



SMEs Innovation Performance Based on Organizational Learning, Entrepreneurial Orientation, and Customer Capital Case Study of Creative Industry in Central Java

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Abstract. The purpose of this research is to analyze the innovation performance of SMEs which is influenced by organizational learning, entrepreneurial orientation, and customer capital. The research was developed by including customer capital as one of the variable recommendations that must be examined, especially in analyzing SMEs' innovation performance. The existence of uncertain conditions requires that SMEs must be able to learn what the customer wants and customer capital is one of the variables that play an important role, especially in creating innovation for SMEs. The research method is quantitative with a survey approach. The research location is in Central Java with the creative industry analysis unit and 100 creative industry SMEs determined the sample. Data were collected through questionnaires and distributed to respondents who had been determined using the purposive sampling method. The analytical tool used is regression analysis to test the hypotheses that have been built before. The study found that in Central Java's creative industry SMEs, organizational learning and entrepreneurial orientation significantly impact innovation performance with the moderating variable of customer capital. Yogyakarta. This study aligns with RBV, that creating company value through knowledge management will increase competitive advantage, especially knowledge about customers.

Keywords: innovation performance, organizational learning, entrepreneurial orientation, customer capital

1 Introduction

The emergence of the Industrial Revolution 4.0 forced organizations to change and adapt to changes in the environment, both directly and indirectly. All organizations striving to remain competitive employ strategies and theories to solve problems, increase long-term profitability, and sustain competitiveness. The resource-based view (RBV) explains that creating corporate value through knowledge management will increase competitive advantage [1].

The knowledge-based view (KBV) highlights the importance of knowledge as a key organizational factor for a firm's existence [2][3]. The ability to learn and organizational learning is an ongoing advantage of organizations. Continuous improvement is crucial for an organization's long-term survival and performance. Organizational learning can be defined as the process of acquiring, sharing, understanding, and storing knowledge [4]. The main objective

of organizational learning is to share knowledge within the organization and with external partners to retain this knowledge.

Organizational learning enables organizations to gain a competitive advantage by responding to changes in the environment and adopting innovative practices to enhance performance. [5] defines organizational learning as "new insights and modified behavior." Researchers from various disciplines argue that the use of innovation is made possible primarily by appropriate learning strategies [6][7][8][9]. Adapting to a changing competitive environment is crucial for organizational performance. Successful implementation of appropriate strategic changes is necessary. Organizational learning and adoption of innovation are crucial for improving performance [10][11]. [12] further emphasizes the importance of organizational learning and innovation in improving performance.

Organizational learning is the process of sharing knowledge both within and outside an organization to retain it. This process triggers the ability to innovate, which can result in the creation of new products or services, as well as the improvement of existing ones. This advantage can help organizations to foster innovation. [13] discussed that continuous improvement and innovation are necessary for corporate survival. In addition, organizations must be innovative to improve organizational performance and to gain competitive advantage [14]. Therefore, when organizations transfer new knowledge into activities to be carried out, they have carried out innovations that can create a competitive advantage.

In a highly competitive business environment, the organizations that have the most success are those that can recognize opportunities and capitalize on them [15]. Companies that have an entrepreneurial mindset are better equipped to identify and seize new market prospects, tackle challenges, and are willing to take risks in unpredictable circumstances. Entrepreneurial orientation is very closely related to management skills as an entrepreneur and about how to make the right decisions with various calculations and reasoning [16]. Entrepreneurial orientation is a strategic capability that develops unique resources, leading to a "positional advantage" and improved performance [17]. Orientation will utilize their best resources to improve organizational performance [18] Entrepreneurial orientation is a vital gauge of a company's management, and one way to measure it is through the performance improvement field [19].

Micro, small, and medium enterprises (MSMEs) are the main drivers of economic development, especially for developing countries [20][21][22][23][24]. According to [25] to survive in the global economy, small and medium enterprises (SMEs) must be able to exploit their resources and capabilities to encourage competitive advantage. For MSMEs that usually have limited tangible resources [26], the utilization of capabilities is needed to increase competitive advantage [27][28]. Likewise, SMEs in Indonesia have an important role in the national economy [29]. However, SMEs are a sector that is easy to attack by competitors, especially in the ability to innovate. For this reason, the main contribution of this research is to analyze company resources in creating innovation, especially in the creative industry in Indonesia, which is currently experiencing a revival period after the COVID-19 pandemic.

2 Research Method

In this study, a survey method was used to conduct quantitative research on owners and managers of creative industries in the Central Java and Yogyakarta Provinces. The research considers the owner/manager of the handicraft creative industry as a representative of the

organization who understands strategies and policies related to organizational learning, entrepreneurial orientation, customer capital, and innovation performance.

