johannesson & Jorgensen, 2017).

5. CONCLUSION

This article's policy implication shows that entrepreneurial orientation, including innovation, proactive, and risk-taking, needs to be applied by small and medium Batik entrepreneurs to produce high business performance. The application of this entrepreneurial orientation is related to creating products that follow consumer desires, choosing the right strategy in marketing products to increase profits (Kajalo & Lindblom, 2015).

The policy for knowledge management shows that business actors who know can encourage business profits. Knowledge related to understanding the state of the environment to capture and use every opportunity adequately is applying knowledge management. Based on the results of this study, it shows that business actors who have a high level up to bachelor's degrees have advantages.

The theoretical implication is that this study's results are interesting for further research—this research when the Covid-19 virus hit Indonesia. The impact of the spread of this virus, orders, or sales of batik products is experiencing obstacles. Obstacles occur, where many office activities or wedding events fail to take place. Besides, Batik product exhibitions eventually failed to take place. The answer why this study shows no interaction of knowledge management as moderation of entrepreneurial orientation towards enterprise performance (Kawaguchi et al., 2020; Nyanga & Zirima, 2020; Ratnasingam et al., 2020; Shafi et al., 2020).

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