

# THE EFFECT OF KNOWLEDGE MANAGEMENT ON INNOVATION CAPACITY THROUGH SMEs COMPETENCY AND MOTIVATION IN JAMBI PROVINCE

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#### Abstract

This study aimed to develop a model for improving knowledge management on innovation ability, through competence and motivation in SMEs. In this experiment, a descriptive and statistical analysis method was used, with the object covering 4 main variables in IKM, namely knowledge management, competency, motivation, and innovation ability. The subject used as the unit of analysis was also the owner of IKM in Jambi Province. Furthermore, the total implemented population was 11,364 IKM, with 386 IKM owners used as the experimental sample in Jambi Province. Data analysis was also conducted through Structural Equation Modeling (SEM) based on variance, namely Partial Least Square (PLS). For data processing, experimental performances were then carried out through SmartPLS Ver.3.0 software. The results proved that knowledge management greatly strengthened innovation capabilities through competence and motivation. In addition, the novelty of this study emphasized the explanation of knowledge management effects on innovation ability, through competence and motivation as intervening variables.

Keywords: Innovation Capability, Knowledge Management, Competence, Motivation, IKM

### **1. INTRODUCTION**

A Small Medium Enterprise (SME) is responsible for playing an important role in advancing a country's economy and promoting equitable distribution of its economic development (Kim and Park, 2017). This enterprise greatly influences the welfare level in several developing countries, leading to the reduction of unemployment and poverty as the highest contributing sector to GDP and labour absorption (Schwab, L., Reiner, G., and Gold, n.d.). In this case, community empowerment, local economic development, new market establishment (Xerri and Brunetto, 20, 11), and innovation sources (Nelsen et al., 2021) contribute to an increase in the economy of a country.

Small Medium Industry (IKM) is a business organization and sector capable of surviving in multi-dimensional conditions, with the brand becoming the backbone of the national economy. From this context, the number of SMEs in Indonesia presently exceeds 4.4 million/99% of the total industrial business activities, absorbs a workforce of 10.5 million, and contributes 6.5% to the economy. To enter the world market, the challenges of SMEs are related to quality, indicating its pressure to be quality-oriented through continuous improvement, to survive and increase competitiveness (Gherardini et al., 2017). In the development stage, the enterprise also experiences other challenges such as capital, management, inadequate technological sustenance, and product marketing issues (Lestari, 2016). This is because some industrialists



are unable to compete, with others not able to continue their businesses. Another challenge highlights the lack of skill among business actors to produce products that meet consumer preferences.

A knowledge-based SME is capable of adapting to environmental changes, with the concept of competitiveness prioritizing natural resources, cheap labour, and the knowledge generating innovation (Porter M E, 1998). The process of adopting knowledge management also increases motivation to determine business solutions (Eskelinen et al., 2017). Based on these descriptions, knowledge is a basic element of human existence (Lendzion, 2015). Therefore, this study aims to determine the influence of knowledge management on innovation ability, through competence and motivation as intervening variables. In this experiment, four variables are highly emphasized, namely knowledge management, competency, motivation, and innovation ability in SMEs. The results obtained are also expected to contribute to the literature relating to the ability of IKM innovation

# 2. LITERATURE REVIEW OR A TITLE OF A CHAPTER (12 PT, BOLD)

### Literature Review

### **Knowledge Management**

Knowledge management is a company's competitiveness ability to achieve organizational success and sustainability. This management is a set of activities managed to produce the knowledge that promotes the sharing of understanding between organizational individuals. Stefan (2016), implicit state or experience was the offhand knowledge converted into explicit understanding, through documentation and capture.

The importance of knowledge management strengthens organizational competitiveness, specifically for SMEs having survivable characteristics in multi-dimensional conditions. The process of this management also improves organizational performance, as well as enhances intelligence, skills, abilities, and experience. In this case, its measurement in IKM uses the concept (Shannak; 2009), with the analysis of the success rate highly dependent on processes, humans, and IT in various organizations.

Based on Sun (2010), the knowledge management process established intelligence acquisition, development, utilization, and sharing. From this context, the acquisition of knowledge involves a process where intelligence is obtained from external sources. Knowledge development is also the transformation of newly acquired understanding into an organizational context, applying and sharing it, as well as promoting and distributing its constant use between individuals or groups. Dalkir (2020) subsequently integrated several previous studies and distinguished management processes, which contained knowledge capture and codification, sharing and dissemination, as well as acquisition and application.

