

Proceedings of
THE 7TH
INDONESIA
INTERNATIONAL
CONFERENCE ON
INNOVATION,
ENTREPRENEURSHIP, &
SMALL BUSINESS
IICIES 2015

August 4-6, 2015
H Clarity, Bandung, Indonesia

7th Edition

Venture Creation and Development in the Borderless World

Editors

Dwi Larso, Donald Crestofel Lantu, WawanDhewanto,
Amilia Wulansari, Adita Pritasari

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PREFACE

Today's competitive landscape has expanded to the global horizon. Open market among countries and collaborations among companies in different countries are becoming common. To deal with the new landscape, innovation in many areas such as product, process, technology, business model, and management is a must. Innovation was typically created through a collaborative action among employees inside a company. Nowadays the collaborative action or partnership expands externally to reach other companies, customers, or even, competitors, locally or globally.

In this dynamic economic environment where knowledge is vastly distributed, companies can no longer rely on their own research and are pushed to utilize outside sources to sustain growth. This understanding inspires the theme of IICIES 2015, Venture Creation and Development in the Borderless World. Creating a business environment where all stakeholders can share knowledge, collaborate, operate and spread on a global canvas is a vision we would like to share. With a purpose to generate and share knowledge in supporting innovation, entrepreneurship, and small businesses, the Indonesia International Conference on Innovation, Entrepreneurship, and Small Business (IICIES) was initiated in 2009 by the Center for Innovation, Entrepreneurship, and Leadership (CIEL), School of Business and Management (SBM), Institut Teknologi Bandung (ITB). Throughout the years, we constantly challenge ourselves to learn, study, and create local knowledge with a global mindset and to promote the development of new entrepreneurs and small businesses. This conference provides the platform for Indonesian and international scholars to present their research on this vital subject network as well as to collaborate.

Held in flower city of Bandung, on 4-6 August 2015, the 7th IICIES has attracted more than 250 abstract submissions; all of which were reviewed and 97 accepted papers will be presented. Topics are ranging from entrepreneurship, creativity, innovation, management of technology, managing small business and start-up, leadership, entrepreneurial marketing and entrepreneurial finance. At least 200 researchers and participants from esteemed universities in Indonesia and more than fifteen other countries were attending the conference. Selected papers are published in 3 SCOPUS indexed journals: International Journal of Business (IJB), Journal of Business Innovation Research (JBIR), and International Journal of Business and Society (IJBS). Furthermore, we also have a special collaboration with Asian Journal of Technology Management (AJTM). Continuing previous conference publication, we are also proud to present you the IICIES 2015 Proceeding by CIEL SBM ITB.

In this occasion, we are honored to thank all contributors to the conference including all authors, reviewers, speakers and program facilitators, participants, and sponsors. This proceeding is expected to be the dissemination tools of our fruitful meeting, thus, we would highly encourage you also to take part in spreading the words.

Dwi Larso, Ph.D
Conference Chair

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Innovation Strategy Through Knowledge Sharing For Small Medium Enterprises To Achieve Sustainable Competitiveness : A Case Study of Batik SMEs in East Java, Indonesia

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Abstract

The purpose of this research is to examine how innovation strategy through knowledge sharing as a continuous effort in enhancing sustainable competitiveness of small medium enterprises. Study population was batik SMEs in East Java Indonesia. Sample was chosen by purposive method with amount 110 batik SMEs. Data was collected by a questionnaire research instruments. The Partial Least Square (PLS) was used to analyze the data. The research result showed that innovation strategy through knowledge sharing becomes a complete mediation toward sustainable competitiveness. An important finding of this research is knowledge sharing is a best tool for SMEs in enhancing innovation strategy and sustainable competitiveness. The practical implications of these studies provide knowledge and information for SMEs in an attempt to improve innovation strategy and to achieve sustainable competitiveness through knowledge sharing.