The population of this study is the creative industry with the craft sub-sector in Central Java. The sub-sector was chosen because of its dominant contribution to Central Java's GDP field [30]. The total population of the craft sub-sector in Central Java as a whole is not known with certainty, especially with the COVID-19 pandemic.

Determination of the basic formula in determining sample size for populations that are not defined with certainty can be determined directly by 100 [31]. Therefore, 100 people were sampled for this study using Judgment Sampling, with the following criteria: [1] the craft sub-sector still exists, and [2] has a workforce of at least 3 people.

This study employed a research tool consisting of four variables: organizational learning, entrepreneurial orientation, customer capital, and innovation performance. The organizational learning variable comprises three dimensions: information acquisition, dissemination, and interpretation sharing [12]. Furthermore, the entrepreneurial orientation variable comprises innovativeness, proactiveness, risk-taking, competitive aggressiveness, and autonomy [32][33]. Then the variable Customer Capital with 4 indicators of the attitude of cooperation that is established between the company and suppliers, competitors, customers, and government/other parties [26]. The next variable, innovation performance, was adopted by [34] and has three indicators: process, product, and marketing. These four variables are described across 19 question items. After collecting responses to the distributed questionnaires, data analysis was performed. The questionnaire analysis was conducted using Microsoft Excel and SmartPLS version 3.2.9. The analysis included the evaluation of the structural model (Inner Model) by examining the R-square and path coefficient.

3 Result and Discussion

3.1 Demographic Respondent

Table 1. Demographic Respondent

No	Information	Intervals	Frequency	Percentage
1	Born	1970-1975	5	4%
		1976-1981	3	3%
		1982-1987	3	3%
		1988-1993	11	9%
		1994-1999	7	6%
		2000-2005	23	19%
		2006-2011	35	29%
2	Incorporated	Yes	40	33%
		No	80	67%
3	Total Manpower	3 - 6	87	72%
		7 - 12	16	13%
		13 - 18	2	2%
		19 - 24	8	7%
		25 - 30	5	4
		31 - 36	0	0%
		37 - 42	0	0%
43 - 48	0	0%		

		>49	2	2%
4	SME Target Market	Domestic	109	91%
		Overseas	11	9%
5	Gender	Man	95	79%
		Women	25	21%
6	Education	Elementary school	9	7%
		Junior High school	26	22%
		Senior High school	69	58%
		Diploma	5	4%
		Bachelor	9	7%
		Master	2	2%

The SME owner's business management background is analyzed. Their family has passed down 5 SMEs for 3 generations, making them the longest-established SMEs. The existence of long-lasting handicraft small and medium-sized enterprises (SMEs) demonstrates their ability to overcome challenges. Meanwhile, most other SMEs were established in the 2000s but remain operational today. This subject matter expert (SME) can operate for over 4 years.

A total of 40 SMEs have legally registered their businesses by obtaining SIUP, NPWP, and SKU. This process helps strengthen businesses by ensuring responsibility. However, 80 small-scale businesses with minimal capital have not yet become legal entities.

SMEs employ 3-6 people; 87 SMEs surveyed reported working alone or with family. There are 16 SMEs with a workforce of 7-12 people each. These SMEs have medium categorization with sufficient capital and offline shop establishments. Based on this data, creative SMEs in Central Java and Yogyakarta fall into the category of small SMEs with six or fewer employees.

Handicraft small and medium enterprises (SMEs) cater not only to the domestic market but also to foreign markets. Out of the 120 respondents, 109 have local or domestic market targets. The respondents highlighted that the primary demand comes from the local market or the region of origin. Subsequently, the products are distributed to various cities on the island of Java, such as Jakarta, Semarang, and Surabaya. Some respondents mentioned that products could be shipped to regions as far as Kalimantan and Papua, depending on the city where the order is placed. Many Small and Medium Enterprises (SMEs) in the handicraft industry have admitted that they find it challenging to export their products due to the difficult export process and the current uncertain pandemic situation. Out of the total 15 SMEs interviewed, only 11 said that they export their products to countries like Malaysia, Singapore, the Netherlands, Japan, Thailand, and the Middle East. Therefore, it can be concluded that the local market is still the largest market for Handicraft SMEs. These SMEs require more support and guidance from the government to introduce their products to foreign markets.

Most small and medium-sized enterprise (SME) owners are men, with a total of 95 SMEs, while women own a total of 25 SMEs. This indicates that men are more likely to take the initiative and risk involved in setting up a business. The existence of SMEs founded by men is generally stable and has survived for a considerable period of time. On the other hand, a woman who can establish and sustain an SME demonstrates that she possesses the skills, patience, and diligence required for expanding her business.

