

# The Influence Of Knowledge Management And Innovation Capability On Small Business Performance Through Competitive Advantage Mechanism

<sup>1</sup>Erni Dewi Munte, <sup>2</sup>Sarman Sinaga, <sup>3</sup>Lennaria L Tarigan,

<sup>4</sup>Afrida Yanti Surbakti, <sup>5</sup>Orniawati Lestari Waruwu

*Department of Entrepreneurship, Universitas Mandiri Bina Prestasi, Medan, Indonesia*

*Email: <sup>1</sup>erni@staff.umbp.ac.id, <sup>2</sup>sarmansinaga17@gmail.com, <sup>3</sup>*

*lennarialusia@gmail.com, <sup>4</sup>afridays2904@gmail.com, <sup>5</sup>*

*orniawatilestariwaruwu09@gmail.com*

**1273**

Submitted:

## ABSTRACT

The development of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia continues to increase, yet many still face challenges in business management, particularly in implementing knowledge management, fostering innovation capability, and building competitive advantage. This study investigates the influence of knowledge management and innovation capability on MSME performance, with competitive advantage and innovation capability as mediating variables. Data were collected from 329 MSME respondents in Medan City using purposive sampling and analyzed using Structural Equation Modeling (SEM) with AMOS version 26 and Sobel test for mediation analysis. The findings reveal that both knowledge management and innovation capability significantly affect MSME performance. Knowledge management also has a significant impact on both competitive advantage and innovation capability. However, innovation capability does not significantly influence competitive advantage. Furthermore, while competitive advantage directly affects MSME performance, it does not mediate the relationship between knowledge management or innovation capability and performance. In contrast, innovation capability successfully mediates the effect of knowledge management on performance. These results highlight the strategic importance of strengthening knowledge management and innovation capability to enhance MSME sustainability and competitiveness.

**Keywords:** Knowledge Management, Innovation Capability, MSME Performance, Competitive Advantage

## INTRODUCTION

In the context of global economic dynamics that are still marked by various challenges, a number of international organizations project that world economic growth in 2024 will be in the range of 3% compared to the previous year. Although the projection shows a gradual recovery, Indonesia's fundamental economic conditions remain stable and have not experienced significant fluctuations. This shows that Indonesia's economic resilience to global shocks is relatively strong and under control. As stated by the Coordinating Minister for Economic Affairs, Indonesia has succeeded in entering the top five G20 countries with economic growth reaching 5%, placing this country as one of the main economies that remains resilient amid global uncertainty (ekon.go.id, 2024).

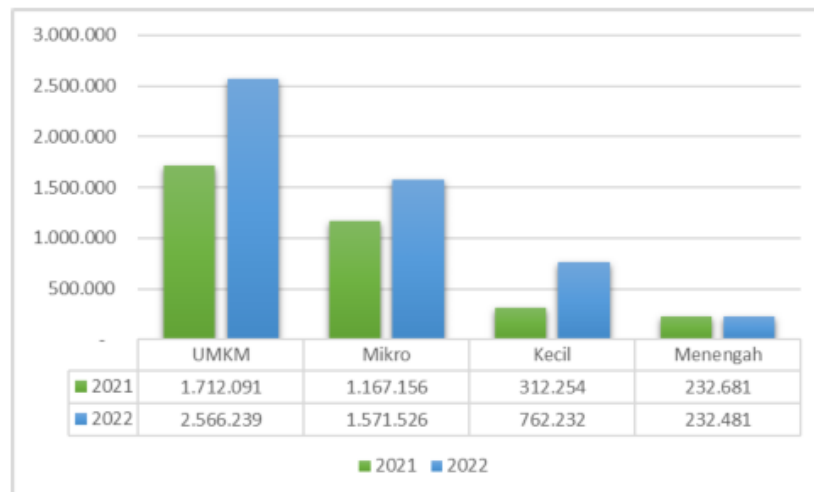
One of the main factors that contribute to national economic resilience and growth is the role of Micro, Small, and Medium Enterprises (MSMEs). MSMEs have made a significant contribution to Indonesia's Gross Domestic Product (GDP) and have become the backbone of economic growth both at the national and regional levels. As the basis of the regional economic structure, MSMEs not only open up wide employment opportunities, but also improve the welfare of local communities and encourage inclusive

**JIMKES**

Jurnal Ilmiah Manajemen  
Kesatuan  
Vol. 13 No. 2, 2025  
pp. 1273 - 1286  
IBI Kesatuan  
ISSN 2337 - 7860  
E-ISSN 2721 - 169X  
DOI: 10.37641/jimkes.v13i2.2953

economic development. Based on data from the Ministry of Cooperatives and SMEs in 2019, more than 90% of the workforce in Indonesia is absorbed through the MSME sector, while its contribution to GDP reaches more than 60% (Junaidi, 2024). In addition, MSMEs also play a role in developing the local economy and creating jobs in areas that are difficult to reach by large-scale investment from the corporate sector. It is estimated that in 2023, the number of MSME actors in Indonesia will reach around 66 million with a growth rate of 1.52%. This huge contribution further strengthens the position of MSMEs as the main driver of the national economy and a pillar supporting community welfare.