Keywords : Innovation strategy, knowledge sharing, competitiveness, SMEs

1. Introduction

Based on the data from Statistics Indonesia (2014), Small Medium Enterprises have always been the backbone of the industrial economy of Indonesia. The number of SME in Indonesia reaches 97% of the total number of companies with 57% of the workers coming from the SME sector. In order to meet the market demands as well as to achieve 20% increase in the targeted export growth that was announced by the government at the beginning of 2014, SMEs must immediately prepare the competence of their resources to boost innovation and competitiveness. Knowledge is the main component and is an important intangible resource that can be a source of sustainable competitiveness for SMEs (Davenport & Prusak, 1998; Wang & Noe, 2010). That is why SMEs need to pay attention and to be more effective in the application of knowledge based resources which have been held into a unity (Cummings, 2004; Davenport & Prusak, 1998). In another study, Min (2006) argues that the concept of knowledge sharing is important for innovation strategy and sustainable competitiveness. The consequences of knowledge sharing including innovation is described in Kim & Lee (2006). While Liao and Wu (2010) in their research in Taiwan, mentioned about the importance of knowledge sharing and stated that organizational factor, which is

influential to innovation, is having the knowledge and skill base. The role of knowledge sharing is interesting to discuss into a further study to create a sustainable competitiveness to SMEs.

Many researches on SME innovation have been carried out. Hassim, Affendy, Nizam, Talib and Abu Bakar (2011) state that innovation in SME is an attempt to find new ways of doing things. It is also an important attribute for the development of SME which has a significant impact on the competitiveness of SME. While the relevance of innovation with sustainable competitiveness has been well described in (Jimenez and Valle, 2011). They find that innovation is an important function in the management and has a positive role in improving competitiveness. On the contrary, Rhee, Park and Lee (2009) and Hilmi, Ramayah and Mustapha (2011) showed that innovation does not significantly influence the competitiveness of SMEs. The gap between these studies has become a potential field to be explored further.

The growing awareness of the significance of knowledge for competitive advantage and the idea of managing knowledge have been applied very successfully by many leading organizations in the world. Knowledge sharing as one of the main processes, which is essential for organizations in knowledge management, has been described in Liao and Wu (2010). The statement from Liao and Wu is in line with several other studies, among others: Lin and Lee (2004), Darroch (2005), Kim and Lee (2006). They share the same idea that the key to success for an organization in managing knowledge sharing. Furthermore, knowledge sharing is very important for SME to carry out. It is because SME have not only an advantage in the form of unique tacit knowledge, but also power that comes from motivation, extensive network and flexibility in creation and innovation. Considering the condition of SME in Indonesia, it seems that not many are aware of the significance of knowledge based innovation strategy by optimizing resources. In fact, the presence of SME is expected to grow the economy and to have high competitiveness.

Previous studies such as Hana (2013) and Taminiau, Smit & De Lange (2009) has not test the role of knowledge sharing as a mediation to strengthen the sustainable competitiveness. Therefore, there is still a gap in particular refer to Wang & Noe (2010) until now there have not been any researches on how knowledge sharing is applied, how the process occurs and what kind of knowledge sharing is done in SMEs. The research aims to examine the effects of innovation strategy on sustainable competitiveness, as mediated by knowledge sharing. This study provides empirical evidence from case studies on batik SMEs in East Java, Indonesia. It also describes the aspects and the process of knowledge sharing in SMEs and explain the conditions faced. On this point, the researcher can develop several models of knowledge sharing that are essential for the improvement of innovation strategy of SMEs.

2. Literature Review and Hypotheses

2.1 A Study of Innovation Strategy and Knowledge Sharing

Knowledge sharing activity serves as a capability for SME that will improve the capability of the organization as a whole. It is a unique resource that cannot be imitated and a perfect performance that becomes the source of sustainable competitiveness for the organization. Darroch (2005) defines knowledge sharing as a behavior that involves information exchange or assisting other colleagues. Several empirical studies also prove that innovation strategy is positively related to knowledge sharing, including Lin and Lee (2004), Kim and Lee (2006), and Liao and Wu (2010). Knowledge sharing is an action taken by the SMEs leader in knowledge acquisition, knowledge dissemination and responsiveness, work experience, ideas, expertise and information to other employees.