### Competence

Competence is the variable requiring adequate management of business and the ability to make appropriate decisions for the the survivability of SMEs. This indicates a person's ability to describe thinking, talking, and appropriate decision-making patterns (Shane and Glinow, 2010).. Popescu et al (2020) also measured the managerial competence of technical, human, and conceptual skills. This concept was used in Taipale-Eräval et al (2019), where several indicators were formulated to determine the HR competencies possessed by business actors, including the level of education, industrial world experience and literacy, as well as financial management, marketing, and managerial proficiencies.



In Kraus et al (2012), entrepreneurial competence was categorized in two constructs, namely (1) the entrepreneurial skills measured by the entrepreneur's perceived ability and opportunity, and (2) the entrepreneurial personality having entrepreneur role models and no fear of failure. Furthermore, Ahmad et al (2018) divided entrepreneurial competence into four aspects, namely (1) The overall characteristics of individuals related to their effective work performance, (2) The observed and measured manifestation, (3) A facilitation of goal and objective achievements, and (4) A developed organizational resource.

# Motivation

According to Robbins and Judge (2015), motivation was defined as the process of explaining the strength, direction, and persistence of a person's efforts, to achieve goals. Sardiman (2011) also stated that motivation emerged from the word motive, an internal and external driving force used to carry out specific activities toward goal achievements. In Shane and Glinow (2010), the strength influencing the direction, intensity, and persistence of behavior was emphasized. The various reasons for business actors' persistence in managing their businesses were also examined by (Benzing et al., 2009). Based on van Grinsven et al (2014), the survival of a business was encouraged by intrinsic and extrinsic motivation, which are highly considered by various companies. The combination of both motivation was also a strategy applied to increase business inspiration. In Legault (2020), Intrinsic Motivation was the action desire caused by internal driving factors. Grimstad et al (2020) also categorized motivation into two dimensions, namely intrinsic and extrinsic

# **Innovation Capability**

Innovation capability is a company's ability to regularly develop changes toward the production of new and unique commercial value (Wallin et al., 2011). This shows that SMEs are mostly confronted with limitations in increasing the ability, including inadequate funds and experience (Chen et al., 2017), as well as limited knowledge of technology and skills (Chung and Tan, 2017). It is also very vital in maintaining a competitive advantage and improving organizational performance (Lichtenthaler, 2016; Yuan et al., 2016). Many of the indicators used by previous experts to measure innovation capabilities include:(Hult et al., 2004; Saunila, 2014), where product update, service processing, and organizational structures were measured. Oura et al (2016) also measured the ability by determining its existence within a person's specific attributes, namely marketing, learning, entrepreneurial, networking, and resource exploitation skills. Based on Ussahawanitchakit (2007), the sources of creative and innovative behaviours consisted of culture, education level, skills and expertise, universities, as well as government and technology supports.

# **Previous Study**

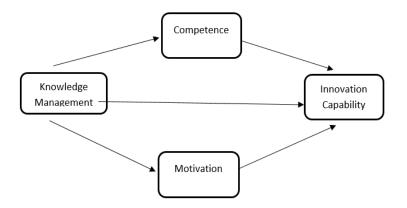
Ting et al (2021), the effect of knowledge management was tested on company innovation performance this indicated that the infrastructural and procedural management positively and significantly affected company innovation performance. A managerial perspective was also provided on the relationship between both variables (knowledge management and innovative performance), through the moderating role of transformative leadership. This was supported by Ibrahim and Mohamed (2019), where the effect of knowledge management on innovation ability was examined, with the similarity prioritizing only manager or business owner as participants. Regarding the results, only knowledge management (sharing acquisition and storage activities) did not significantly influence the innovation capability of the service sector. The effect of this management strategy on the ability to innovate was also studied by (Selim dan Çøçekløoölu, 2020).





# Framework

The framework proposed in this study is shown in Figure 1.



**Figure 1: Empiris Framework** 

# Hypothesis

H1: Management, competence, inovation and motivation is good knowledge

H2: Knowledge management positively and significantly influenced innovation ability.

H3: Knowledge management positively and significantly impacted competence.

H4: Knowledge management positively and significantly affected motivation.

H5: Competence positively and significantly influenced innovation ability.

H6: Motivation positively and significantly impacted innovation ability.

H7: Knowledge management positively and significantly impacted innovation the ability through competence and motivation

# **3. METHODS**

Quantitative data were obtained through a closed questionnaire with Likert scale alternative answers, to investigate the object in this survey analysis. In this study, a purposive sampling technique was used for sample selection from each experimental area. This selection process led to the acquisition of 386 IKM participants from the culinary, fashion, and handicraft sectors. This was due to the high contribution level of the sectors to Jambi Province's economic development, with the participant's only emphasizing IKM owners. Moreover, data analysis was carried out through two methods, (1) Descriptive analysis is used to describe the variables without testing, and (2) Statistical analysis was implemented to examine the influence between variables through hypothetical testing. This was carried out by using variance-based Structural Equation Modeling (SEM), namely Partial Least Square (PLS), with data processing conducted through SmartPLS Ver.3.0 software.