**Table 1. Number of MSMEs in North Sumatra**



Based on available data, Medan City occupies the top position in the number of Micro, Small and Medium Enterprises (MSMEs) when compared to other cities in the region. The phenomenon of increasing numbers of MSMEs has indeed occurred in almost all regions, but is often not accompanied by an increase in overall business quality. Many MSME actors face various structural challenges, such as obstacles in production management, marketing strategies, financial management, and human resource development. Therefore, it is important for business actors to increase their capacity in order to develop their business more optimally (Bayu, 2024). Field observations indicate that most MSME owners still need additional guidance and knowledge related to effective business management. In addition, many of them tend to focus solely on the production process without any significant efforts to improve the quality of the products produced. One of the main obstacles that is often complained about is the low ability to innovate. Without innovation, the market that has been built will be vulnerable to being taken over by competitors (Sorongan, 2022).

In the context of business development, organizational performance is a very crucial issue for the sustainability of MSMEs. To achieve maximum results, business actors need to understand the factors that influence organizational performance in order to design the right strategic steps. Performance generally refers to the achievement of work results by both individuals and teams in a company. The main purpose of performance evaluation is to find out how an organization is able to achieve the goals or standards that have been set (Okeyo et al., 2016). Better management will have a positive impact on MSMEs, including through increasing insight and understanding of the internal dynamics of the organization and access to external resources such as suppliers, customers, and competitors. In addition, professional management also helps business actors develop important skills such as *problem solving*, adaptive learning, strategic planning, and effective decision making, so that overall it can improve organizational performance (Kusuma, 2018).

Experts agree that knowledge management has a significant contribution in increasing the innovation capacity of an organization. The results of a study conducted by Lam et al. (2021) show that effective knowledge management comes from strong internal

collaboration, thus providing greater opportunities for employees to access relevant information and actively engage in creative activities. Given that innovation is highly dependent on the availability and access to knowledge, the current situation full of information has added complexity and uncertainty to the innovation process. Therefore, systematic knowledge management is becoming increasingly important to support the organization's ability to innovate.

In addition, the ability to adapt to changes in the external environment is a critical factor in the sustainability of MSMEs. In conditions that are constantly changing, the innovative capacity of MSMEs is one of the strategic assets that cannot be ignored. Innovation includes the ability to quickly develop new products and services in response to market demand, as well as the ability to adapt to technological developments and opportunities that arise due to competition. The ability of an organization to recognize and take advantage of market trends and new opportunities is referred to as innovation capability. In facing increasingly high levels of competition, MSMEs are required to develop innovations that can strengthen their competitiveness in the market (Anom & Safii, 2022). Furthermore, innovation also functions as an adaptation strategy to market changes and technological developments (Safii & Rahayu, 2020), thus helping MSMEs improve the quality of products and services to attract more customers.

Research conducted by Samsir et al. (2017) concluded that knowledge management and innovation have a significant influence in creating competitive advantage. Knowledge management not only contributes to achieving competitive advantage but also becomes the foundation for knowledge-based economic growth (Mahdi & Nassar, 2021). In today's modern era, knowledge management is increasingly recognized as a key element in sustainable business development. This is supported by Kassaneh et al. (2021) who stated that knowledge management has great potential to provide long-term sustainable competitive advantage, making it an invaluable strategic asset for organizations.

Based on the description, it appears that knowledge management is very important to be maximized in order to improve the performance of MSMEs. Unfortunately, the function of knowledge management and innovation has not been fully optimized, so that it becomes one of the main causes of obstacles in improving the performance of MSMEs in Medan City. Competitive advantage has a close relationship with the implementation of knowledge management and innovation capabilities, which directly affect organizational performance. Therefore, this study aims to examine the mediating role of competitive advantage and innovation capabilities in strengthening the relationship between knowledge management and innovative power as an effort to improve the performance of MSMEs in Medan City.

## **LITERATURE REVIEW**

### **MSME Performance**

Performance can be interpreted as the achievement of results obtained by individuals in carrying out their roles and duties in an organization during a certain period, which is then assessed based on standards set by the company (Arumsari, 2019). In the context of MSMEs, performance reflects the extent to which business actors carry out their duties and responsibilities, which must meet both quantity and quality criteria in order to have a positive impact on business growth and development. This shows that the success of MSMEs does not only depend on operational efforts alone, but also on optimizing the resources they have in order to increase productivity and income (Chepnetich, 2016). Therefore, a good understanding of resource utilization is an important aspect in efforts to improve overall MSME performance.

### **Knowledge Management**

One of the factors that determines the performance of Micro, Small and Medium Enterprises (MSMEs) is the implementation of knowledge management, which involves a series of processes including the acquisition, organization, storage, and effective utilization of knowledge (Fahmi Alfikri et al., 2023). In the current context, information

is increasingly recognized as one of the strategic assets that can provide competitive advantage for business organizations. Therefore, knowledge management is very crucial in supporting organizational development efforts and achieving its strategic goals. Furthermore, knowledge management plays an important role in ensuring that relevant knowledge or knowledge sources including key individuals can be accessed by the right parties at the right time (Fransiskus & Sulistiowati, 2022). For MSMEs, the implementation of knowledge management is considered very essential to be able to optimally utilize and commercialize knowledge, technology, and research and development results in order to increase the efficiency and productivity of company operations (Li et al., 2020). This concept covers all activities related to the process of acquiring, utilizing, and transferring knowledge within the organization (Winarto, 2020).