Empirical researches have shown that the role of knowledge sharing will provide a multiplier effect to the

increase of innovation and sustainable competitiveness for SMEs. The implementation of knowledge sharing on SMEs will be a huge benefit, because SMEs have advantages which do not exist in large scale enterprises. The success of SMEs in managing the excellence in innovation strategy will result of improvement in knowledge sharing (Davenport and Prusak, 1998; Kim and Lee, 2006; Taminiiau, Smit and De Lange, 2009) and the establishment of sustainable competitiveness (Davenport, 1998). Thus, knowledge sharing is seen as a strategy that can be used as the basis of obtaining excellence in sustainable competitiveness. It also reflects new knowledge and insights (Kim and Lee, 2006).

H1: There is a positive influence on the innovation strategy and knowledge sharing

H2: There is a positive influence on the strategy of innovation and sustainable competitiveness

2.2 A Study of Knowledge Sharing and Competitiveness

Knowledge sharing is a step in knowledge management providing an opportunity for the members of a group, an organization, an institution or company to share knowledge, techniques, experience and ideas they have to other members. Knowledge sharing can only be done if every member has an opportunity to express opinions, ideas, criticisms and comments to other members. Knowledge sharing can be done through face to face meetings, documentations, websites, electronic discussion and researches.

Recently, the acquisition of knowledge is the key to win the competition. The increase of SMEs competition power will affect the productivity and the contribution to the country. In general, knowledge consists of two kinds of tacit knowledge that is difficult to be formulated and communicated and also personal in nature. Many companies have concluded that knowledge sharing is an important way to improve their core competencies. The knowledge must be acquired, codified and placed in an acceptable format for the users prior to knowledge sharing. In organizational context, knowledge sharing is define as the sharing behavior of organizationally relevant experiences, important information, management beliefs and contextualized practices among employees (Lin, 2007). Research has shown that knowledge sharing is positively related to reduction costs, faster completion of new product development projects, team performance and sustainable competitiveness (Cummings, 2004; Collins & Smith, 2006).

H3: There is a positive influence on knowledge sharing and sustainable competitiveness.

2.3 Innovation Strategy - Knowledge Sharing - Sustainable Competitiveness

From the earlier discussions, it can be postulated that innovation strategy positively influence sustainable competitiveness when configured in a knowledge sharing behaviour within a small firms. Knowledge is the main component and an important intangible resource that can be the source of sustainable competitiveness. Knowledge is not data or information (Min, 2006; Liao and Wu, 2010), but it is based on data and information. Knowledge is data and information combined with the ability, intuition, experience, ideas, and motivation of competent sources (Nonaka, 1994). Wang and Noe (2010) defines knowledge as information to change something or someone. It occurs when that information becomes the basis for the act, or when such information enables one or institution to take different actions that are more effective than the previous ones.

There are several types of knowledge that must be integrated into knowledge related to information technology and business. Tacit knowledge is in mind and not documented in the form of structure, so it is important for the achievement of innovative works and it enhances the competitiveness of SMEs. Knowledge sharing practices in the whole organization are very important for preserving valuable heritage, learning new techniques, solving problems,

creating core competences and initiating new situations (Hu, 2009). Lately, the improvement of researches regarding knowledge has proven that knowledge is an important asset for organization. In relation to the role of knowledge in organization, it is proven that knowledge serves as a key input to the process of sustainable competitiveness (Min, 2006; Wang and Noe, 2010; Tjakraatmadja, Lenny and Anggoro, 2011). The form and the organization's ability to manage knowledge greatly affect the quality of the knowledge generated and ultimately the quality of action or the decision of the use of such knowledge. Min (2006) argue that knowledge sharing is critical. Knowledge is essential for innovation strategy (Al Qeisi & Al Zagheer, 2015). For SMEs, knowledge sharing promotes sustainable competitiveness by creating and managing new knowledge (El Harbi, Anderson & Amanov, 2010). Knowledge sharing also becomes a central value adding of SMEs and a determinant of sustainable competitiveness (Nguyen, 2010).

H4: There is a positive influence of innovation strategy through knowledge sharing on sustainable competitiveness

3. Research Method

3.1 Research Design

Based on the objectives to be achieved, this study is an explanatory research. The research is done to identify facts and events that emerge from the object of the study and explain the phenomenon of the problem based on the variables studied. The sample of the study is 80 batik SMEs in East Java. Although results from this approach remain specific to the studied cases, Ghozali (2008) argue that conclusions may be generalizable at a conceptual level. Primary data is collected by questionnaires, and face to face extended interviews with the entrepreneurs while documentation methods used to obtain secondary data.