# 4. FINDINGS AND DISCUSSIONS

# Findings

Knowledge management was measured through 8 indicators and 3 main dimensions, namely process, people, and technology. This was accompanied by competence, whose measurement emphasized 8 indicators and 3 dimensions, namely technical, conceptual, and human skills. Motivation was also measured by 6 indicators and 2 dimensions, namely intrinsic and extrinsic





drives. Furthermore, the innovation ability was measured by 14 indicators and 5 dimensions, namely marketing, learning, entrepreneurial, networking, and resource exploitation attributes. Based on the descriptive analysis of all variables, the following outcomes were observed.

### Discussion

Firstly, the knowledge management variables were generally categorized as good, regarding the measurement of the 3 dimensions, namely process, people, and technology. These dimensions were then measured through 8 conceptual indicators (Shannak; 2009). Based on the analysis of the dimensions, all the process indicators were in a good category. This indicated that the scores of all the 3 indicators available on the dimension were in the pretty good category. From the analysis of an indicator, some SMEs in Jambi Province did not provide the employees with rewards when they succeed in applying learning outcomes and sharing knowledge.

The technological dimension showed that SMEs in Jambi complied with digital developments and adopt technology. However, some enterprises believed that technology proficiency did not impact the performance of SMEs. The importance of present technology for SMEs was also undeniable, with knowledge management proving that digitalization was the appropriate medium to increase IKM sales and performance. Based on the results, the average score of 73.6 was observed on the technology dimension. This confirmed that IKM was technology-based due to the implementation of knowledge management processes. According to Ibidunni et al., (2018), technology-based companies accessed knowledge to increase capacity, competencies, and the right attitude.

Secondly, the average IKM competence in Jambi were in good condition. This variable was measured through dimensions, namely technical, conceptual, and human skills, which were then divided into several indicators from the Katz concept in Popescu et al., (2020). Based on the results, technical skill was in a good category with an achievement score of 78.7, leading to the description of planning, communication, and analytical abilities. In the ability to plan, the score of 77.3 was achieved, indicating that IKM was already able to perform short-term planning related to products. In this case, a score of 76.2 involved the business plan development by the employees. In communication abilities, the existence of IKM interaction activities emphasizing work direction was observed with a score of 78.4. This was accompanied by the intensity of communication between owners and employees at 80.1.

# STRUCTURAL MODEL TESTING (INNER MODEL)

The structural model is used to connect exogenous and endogenous latent variables. In this model, the magnitude of the correlation coefficient, t-count, and p-value was illustrated as the influence of exogenous determinants on endogenous latent variables.

# 5. RESULTS AND DISCUSSION

# **R-SQUARE** (**R**<sup>2</sup>)

The R-square value or the coefficient of determination is the diversity of the endogenous constructs simultaneously explained by the exogenous variables. This value is used to measure the level of change variability in the exogenous to the dependent variables. It is also used to measure the feasibility of the prediction model with a range of 0 to 1. This indicates that higher R-square value led to the greater influence of exogenous latent variables on endogenous constructs. Moreover, the R-square value is used to detect the direct effect of specific exogenous variables on endogenous constructs. Changes in this value are also used to



substantively assess the effect of specific independent variables on dependent latent determinants.

	R-Square (R <sup>2</sup> )
Innovation Capability $\rightarrow$ Resource Exploitation Capabilities	0.567
Innovation Capability $\rightarrow$ Networking Capability	0.775
Innovation Capability $\rightarrow$ Entrepreneurial Ability	0.831
Innovation Capability $\rightarrow$ Marketing Capability	0.795
Innovation Capability→Learning Ability	0.815
Competence→Innovation Capability	0.129
Competence→Human Skills	0.789
Competence→Conceptual Skills	0.699
Competence $\rightarrow$ Engineering Skills	0.803
Knowledge Management→Human	0.592
Knowledge Management→Innovation Capability	0.101
Knowledge Management → Competence	0.740
Knowledge Management $\rightarrow$ Motivation	0.711
Knowledge Management→Process	0.714
Knowledge Management→Technology	0.676
Motivation→Innovation Capability	0.082
Motivation $\rightarrow$ Extrinsic Motivation	0.823
Motivation $\rightarrow$ Intrinsic Motivation	0.767

Table	1:	R-Sa	uare	Value	( <b>R</b> <sup>2</sup> )
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Based on Table 1, the R-square value for innovation ability was 0.101. This indicated that the influential value of knowledge management on the ability was 10.1%, with the remaining 89.9% affected by other construct variations. Furthermore, the R-square value of Competency was 0.740, proving that the effect percentage of knowledge management on it was 74.0%. In this case the remaining 26.0% was influenced by other construct variations. Thus was accompanied by the motivation variable of 0.711, where the influential percentage of knowledge management on it was 71.1%. Therefore, the remaining 28.9% was affected by other construct variations.