#### **Innovation capabilities**

Innovation is one of the crucial elements in business studies, which is the main focus in developing organizational strategies (Purmono, 2023). Innovation capability includes the company's ability to utilize its assets to create new valuable products and processes (Zhou et al., 2017). In the context of an organization, this capability reflects the level of readiness of the company in implementing new ideas, designing creative solutions, and maintaining the sustainability of innovation in various aspects of its operations (Khin & Ho, 2018). In addition, innovation provides an opportunity for companies to generate fresh ideas, offer unique value that differentiates them from competitors, and create breakthroughs that support adjustments to the dynamics of industrial development (Maisirata, 2023).

Furthermore, innovation capability is also defined as the ability of an organization to adapt and adjust internal processes and skills in order to increase its competitiveness (Zainurrafiqi & Amar, 2021). This capability involves the creation and adoption of innovation by optimally utilizing internal resources, thus enabling the organization to continue to grow and create added value sustainably (Weber & Heidenreich, 2018). According to Lam et al. (2021), companies that have strong innovation capabilities are able to transform the expertise and competencies of their workforce into strategic assets that can be used to improve management systems, production processes, technology, and the development of goods and services.

#### **Competitive Advantage**

Competitive advantage is an important strategy for businesses to create economic opportunities through uniqueness, innovation, and added value that cannot be imitated or matched by competitors (Indiyati, 2014). This strategy can be realized in various ways, such as implementing sustainable innovation, improving product or service quality, and optimizing cost efficiency to strengthen the company's position in the market (Indiyati, 2014). In the context of a dynamic and increasingly competitive business environment, the ability of an organization or company to create and maintain competitive advantage is one of the crucial factors that determine operational success and business resilience in the long term (Adiputra & Mandala, 2017).

Referring to the description of the problem mentioned above, the hypothesis compiled is as follows:

1. Knowledge management has a significant influence on the performance of Micro, Small and Medium Enterprises (MSMEs).
2. Innovation capability also positively influences the achievement of MSME performance.
3. The application of knowledge management contributes to forming competitive advantages in MSMEs.
4. The level of innovation capability has a direct impact on strengthening a company's competitive advantage.
5. Competitive advantage is an important factor that influences the operational and financial performance of MSMEs.
6. Effective knowledge management can improve innovation capabilities within MSME organizations.

7. The influence of knowledge management on MSME performance is stronger when channeled through the competitive advantage construct.
8. The relationship between innovation capability and MSME performance is strengthened through the mediation of competitive advantage.
9. Knowledge management provides an indirect contribution to MSME performance by increasing innovation capabilities.

## **METHODS**

This study uses a quantitative survey methodological approach with a causal associative design to test the causal relationship between the variables studied. Data collection was carried out through a five-point Likert scale consisting of five assessment categories, namely Strongly Agree (5), Agree (4), Neutral (3), Disagree (2), and Strongly Disagree (1). To measure knowledge management, five main indicators are used, namely knowledge acquisition, knowledge creation and generation, knowledge application and utilization, knowledge transfer and sharing, and knowledge storage and documentation as formulated by Lee & Wong (2015). On the other hand, innovation capability is operationalized through three main dimensions, namely product innovation, marketing innovation, and process innovation based on references from Rosli & Sidek (2013). Meanwhile, competitive advantage is measured by considering three main indicators, namely product quality, product uniqueness, and competitive prices according to Bharadwaj et al. (1993). The performance of MSMEs is assessed through three main aspects, namely product performance, financial performance, and marketing performance in accordance with the approach developed by Taticchi et al. (2010).

The population in this study was limited to micro, small, and medium enterprise (MSME) owners located in Medan City. Primary data were collected from various MSME business sectors active in the urban area. Using purposive sampling technique, a sample of 303 respondents was obtained who met certain criteria. The respondent selection criteria include: (1) business actors must be classified as MSMEs, (2) the business location is in Medan City, (3) the business has been operating for at least one year, and (4) has at least one employee. The determination of these criteria is intended to maintain the validity and relevance of the data collected to the research context.

In order to analyze the data comprehensively, this study used Structural Equation Modeling (SEM), a multivariate analysis method that allows exploration and estimation of simultaneous relationships between various variables in a complex manner (Williams et al., 2009). Statistical analysis was performed using Amos software version 26 to model the structural relationships between latent variables. In addition, to test the mediation role in the research model, the authors conducted the Sobel test as an additional approach to ensure the significance of the indirect influence between the observed variables. This analytical approach was chosen because of its ability to capture variable interactions more realistically and holistically in the context of quantitative research.

## **RESULTS AND DISCUSSION**

### **Respondent Characteristics**

The next section summarizes the results of the researcher's investigation into the identities of the participants. Based on the demographic data presented in this research, the total number of respondents is 303. In terms of gender distribution, the majority of respondents are female (216 individuals or 71%), while males make up 29% (87 individuals). Regarding age, most respondents are under 30 years old, accounting for 55% (166 individuals). Those aged between 30 to 40 years comprise 45% (135 individuals), and only a small fraction, 1% (2 individuals), are over 40 years old. As for the highest level of education attained, the majority of respondents hold a Diploma or Bachelor's degree (53%), followed by high school graduates or equivalent (44%). A smaller percentage, 3%, have completed junior high school, while none of the respondents have only primary education or have pursued postgraduate education (S2 or S3).