3.2 Research Measurement

3.2.1 Innovation Strategy

Innovation strategy is a locally driven process, succeeding where organizational conditions foster the transformation of knowledge into products, processes, systems, and services. The concept of innovation strategy in this study is related to the intangible assets because it shows a potential capability to take an innovation action to support the success in SMEs. Innovation strategy indicators are from Jimenez & Valle (2011), namely (1) product innovation strategy, (2) process innovation strategy and (3) managerial innovation strategy.

3.2.2 Knowledge Sharing

Knowledge sharing is defined as the process by which individual employees impart their expertises, insight or understanding to other individual employees, who may acquires and use the knowledge to perform the task require (Al Qeisi & Al Zagheer, 2015). Knowledge sharing is also the provision of task information and know how to help others and to collaborate with others to solve the problems, develop ideas, or implement procedures or policies (Wang & Noe, 2010). All items to measure knowledge sharing refers to Darroch (2005). Knowledge sharing is measured : (1) acquiring knowledge , (2) spreading knowledge and (3) response toward knowledge.

3.2.3 Sustainable Competitiveness

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Sustainable competitiveness is identified as the company's ability level in: Flexibility, Innovation, Quality and Cost Reductions by Scannel (Min, 2006). Improving the sustainable competitiveness of SMEs associated with the concept of knowledge management approach becomes a very good alternative solution (Nguyen, 2010). Indicators used to measure the sustainable competitiveness refers to (Nguyen, 2010), namely : (1) the annual sales growth, (2) growth assets, (3) the rate of production growth per year.

4. Analysis and Result

4.1 Respondent Characteristic

Table 1 below showed tabulation for 110 respondents to explain a description of respondent's characteristic:

Table 1 Respondent's characteristics

No	Characteristic	Respondents (People)
Gender		
1	Male	41
2	Female	69
	Total	110
Age		
1	>30 year	15
2	>30 year - 40 year	43
3	>40 year – 50 year	52
	Total	110
Education		
1	Higher education	72
2	Senior high school	38
	Total	110
Produced Product		
1	Written batik	17
2	Hand-stamp batik	35
3	Written batik and hand-stamp batik	58
	Total	110

Source : Primary Data Processed, 2014

4.2 Result

The model was assessed using partial least square (PLS) based structural equation modeling (SEM). The indirect effect (mediation) testing conducted to detect the position of intervening variables in the model. Mediation testing is conducted to determine the nature of the relationship between the complete mediating variable and the partial mediation variable, but not the mediating variables.

Table 2
Coefficient Line and Direct Impact Hypothesis Testing

Relation Between Variables		Path Coefficient	t-statistic	p-value	Description
Exogenous Variables	Endogenous Variables				
Innovation Strategy (X)	Knowledge Sharing (Y1)	0.378	2.878	0.009	Significant
Innovation Strategy (X)	Sustainable Competitiveness (Y2)	0.036	0.140	0.878	Not Significant
Knowledge Sharing (Y1)	Sustainable Competitiveness (Y2)	0.442	2.706	0.037	Significant

Sources : Statistical Calculation Results

The hypothesis 1 test result proves that innovation strategy affects knowledge sharing. This means that the increase in innovation strategy is linear and real toward increase of knowledge sharing. Meanwhile in the hypothesis 2 testing result, that the strategy of innovation does not affect the sustainable competitiveness is not proven. Then, in the hypothesis 3 testing, it is proven that knowledge sharing affects sustainable competitiveness.

