

Innovation Role in Mediating the Effect of Entrepreneurship Orientation, Management Capabilities and Knowledge Sharing Toward Business Performance: Study at Batik SMEs in East Java Indonesia

Sri Wahyu Lelly Hana Setyanti¹, Eka Afnan Troena²,
Umar Nimran² and Mintarti Rahayu²

¹(Doctoral Program of Management Science, Faculty of Business and Economics in Brawijaya University
Malang East Java of Indonesia)

²(Department of Management, Faculty of Business and Economics in Brawijaya University, Malang East Java
of Indonesia)

Abstract : *This study is based on a phenomenon that occurred at Batik SMEs in East Java, Indonesia. Nowadays innovation is a critical issue in SMEs, especially in Batik SMEs. This is because batik has a social and economic uniqueness, and also the uniqueness is a product of culture and art. This potential will be one of great power in creative industries sector if dealt with seriously. This study aims to examine and explain the innovation role in mediating the effect of entrepreneurial orientation, management capabilities and knowledge sharing toward business performance of Batik SMEs in East Java. The unit of analysis is Batik SMEs in East Java. Survey respondents are 125 owners of Batik SMEs in East Java. This study uses a quantitative approach. Data analysis tool used is PLS (Partial Least Square).*

The results showed that innovation role proved affect positively and significantly toward business performance improvement. Innovation becomes complete mediation in relationship between management capabilities and knowledge sharing toward business performance. Innovation becomes a partial mediation in relation to entrepreneurship orientation toward business performance. An important finding of this study are 1) be able to integrate the affect of entrepreneurial orientation, management capabilities and knowledge sharing toward business performance through innovation as a mediating variable, and 2) integrating the resources-based view (RBV) and knowledge-based view (KBV).

Keywords: *Entrepreneurial Orientation, Management Capabilities, Knowledge Sharing, Innovation, Business Performance*

I. Introduction

Ministry of Commerce data show the potential of Batik SMEs increased. This was demonstrated by an increase in total transaction value of batik products by 56%, ie 2.9 trillion in 2006, rising to 3.9 trillion in 2010. In addition, the development of domestic market have pushed Batik SMEs in Indonesia to continues to grow, from 53,250 units with 873.510 labor in 2009 become 55,778 units with 916,783 worker in year 2011 [1]. This situation will certainly bring a positive affect. If the potential of batik can be improved, it will be able to reduce poverty and unemployment in Indonesia.

In addition to potential and opportunities, there are problems faced by Batik SMEs nationally. BPS data, processed Ministry of Commerce, shows the exports value of batik Indonesia and batik products continued to decline. In 2006, the total export value of Indonesian batik products was US\$ 74 million. This figure rose to US\$ 78 million in 2007. In 2008, the total export value of batik products increased to US\$ 93 million. The global economic crisis at the end of 2008 made batik exports gradually fell back to 18.34% become US\$ 76 million in 2009. In 2010, batik exports more sloping and decreased 8.91% to US\$ 69 million. Batik exports in 2011 reached US\$ 60 million, decrease of 13.34% over the previous year [1]. In addition to global economic crisis, this situation occurs because the increasingly competitive global market conditions. The entry of printing batik products from China, Japan and Korea to Indonesia are challenges faced by batik SMEs today [1].

Another problem faced is regarding innovation of Batik SMEs entrepreneurs itself, namely strong willingness of SMEs to constantly develop new ideas and creativity, which is generated through product, process and managerial innovation. Rapid flow batik garment import and difficulty to get young workers to create new motifs in accordance with market demand is a constraint faced Batik SMEs at this time. In addition, other constraints related to climate rivalry of Batik SMEs in East Java.

Several previous studies prove that a good resource become a determinant of business performance [2, 3, 4]. The findings of previous studies show that business success requires entrepreneur ability in operations [5].