The duration of business operation among the 303 respondents shows that the majority, 64% (194 individuals), have been operating their businesses for 1 to 5 years. A further 34% (104 individuals) have run their businesses for 6 to 10 years, while only 2% (5 individuals) have been in business for more than 10 years. Regarding the number of employees, most businesses are small-scale, with 77% (232 respondents) employing between 1 to 20 workers. Another 23% (69 respondents) have between 21 to 50 employees, and only 1% (2 respondents) employ 51 to 100 workers. This indicates that the majority of the businesses surveyed are relatively young and operate with a small workforce.

Based on the research data, the business sectors of the 303 respondents are predominantly in the Food and Beverage (FNB) industry, comprising 43% (129 respondents). This is followed by the trade industry at 16% (47 respondents), service industry at 13% (38 respondents), and fashion industry at 8% (25 respondents). Other sectors include the creative industry (7%), beauty industry (5%), textile industry (5%), and pharmaceutical industry (4%).

In terms of annual business turnover, the majority of respondents (74% or 225 businesses) reported a turnover of less than IDR 300,000,000. Meanwhile, 25% (75 businesses) have a turnover ranging from IDR 300,000,000 to IDR 2,500,000,000, and only 1% (3 businesses) reported an annual turnover between IDR 2,500,000,000 and IDR 50,000,000,000. This indicates that most of the businesses surveyed are micro to small enterprises in terms of financial scale.

#### Measurement Model

**Table 3. SLF, CR, and AVE values**

Indicator	SLF	CR	AVE
Knowledge Management (X1)		0.90	0.64
Knowledge is acquired through workplace training, mentoring, seminars, and conferences	0.69		
I facilitate employees to collaborate in developing new knowledge	0.67		
I encourage employees to apply new knowledge to solve problems	0.75		
My employees and I exchange information and knowledge through formal and informal activities	0.79		
My employees and I are accustomed to documenting practical experiences	0.734		
Innovation Capability (X2)		0.859	0.671
I always strive to develop new products	0.674		
I actively seek new ways to improve existing production processes	0.74		
I use online media to expand my marketing reach	0.675		
Competitive Advantage (Z)		0.844	0.645
I create innovative product forms that are different from similar products on the market	0.791		
The quality of the products produced by my business cannot be found in competitors' products	0.664		
I always offer competitive prices compared to competitors	0.741		
MSME Performance (Y)		0.842	0.646
Business profit achievement increases every year	0.554		
There is an increase in demand for products in my business	0.787		
There is always an increase in purchase volume from customers	0.771		

The results presented in the table indicate that all indicators used in this framework have adequate relevance and reliability. Each indicator forms a *Standardized Loading Factor* (SLF) value above 0.5, as listed in Table 3 which illustrates the contribution of each indicator in forming the model structure significantly. In addition, the *Composite Reliability* (CR) value obtained for each instrument exceeds the threshold of 0.7, as reported by several experts in construct measurement (e.g., Hair et al., 2010; Chin, 1998), indicating the consistency and reliability of the instrument in testing the constructs underlying the

framework. Thus, it can be concluded that these indicators are worthy of being used as a basis for further evaluation of the developed model.

**Table 4. Index of Fit**

Goodness of Fit Index	Expected Value	Result	Description
Chi Square	Expected to be low	144.457	Not Fit
CMIN/DF	≤ 3.00	2.059	Very Fit
RMSEA	≤ 0.08	0.059	Very Fit
RMR	< 0.05	0.032	Very Fit
NFI	≥ 0.90	0.914	Very Fit
IFI	≥ 0.90	0.904	Very Fit
TLI	≥ 0.90	0.941	Very Fit
CFI	≥ 0.90	0.903	Very Fit

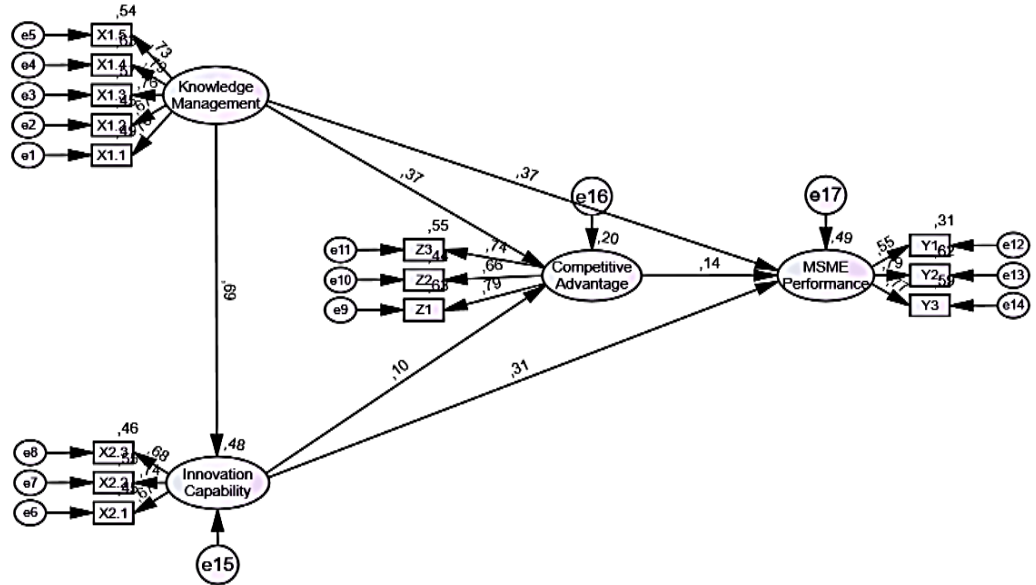
Based on the suitability index values presented in the table above, it can be concluded that the research model meets the established suitability criteria. Four of the suitability measures used showed satisfactory results, thus providing empirical support for the acceptance of the proposed model configuration. As is common in the approach to structural model analysis, a model is considered feasible or appropriate if at least three to four suitability indices meet or exceed the recommended threshold (original source).