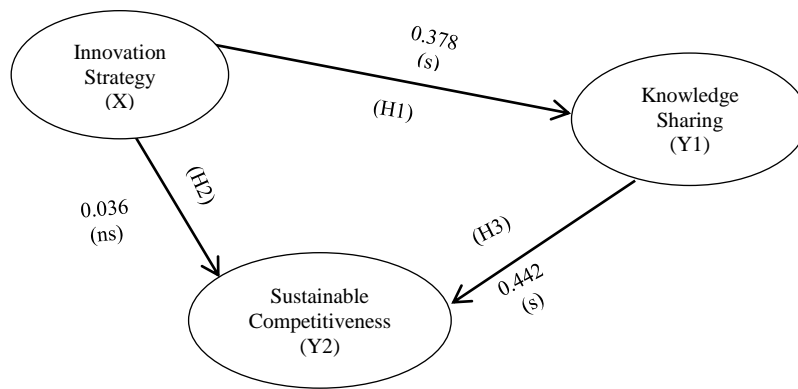


Figure 1

Knowledge sharing Mediation variable Testing line Diagram: The Influence of Innovation Strategy toward Sustainable Competitiveness

Table 2
Hypothesis testing result of indirect influence

Indirect Influence	Coefficient of direct influence		Coefficient of indirect influence	P value
X -->Y1 --> Y2	X -->Y1= 0.378	Y1 --> Y2 = 0.442	0.167	0.001

Sources : Statistical Calculation Results

The processing result in Figure 1 shows that the path coefficient (H1) and (H3) significant, and (H2) is not significant, then the knowledge sharing variable in the research model is said to be the complete mediating variable. It means that a direct relation of innovation strategy does not significantly affect the sustainable competitiveness. However through mediation, knowledge sharing is reliable to influence sustainable competitiveness. Thus, hypothesis 4 testing proves that innovation strategy mediated by knowledge sharing effectively affect the sustainable of competitiveness. The value of the path coefficient is 0.167.

4.3 Discussion

The findings of this study extend the SMEs, knowledge sharing, and innovation strategy literatures and help build a foundation for further understanding the link between innovation strategy and knowledge sharing and sustainable competitiveness. From the results, we are able to make multiple observations. First, the impact of innovation strategy on sustainable competitiveness is primarily indirect and is instead fueled by knowledge sharing. The initiatives of innovation strategy and knowledge sharing are complementary. In order to optimize investment in innovation strategy activities, knowledge sharing initiatives should be aligned with innovation strategy. Second, SMEs that compete with larger firms are able to level the competitive playing field by utilizing knowledge sharing. Further, SMEs should consider how they apply knowledge sharing to other strategic initiatives, such as customer responsiveness, in order to enhance overall effectiveness of the strategy.

Innovation strategy have significantly effect to knowledge sharing. Toward SMEs, the implementation of innovation strategy enables organizations to develop knowledge sharing. Many authors coincide to the positive link between innovation strategy and knowledge sharing, among SMEs (Kim & Lee, 2006; Al Qeisi & Al Zagheer, 2015). Additionally, Johannessen & Olsen (2009), Hassim, Affandy, Nizam, Talib & Abubakar (2011) and Jimenes & Valle (2011) have been assesing the impact innovation strategy on sustainable competitiveness, while Nguyen (2010) as well as El Harbi, Anderson & Amanov (2010) have examined the relation between knowledge sharing and sustainable competitiveness.

Empirical evidence also indicates that in knowledge sharing activities, there will be a process of sharing tacit knowledge that will accumulate and form explicit knowledge that is highly beneficial for the organization's progress. Furthermore, the activities of knowledge sharing will form a knowledge flow that will develop the existing knowledge to be more extensive and have value and benefits that are very essential for SMEs (Nguyen, 2010). The empirical findings show that tacit knowledge is well developed in the batik SMEs. Based on these results, it is recommended to SMEs in order to improve the implementation of knowledge sharing that have a dominant role or are considered important indicators of spreading knowledge reflected through action-led SMEs to provide an opportunity for member organizations to share knowledge, techniques, experience, and ideas they have to other members. There are also circumstances when knowledge sharing may be considered a learning process for the sharer. For example SMEs high in innovation strategy may build knowledge sharing as a learning opportunity because they will not be able to successfully explain something well to their peers unless they fully understand it themselves (Wang & Noe, 2010). The research finding also shows that the response to share knowledge is also motivated by the benefits that can be felt directly by batik SMEs; that is the increasing innovative and creative attitude among all members.