Based on the survey results, it was found that the majority of small and medium-sized enterprise (SME) owners had completed high school education (69 respondents), followed by junior high school education (26 respondents), and elementary school education (9 respondents). This indicates that a significant number of these individuals have chosen to start their own businesses instead of pursuing higher education. Out of all the respondents, only five

had received a diploma, and nine had obtained a bachelor's degree. However, two individuals who held a master's degree had established their own businesses by utilizing their skills in producing handicrafts and aiming to expand their ventures.

3.2 Validity and Reliability Test

The validity test results indicate that the 19 statement items related to organizational learning, entrepreneurial orientation, customer capital, and innovation performance have scored more than 0.7, indicating their reliability. The average variance extracted scores for the four variables are as follows: Organizational Learning - 0.728, Entrepreneurial Orientation - 0.684, Customer Capital - 0.625, and Innovation Performance - 0.772. All four variables have a value of more than 0.5, making it valid to use them for measuring the desired outcome. Therefore, the four variables can be considered reliable indicators of the desired outcome.

According to the Fornell-Lacker Criterion Discriminant Validity, the Average Variance Extracted (AVE) root of each construct surpasses the correlation between variables. The Organizational Learning variable scored 0.853, which is higher than the correlation between Entrepreneurial Orientation and Organizational Learning, which is 0.425. Additionally, the Entrepreneurial Orientation variable also scored higher, with a value of 0.827 compared to the Customer Capital variable on Entrepreneurial Orientation, which scored 0.364.

It can be concluded that variables such as Human Capital Readiness, Learning Orientation, and Innovation Performance have high discriminant validity as their root value of AVE is greater than the correlation coefficient. The cross-loading results between the question items and their respective variables were analyzed. The composite reliability scores showed that Organizational Learning, Entrepreneurial Orientation, Customer Capital, and Innovation Performance all scored above 0.7, with values of 0.915, 0.915, 0.909, and 0.931, respectively. The Cronbach's Alpha scores for Organizational Learning, Learning Orientation, Customer Capital, and Innovation Performance were all above 0.7, with values of 0.875, 0.885, 0.880, and 0.901, respectively. This indicates that these variables are reliable research instruments and can be used for further testing.

3.3 Calculation of R-Square

Table 2. R-Square Calculation Results

Variable	<i>R-Square</i>
Innovation Performance (Y)	0.219

Source: processed primary data, 2022

According to the r-square calculation, the influence of customer capital on innovation performance, moderated by organizational learning and entrepreneurial orientation, is at 0.219 or 22%. This result indicates that customer capital, in conjunction with organizational learning and entrepreneurial orientation, explains innovation performance by 22%, while 78% of the variability is caused by other variables beyond the scope of this study.

Table 3. Direct Effects

Original Sample	Sample Means	Standard Deviations	T Statistics	P Values
Direct Effects				

OL -> KI	0.125	0.128	0.089	1.402	0.161
EO -> KI	0.177	0.189	0.083	2,139	0.033

Source: processed primary data, 2022

Table 2 depicts the positive relationship between organizational learning and innovation performance with a value of 0.125. However, the obtained t-statistic score of 1.402 is smaller than 1.96, indicating that the result is insignificant. Additionally, the p-value obtained is 0.161, which is greater than 0.05, also indicating insignificance. Therefore, we can conclude that organizational learning has a positive but insignificant impact on innovation performance. As a result, H1 is rejected.

Table 2 presents that there is a positive relationship between entrepreneurial orientation and innovation performance with a value of 0.177. The t-statistic score obtained is 2.139 which is greater than 1.96 and the p-value is 0.033 which is smaller than 0.05. This result indicates that the relationship is significant. Therefore, this study proves that entrepreneurial orientation has a positive and significant impact on innovation performance, and hence, hypothesis H2 is accepted.

Table.4 Indirect Effects

	Original Sample	Sample Means	Standard Deviations	t-Statistics	p-Values
Indirect Effects					
OL*CC -> KI	-0.019	-0.031	0.072	0.267	0.790
EO*CC -> KI	0.174	0.185	0.087	2.601	0.048

Source: processed data, 2022

According to Table 3, the impact of organizational learning on innovation performance is influenced by customer capital. This results in a negative relationship with a value of -0.019. The obtained t-statistic score of 0.267 is smaller than 1.96, indicating an insignificant relationship. Additionally, the p-value obtained is 0.790 which is greater than the significance level of 0.05, further indicating an insignificant relationship. Therefore, this study concludes that customer capital moderates the relationship between organizational learning and innovation performance, resulting in a negative and insignificant effect. As a result, hypothesis H3a is rejected.