**Table 5. R-Squared**

R-Squared	Estimate
Innovation Capability	0.481
Competitive Advantage	0.197
MSME Performance	4.89

In this study, the coefficient of determination ( $R^2$ ) value for the innovation capability variable was recorded at 0.481, indicating that 48.1% of the variation in innovation capability can be explained by the influence of the independent variables contained in the regression model. As for the competitive advantage variable, the  $R^2$  value obtained was 0.197, indicating that around 19.7% of the fluctuations in competitive advantage can be explained by the independent variables in the model. On the other hand, the results show that the  $R^2$  for MSME performance has a value of 4.89, which illustrates a very strong relationship between the independent variables and MSME performance, making it a relatively better predictor compared to the other two endogenous variables.

Figure 1. Complete Model Testing



**Hypothesis Testing**

Below are the results obtained by examining the relationship between various variables in this study.

Table 6. Hypothesis Testing

R-Squared	Estimate
Innovation Capability	0.481
Competitive Advantage	0.197
MSME Performance	4.89

Source: Processed Data, 2024

Table 7. Sobel Test – Significance of Mediation

Hypothesis	Path	Sobel Test t-Stat	Sobel Test P-Value	Result
H7	Competitive Management → Knowledge → Competitive Advantage → MSME Performance	1.68	0.09	Rejected
H8	Competitive Capability → Innovation → Competitive Advantage → MSME Performance	0.79	0.42	Rejected
H9	Innovation Management → Knowledge → Capability → MSME Performance	2.75	0.00	Accepted

Source: Processed Data, 2024.

The results of the hypothesis testing show that knowledge management and innovation capability have a significant positive effect on MSME performance. In addition, knowledge management is proven to significantly influence competitive advantage, however, innovation capability does not show a significant effect on competitive advantage. The study also revealed that competitive advantage has a significant effect on MSME performance, and knowledge management has been shown to contribute to increasing innovation capability. However, further analysis shows that competitive advantage does not act as a mediator in the relationship between knowledge management

and innovation capability on MSME performance. On the contrary, innovation capability is proven to be able to significantly mediate the effect of knowledge management on MSME performance.

#### **Knowledge Management influences MSME performance**

Based on the data presented in the table, the first hypothesis is accepted because knowledge management is proven to significantly affect MSME performance. This shows that the implementation of knowledge management has an important role in increasing operational effectiveness and achieving business goals in micro, small, and medium enterprises. By managing and utilizing knowledge optimally, MSME actors can more easily face business challenges, increase innovation, and make better decisions. The results of the statistical analysis show a significant effect of knowledge management on MSME performance ( $p < 0.05$ ), so that the better the knowledge management practices implemented, the higher the potential for increasing MSME performance. This finding is in line with the results of previous studies which also show a positive relationship between knowledge management and organizational performance (Meldona et al., 2023).

#### **Innovation capability influences MSME performance**

The data obtained in this study also show that the second hypothesis can be accepted, namely that there is a significant influence of innovation capability on MSME performance. Innovation capability covers various aspects, such as the ability of business actors to develop new products, increase production process efficiency, and expand marketing strategies. Through innovation, MSMEs have a greater opportunity to create products or services that meet market needs and provide unique experiences to consumers. This confirms that investment efforts in the field of innovation, both through the application of the latest technology and human resource development, are important factors in supporting the achievement of optimal and sustainable business performance. These findings are in line with the results of previous studies that discuss similar topics ((Anom & Safii, 2022).

#### **Knowledge Management influences Competitive Advantage**

In addition, the results of the analysis show that knowledge management has a significant influence on the creation of competitive advantage, as evidenced by the t-value and p-value that meet the statistical criteria. The implementation of effective knowledge management allows MSMEs to improve the quality of the products produced, create differentiation or uniqueness, and offer prices that remain competitive in the market. This finding is in line with previous studies which state that systematic knowledge management is a crucial factor in strengthening the competitiveness of companies (Elda et al., 2021). Thus, it can be concluded that the use of knowledge as a strategic asset contributes significantly to the achievement of competitive advantage for MSMEs.

#### **Innovation capability influences competitive advantage**

Based on the results of the fourth hypothesis test, innovation capability does not show a significant effect on competitive advantage. The rejection of this hypothesis can be explained by the typical characteristics of micro and small businesses that tend to prioritize increasing short-term income compared to developing sustainable innovation. This condition is reinforced by the limited resources owned by MSME actors, so they focus more on operational activities that directly support daily business continuity. In this context, innovation has not been seen as the main factor supporting the achievement of competitive advantage, but rather as a long-term strategy whose impact on income is indirect. This finding is in line with the research of Wijaya & Simamora (2022), which also found no evidence of a significant relationship between innovation capability and competitive advantage. However, this result contradicts the research of Aswar et al., (2023), which concluded that innovation has a positive and significant effect on the competitive advantage of MSMEs in Makassar City. In this area, innovation practices have been widely implemented, such as product improvement, participation in exhibitions, utilization of information technology, and improving service quality. However, there are still some obstacles in implementing innovation, one of which is the dominance of ideas originating from business owners or upper management, so that the

process of developing new ideas tends not to involve wider participation from other parties. In addition, the low attention of business owners to aspects of education, experience, and employee skills when recruiting workers also affects the ability of employees to implement innovation, because existing human resources are not yet able to implement new ideas effectively.