There are a growing number of studies regard whether innovation strategy and sustainable competitiveness are highly correlated (Johannessen & Olsen, 2009; Garcia & Calantone, 2002). Lin, 2007 also conclude that innovation strategy is crucial for SMEs sustainable competitiveness. Additionally (Wahyuni, Ekaputra and Tjong, 2012) indicate that innovation strategy is a core antecedent of sustainable competitiveness. Innovation theory says that belonging to a network will increase the individual firm innovation rate and the strategy theory argues more indirectly that it will increase the firm's competitive advantage and in the long run its profit and survival (Wahyuni, Ekaputra and Tjong, 2012). In the relationship between innovation strategy and sustainable competitiveness, the finding research consistent with research of Hilmi, Ramayah and Mustapha (2011) that in a product innovation, process innovation and managerial innovation strategy have direct effect to strengthens on sustainable competitiveness. Although the result of this research indicate that innovation strategy did not have direct effect on sustainable competitiveness, innovation strategy have indirect effect on sustainable competitiveness through

knowledge sharing. The result of this study indicate that SMEs may be unable to exploit new products because of the limited organizational and marketing capabilities. The finding also shows that the innovation strategy in SMEs can be enhanced when the SMEs seek to behave entrepreneurially. SMEs should focus on this issue that knowledge sharing role is very important. From our in depth-interview it was revealed that SMEs use innovation strategy to build communication in innovation process that can enhance willingness to share within employee. SMEs also have a lot of advantages, being small in terms of size allows SMEs to forge strong bond among employees, developing close relationship with customers, creating opportunity to share knowledge with every employee and flexibility in any environment or situation. Through this framework, SMEs would be able to re-set the innovation strategies to achieve sustainable competitiveness.

Knowledge sharing have significantly effect on sustainable competitiveness. Our finding indicate that knowledge sharing is a antecedent of sustainable competitiveness. Improving the competitiveness of SMEs associated with the concept of knowledge sharing approach becomes a very good alternative solution (Min, 2006). Knowledge sharing has been conceived by several authors (Kim & Lee, 2006), Lin, 2007 and Al Qeisi & Al Zagheer, 2015 as a process that enable SMEs to create innovation environment and consequently promoting high sustainable competitiveness. Several authors, among them Lin (2007) and Al Qeisi & Al Zagheer (2015) have declared that to meet the innovation strategy through knowledge sharing. There are some studies how knowledge sharing contributes to build sustainable competitiveness and how this determines SMEs innovation strategy. Among these studies Hana (2013) investigate the effect of innovation strategy on sustainable competitiveness in Czech Republik by analyzing 103 firms. These authors found evidence that innovation strategy contibutes to sustainable competitiveness. According to (Davenport and prusak, 1998.), One of the most important knowledge sharing enablers in any organization is the creation of a knowledge sharing culture.

The current research findings are congruen in general with literature on innovation strategy, knowledge sharing and its role in building competitiveness and developing sustainable competitiveness SMEs. Several studies highlight the role of knowledge sharing. The importance of the strategy and implementation of the practice of knowledge sharing supports the statement Al Qeisi & Al Zagheer (2015) which states that knowledge sharing is the key factor and an added value for SMEs as an opportunity to strengthen innovation strategies to achieve competitiveness. The empirical findings of this study also contributes to explore the role of knowledge sharing to strengthen innovation strategies in the SMEs either directly or through the mediation significant impact on sustainable competitiveness in SMEs.

Overall, it can be concluded that innovation strategy through knowledge sharing have significantly effect to the sustainable competitiveness of SMEs. Based on this conclusion, it can be recommended that by viewing the potential and development of SMEs, then the government should be more intensive in encouraging the development of SMEs. The finding further suggest that it may be better for batik SMEs owner in East Java to improve knowledge sharing toward identify business opportunity and adopt new idea to enhance innovation strategy and sustainable competitiveness to challenge competition by other SMEs in Indonesia. Therefore, the understanding of SME entrepreneurs should focus on improving the organization's main asset which is human resources. By that the SMEs can develop innovation strategy through knowledge sharing implementation with adequate information technology support,in order that the sustainable competitiveness can be improved.

4.4 Limitation and Further Research

This study has some limitations. First, this research did not make good stratification of batik SMEs in scale or

type. Therefore, future research needs to consider these aspects and consider entrepreneur's profile such as age, education level, experiences, social economy, cultural as a control variables. Second, future research should consider motivational variable in model. Third, knowledge sharing is used as independent variable.

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