Table 3 illustrates that there is a correlation between entrepreneurial orientation and innovation performance, which is moderated by customer capital. This moderation creates a positive relationship with a value of 0.174. The t-statistic score of 2.601 obtained from the analysis indicates that the result is greater than 1.96, and the p-value obtained is 0.048 which is smaller than the significance level of 0.05. Therefore, this relationship can be considered significant. The study concludes that customer capital plays a crucial role in moderating the relationship between organizational learning and innovation performance, resulting in a positive and significant effect on innovation performance. As a consequence, the hypothesis H3b is accepted.

4 Discussion and Implication

The study suggests that knowledge management, specifically knowledge about customers, can enhance competitive advantage and create company value. It adds to RBV theory. [35] argue that the relationship between EO and performance can be moderated by internal and external factors. High levels of customer capital lead to better planning and problem-solving, which increase production and service delivery efficiency, thereby reducing organizational costs [36]. Additionally, customer capital can help improve quality, reliability, and flexibility, leading to innovation in production processes and service delivery and creating value for customers [37].

Hypothesis 1 in this study is the first finding that Organizational Learning has a positive and insignificant effect on Innovation Performance, so Hypothesis 1 (H1) cannot be accepted/rejected. This study shows that the process of discussion and exchanging information can increase innovative ideas within these SMEs, but it does not significantly affect IP because innovation is not only created through new ideas but requires a lot of readiness such as changes in processes, capital, equipment, and manpower. Organizational Learning is a crucial aspect of any business as it helps to maintain and utilize information and knowledge that exists within the organization. According to [38] organizational learning is the process of collecting information from both internal and external sources. Members of the organization then assimilate this information through collective behavior, which in turn produces a shared vision that is used to make changes toward achieving organizational success. This research shows that Organizational Learning as an effort by SMEs to maintain and exchange knowledge can encourage innovation with the aim of responding to market challenges and needs. The process of discussing and exchanging information can increase innovative ideas within these SMEs but does not significantly affect IP because an innovation is not only created through new ideas but requires a lot of readiness such as changes in processes, capital, equipment, and manpower.

The second finding leads to the proof of hypothesis 2, which states that entrepreneurial orientation has a significant impact on innovation performance. This has been accepted as proven, according to [39]. When a company embraces the concept of entrepreneurship, it becomes involved in product market innovation, where doing business is risky and innovation is done proactively. This approach enables the company to beat the competition by a landslide. According to [35], entrepreneurial orientation is the process of developing strategies, methods, and styles of companies involved in entrepreneurial activities. SMEs that are increasingly willing to take risks, innovate proactively, and encourage innovation can greatly improve their innovation performance.

The study identified a negative and statistically insignificant relationship between organizational learning and innovation performance when moderated by customer capital, which led to the rejection of the hypothesis (H3a). Small and medium-sized enterprises (SMEs) are always looking for ways to acquire and exchange information within their organizations to enhance their innovation performance, which can take the form of product or marketing innovation. However, SMEs often face constraints due to limited time to innovate in response to market demands. Long and complicated exchange processes can further discourage innovation, especially when SMEs lack external support from the government, suppliers, markets, and customers.

The study findings indicate that Entrepreneurial Orientation positively influences Innovation Performance while Customer Capital moderates this relationship, as supported by SmartPLS calculations and acceptance of the hypothesis. SMEs are oriented towards entrepreneurship by increasing innovation, daring to take risks, and being proactive in the market in moderation of cooperation carried out by SMEs can increase innovation performance. This is because strategic parties can support SMEs such as the government which

is less supportive, sluggish market demand, and suppliers who increase raw material costs so that the innovation performance of SMEs is hampered by not being supported by external parties.

5 Conclusion

The research concludes that organizational learning has a positive, yet insignificant effect on innovation performance. On the other hand, entrepreneurial orientation has a significant impact on innovation performance. Small and Medium Enterprises (SMEs) that have an entrepreneurial orientation, meaning that they are willing to take risks, innovate, and be proactive in the market, will improve their innovation performance and become more competitive in the market. However, the research also found that organizational learning, when moderated by customer capital, has a negative and insignificant effect on innovation performance. In contrast, entrepreneurial orientation, when moderated by customer capital, has a positive and significant contribution to innovation performance. Small and medium enterprises can improve their innovation and gain a competitive advantage by enhancing their entrepreneurial orientation. This research suggests that it is crucial for them to focus on this aspect. Additionally, future research should explore the impact of human capital readiness on innovation performance by adding relevant variables.

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