#### **Competitive Advantage Influences MSME Performance**

The fifth hypothesis is accepted, which shows that competitive advantage has a significant role in improving MSME performance. The existence of unique, high-quality products or services offered at competitive prices allows MSME actors to strengthen customer loyalty, expand market share, and increase overall revenue. In addition, strong competitiveness is a crucial factor that supports the growth and sustainability of small and medium enterprises amidst tight market competition. This finding is in line with previous research which states that competitive advantage has a positive effect on improving organizational performance (Nizam et al., 2020).

#### **Knowledge Management influences innovation capability**

The sixth hypothesis in this study shows that knowledge management has a significant direct influence on innovation capacity, focusing on the context of MSMEs in Medan City (Lam et al., 2021). The implementation of effective knowledge management by MSME business actors has been shown to be able to increase their ability to innovate. With good knowledge management, the creativity of business actors can be further encouraged, thereby strengthening the capacity of MSMEs to create new products, increase the efficiency of the production process, and adapt to changes in market dynamics that continue to develop. This finding further strengthens the argument that knowledge management plays a strategic role in building and developing the innovative capabilities of MSMEs.

#### **Knowledge Management influences the performance of SMEs through mediation Competitive Advantage**

The seventh hypothesis is rejected, indicating that competitive advantage does not act as a mediating variable in the relationship between knowledge management and MSME performance. This means that the implementation of knowledge management does not indirectly affect the improvement of the performance of micro, small, and medium enterprises through the competitive advantage pathway. This result indicates the possibility that other factors outside the variables studied have a more significant contribution in mediating the influence of knowledge management on MSME performance. This finding is in line with the conclusions obtained from previous research (Widodo, 2023), which also implies the complexity of the relationship between these dimensions in the context of MSMEs.

#### **Innovation capability influences MSME performance mediated by excellence Compete**

The eighth hypothesis shows that competitive advantage does not act as a mediating variable in the relationship between innovation capability and MSME performance. This may occur because the orientation of business owners may not be fully focused on achieving innovation as the main goal, so that the resulting innovation has not been able to create a significant competitive advantage. In addition, limited resources and marketing strategies owned by MSMEs also limit the potential for innovation to become the main driver of improving business performance in the long term. This finding supports the results of previous studies which also reported the absence of a significant influence in the context of the relationship between innovation capability, competitive advantage, and MSME performance (Arman Hadi et al., 2023).

#### **Knowledge Management influences MSME performance through mediation Innovation Capability**

The ninth hypothesis states that knowledge management has a positive and significant influence on MSME performance, with innovation capability as a mediating variable. The implementation of effective knowledge management can encourage the creation of new innovations, which ultimately contribute to improving business performance.

Therefore, a strategy that combines knowledge management and strengthening innovation capabilities is a crucial factor in building competitiveness and ensuring sustainable success for MSMEs. This finding is in line with the results of previous research conducted by Wulansari et al. (2020), which also emphasized the important role of innovation capabilities in strengthening the relationship between knowledge management and MSME performance.

## CONCLUSION

Referring to the analysis findings, the following conclusions can be drawn: Knowledge management and innovation capabilities have a positive and significant influence on MSME performance, confirming that effective knowledge management and efforts to encourage innovation have an important role in improving business performance. In addition, knowledge management also shows a positive impact on competitive advantage, thus helping to strengthen the competitive position of MSMEs in market competition.

However, competitive advantage has been proven to have a significant influence on MSME performance, but does not function as a mediating variable between knowledge management or innovation capabilities and MSME performance. On the contrary, innovation capability successfully acts as a mediator in the relationship between knowledge management and MSME performance, indicating that knowledge management indirectly affects performance through increasing innovation capability.

Suggestions for further research are to expand the indicators used in measuring variables and to conduct deeper exploration of the mediating role of competitive advantage in influencing the relationship between variables. In addition, it is also recommended to increase the variety of sectors and expand the scope of research objects in order to produce more comprehensive findings and have a higher level of generalization (Tjiptono & Diana, 2017).

## REFERENCE

- [1] Adiputra, I. P. P., & Mandala, K. (2017). Pengaruh kompetensi dan kapabilitas terhadap keunggulan kompetitif dan kinerja perusahaan pada pondok wisata (Villa) di Kota Denpasar-Bali. *E-Jurnal Manajemen Universitas Udayana*, 6(11), 6090–6119.
- [2] Anom, L., & Safii, A. A. (2022). Enhancing MSME performance through market sensing capability, innovation capability, and iconic ethnic product development. *Jurnal Ilmu Manajemen Advantage*, 6(1), 1–10. <https://doi.org/10.30741/adv.v6i1.778>
- [3] Arman Hadi, Adijati Utaminingsih, & DC Kuswardani. (2023). Peran keunggulan bersaing sebagai variabel yang memediasi kemampuan inovasi dan entrepreneurial marketing pada kinerja pemasaran (studi pada umkm makanan dan minuman di provinsi Jawa Tengah). *Jurnal Ilmu Manajemen Dan Akuntansi Terapan (JIMAT)*, 14(1), 1–10.
- [4] Arumsari, D. T. (2019). *Pengaruh literasi keuangan dan kompetensi sdm terhadap kinerja ukm di Jawa Timur*. STIE Perbanas Surabaya.
- [5] Aswar, N. F., Haeruddin, M. I. M., & Hasdiansa, I. W. (2023). Pengaruh Inovasi Dan Entrepreneurial Orientation Terhadap Keunggulan Bersaing Umkm Di Kota Makassar. *Jurnal Bisnis dan Kewirausahaan*, 12(1), Article 1. <https://doi.org/10.37476/jbk.v12i1.3805>
- [6] Bharadwaj, S. G., Rajan Varadarajan, P., & Fahy, J. (1993). Sustainable competitive advantage in service industries: A conceptual model and research propositions. In *Source: Journal of Marketing* (Vol. 57, Issue 4).
- [7] Chepngetich, P. (2016). Effect of financial literacy and performance SMEs. Evidence from Kenya. *American Based Research Journal*, 5(11), 26–35.
- [8] ekon.go.id. (2024). *Menko airlangga ungkap potensi ekonomi digital Indonesia dan paparkan signifikansi keanggotaan OECD saat bertemu petinggi Nikkei Inc*. Ekon.Go.Id. <https://ekon.go.id/publikasi/detail/5790/menko-airlangga-ungkap-potensi->

- ekonomi-digital-indonesia-dan-paparkan-signifikansi-keanggotaan-oecd-saat-bertemu-petinggi-nikkei-inc
- [9] Elda, R. P., Patrisia, D., Abror, & Linda, M. R. (2021). The impact of intellectual capital and knowledge management on competitive advantage. *Proceedings of the Sixth Padang International Conference On Economics Education, Economics, Business and Management, Accounting and Entrepreneurship (PICEEBA 2020)*, 480–487. <https://doi.org/10.2991/aebmr.k.210616.075>
- [10] Fahmi Alfikri, N. F., Komari, N., & Rosnani, T. (2023). Peran mediasi kapabilitas manajemen pengetahuan pada pengaruh pelatihan terhadap kinerja inovasi pegawai badan perencanaan pembangunan daerah Kabupaten Sanggau. *Equator Journal of Management and Entrepreneurship (EJME)*, 11(04), 255. <https://doi.org/10.26418/ejme.v11i04.71042>
- [11] Fransiskus, R., & Sulistiowati. (2022). Perilaku knowledge sharing dalam meningkatkan kinerja UMKM. *Proceeding Seminar Nasional Bisnis Seri VI, December*, 325–335.
- [12] Indiyati, D. (2014). Pengaruh budaya organisasi dan manajemen pengetahuan terhadap keunggulan bersaing. *Sosiohumaniora*, 16(2), 193–200. <https://doi.org/10.24198/sosiohumaniora.v16i2.5732>
- [13] Junaidi, M. (2024). *UMKM hebat, perekonomian nasional meningkat*. Djpb.Kemenkeu.Go.Id.<https://djpb.kemenkeu.go.id/portal/id/berita/lainnya/opini/4133-umkm-hebat,-perekonomian-nasional-meningkat.html>
- [14] Kassaneh, T. C., Bolisani, E., & Cegarra-Navarro, J. G. (2021). Knowledge management practices for sustainable supply chain management: A challenge for business education. *Sustainability (Switzerland)*, 13(5), 1–15. <https://doi.org/10.3390/su13052956>
- [15] Khin, S., & Ho, T. C. (2018). Digital technology, digital capability and organizational performance. *International Journal of Innovation Science*, 11(2), 177–195. <https://doi.org/10.1108/IJIS-08-2018-0083>
- [16] Kusuma, B. N. (2018). *Orientasi pasar, inovasi, orientasi teknologi, dan manajemen pengetahuan dalam meningkatkan kinerja bisnis UMKM di Soloraya*. Universitas Muhammadiyah Surakarta.
- [17] Lam, L., Nguyen, P., Le, N., & Tran, K. (2021). The relation among organizational culture, knowledge management, and innovation capability: Its implication for open innovation. *Journal of Open Innovation: Technology, Market, and Complexity*, 7(66), 1–16. <https://doi.org/10.3390/joitmc7010066>
- [18] Lee, C. S., & Wong, K. Y. (2015). Development and validation of knowledge management performance measurement constructs for small and medium enterprises. *Journal of Knowledge Management*, 19(4), 711–734. <https://doi.org/10.1108/JKM-10-2014-0398>
- [19] Li, C., Ashraf, S. F., Shahzad, F., Bashir, I., Murad, M., Syed, N., & Riaz, M. (2020).
- [20] Influence of knowledge management practices on entrepreneurial and organizational performance: A mediated-moderation model. *Frontiers in Psychology*, 11(577106), 1–15. <https://doi.org/10.3389/fpsyg.2020.577106>
- [21] Mahdi, O. R., & Nassar, I. A. (2021). The business model of sustainable competitive advantage through strategic leadership capabilities and knowledge management processes to overcome covid-19 pandemic. *Sustainability (Switzerland)*, 13(17), 1–27. <https://doi.org/10.3390/su13179891>
- [22] Maisirata, P. (2023). Pengaruh fokus pada pesaing, fokus pada pelanggan dan kapabilitas inovasi terhadap peningkatan kinerja pemasaran penggiat UMKM (studi kasus pada penggiat UMKM kerajinan manik-manik di Kota Pontianak). *MABIS*, 14(1), 28–38.
- [23] Meldona, Soetjipto, B. E., Wardoyo, C., Hermawan, A., & Utaberta, N. (2023).

- [24] Innovation capability and risk attitude mediate the effects of knowledge management and financial literacy on MSME performance. *Journal of Social Economics Research*, 10(4), 194–214. <https://doi.org/10.18488/35.v10i4.3555>
- [25] Nizam, M. F., Mufidah, E., & Fibriyani, V. (2020). Pengaruh orientasi kewirausahaan inovasi produk dan keunggulan bersaing terhadap pemasaran UMKM. *Jurnal EMA*, 5(2), 100–109. <https://doi.org/10.47335/ema.v5i2.55>
- [26] Okeyo, W. O., Gathungu, J. M., & K'Obonyo, P. (2016). Entrepreneurial orientation, business development services, business environment, and performance: A critical literature review. *European Scientific Journal, ESJ*, 12(28), 188. <https://doi.org/10.19044/esj.2016.v12n28p188>
- [27] Purmono, B. B. (2023). Does innovation capability and technology capabilities affect the marketing performance of smes in Indonesia? Under a creative commons attribution-noncommercial 4.0 international license (CC BY-NC 4.0). *Jurnal Ekonomi*, 12(03), 2023.
- [28] Rosli, M. M., & Sidek, S. (2013). The impact of innovation on the performance of small and medium manufacturing enterprises: Evidence from Malaysia. *Journal of Innovation Management in Small & Medium Enterprise*, November 2013, 1–16. <https://doi.org/10.5171/2013.885666>
- [29] Safii, A., & Rahayu, S. (2020). The role of social capital and owner cosmopolitanism on marketing performance of jonegoroan batik MSMEs. *1st International Conference on Business and Social Sciences*, 2(2), 1–10.
- [30] Samsir, Nursanti, A., & Zulfandi. (2017). The effect of product innovation as mediation in relationship between knowledge management to competitive advantage (Case study in SME of typical food products of Riau Indonesia). *International Journal of Economic Research*, 14(2), 217–226.
- [31] Taticchi, P., Tonelli, F., & Cagnazzo, L. (2010). Performance measurement and management: A literature review and a research agenda. In *Measuring Business Excellence* (Vol. 14, Issue 1, pp. 4–18). <https://doi.org/10.1108/13683041011027418>
- [32] Weber, B., & Heidenreich, S. (2018). When and with whom to cooperate? Investigating effects of cooperation stage and type on innovation capabilities and success. *Long Range Planning*, 51(2), 334–350. <https://doi.org/10.1016/j.lrp.2017.07.003>
- [33] Widodo, D. S. (2023). The nexus of entrepreneurial orientation and knowledge management on business performance of smes in West Java: Role of competitive advantage. *Journal of Law and Sustainable Development*, 11(7), 1–15. <https://doi.org/10.55908/sdgs.v11i7.1364>
- [34] Wijaya, L. D., & Simamora, V. (2022). Pengaruh kapabilitas teknologi informasi dan kapabilitas inovasi terhadap strategi dan dampaknya terhadap keunggulan bersaing umkm kuliner. *Jurnal Ilmiah Akuntansi Dan Bisnis*, 7(1), 51–65. <https://doi.org/10.38043/jiab.v7i1.3474>
- [35] Williams, L. J., Vandenberg, R. J., & Edwards, J. R. (2009). 12 structural equation modeling in management research: A guide for improved analysis. *Academy of Management Annals*, 3 (1), 543–604. <https://doi.org/10.5465/19416520903065683>
- [36] Winarto, W. W. A. (2020). Pengaruh knowledge management terhadap peningkatan kinerja UMKM dengan kompetensi sebagai variabel moderasi. *Business Management Analysis Journal (BMAJ)*, 3(2), 141–157. <https://doi.org/10.24176/bmaj.v3i2.5052>
- [37] Wulansari, N. A., Ranihusna, D., & Wijaya, A. P. (2020). The role of knowledge management in MSMEs business performance. *IOP Conference Series: Earth and Environmental Science*, 485(1). <https://doi.org/10.1088/1755-1315/485/1/012059>
- [38] Zainurrafiqi, Z., & Amar, S. S. (2021). Pengaruh innovation capability dan blue ocean strategy terhadap competitive advantage dan business performance.

- [39] Zhou, K. Z., Gao, G. Y., & Zhao, H. (2017). State ownership and firm innovation in china: An integrated view of institutional and efficiency logics. *Administrative Science Quarterly*, 62(2), 375–404. <https://doi.org/10.1177/0001839216674457>
- [40] Zuhdi, S., & Yudi, D. (2008). ANALISIS BRAND LOYALTY TERHADAP KEPUTUSAN PEMBELIAN Studi Kasus Pengguna Mobil Merek TOYOTA Pada PT. Setiajaya Mobilindo Bogor. *Jurnal Ilmiah Kesatuan Nomor*, 10(97), 2.
- [41] Zuhdi, S., Marpaung, B. S., & Soedargo, B. P. (2025). PERILAKU KONSUMEN. *Kesatuan Press*.
- [42] Zuhdi, S., Cahyani, N., & Pambudi, A. L. (2024). ENTREPRENEURIAL MANAGEMENT. *Kesatuan Press*.