# Hypothesis test

The hypotheses analysis was carried out through SEM-PLS to determine the effect of exogenous variables on endogenous constructs. This analysis is subsequently explained in Table 2.

	Original Sample	R <sup>2</sup>	Sample Means	Standard Deviations	T Statistics	P Value
Innovation Capability→resource exploitation capabilities	0.753	0.567	0.753	0.034	22,430	0.000
Innovation capability → networking capabilities	0.880	0.775	0.880	0.015	57,072	0.000
Innovation capability→entrepreneurial ability	0912	0.831	0912	0.010	94,863	0.000
Innovation capability→marketing capabilities	0892	0.795	0892	0.013	66,894	0.000
Innovation capability→learning ability	0.903	0.815	0.903	0.011	82063	0.000
Competence $\rightarrow$ innovation ability	0.359	0.129	0.359	0.013	67,721	0.000
Competence→Human skills	0.888	0.789	0.889	0.016	55,973	0.000

Table 2: Bootstrapping exogenous variables against endogenous determinants

	Original	<b>R</b> <sup>2</sup>	Sample	Standard	Т	Р
	Sample		Means	Deviations	Statistics	Value
Competence→Conceptual Skills	0.836	0.699	0.835	0.024	35,022	0.000
Competence→Engineering Skills	0896	0.803	0.894	0.016	55,716	0.000
Knowledge management→Human	0.770	0.592	0.769	0.031	24,523	0.000
Knowledge	0.318	0.101	0.318	0.076	4,229	0.000
management $\rightarrow$ Innovation capability						
Knowledge	0.860	0.740	0.860	0.016	59,574	0.000
management -> competence						
Knowledge	0.843	0.711	0.843	0.019	44,407	0.000
management -> motivation						
Knowledge management→process	0.845	0.714	0.845	0.022	38,827	0.000
Knowledge	0.822	0.676	0.823	0.021	39,522	0.000
management→Technology						
Motivation→Innovation Capability	0.287	0.082	0.287	0.071	3,682	0.000
Motivation $\rightarrow$ extrinsic motivation	0.907	0.823	0.907	0.016	57,933	0.000
Motivation $\rightarrow$ intrinsic motivation	0.876	0.767	0.876	0.015	57,785	0.000

Source: processed data (2022)

Before the hypothetical analysis, the T-table value was 1.98 for a confidence level of 95% ( $\alpha$ of 5%). Based on Table 2, the analysis for each latent variable relationship is explained as follows his result was subsequently supported by (Ting et al., 2021), where knowledge management positively influenced innovation ability through the companies highly emphasizing intelligence acquisition, as well as developing and applying new awareness. González-Varona et al (2021) and Centobelli et al (2017) also explained that the learning and training process was part of knowledge management activities, to improve the ability of SMEs. This emphasizes the performance of digitalization transformation towards competitive advantage, through innovation development. The result was also supported by (Aufar, 2016), where a positive relationship was found between SMEs knowledge management and competency in Cirebon. Moreover, Chaston and Mangles (2000) proved that the practice of this management strategy improved competence in the marketing field, by adopting a higherlevel learning style. From the results, the fourth hypothesis was accepted, confirming that knowledge management positively impacted motivation. In this analysis, the level of motivation was generally influenced by knowledge management. This aligned with (Shabrina and Silvianita, 2015), where corporate environment motivation was carried out when knowledge management practices were implemented. In this case, business owners or management motivated employees to participate in training and share knowledge. Capó-Vicedo et al (2011) also explained that knowledge management enhanced trust and work motivation through intelligence-sharing activities between companies. In Wang et al., (2014), the motivation due to knowledge management practices was found in various organizations. This was considered to encourage employees' job responsibilities and enhance awareness for adequate intelligence sharing and better work personality.

Based on the results, the fifth hypothesis was accepted, confirming that competence positively influenced innovation ability. In this analysis, the level of innovation ability was completely impacted by competence. This was supported by Bjornali and Støren (2012), where competence encouraged innovation behaviour. Pranciulyte-Bagdžiuniene and Petraite (2019) also stated that organizational and individual competencies improved the ability of innovation. Furthermore, Ozkaya et al (2015) proved that the competence of business actors enhanced market-based innovation capabilities, regarding the market to determine demand and supply. According to De Oliveira et al (2011), competency was the human resources representation developing a company as a change agent and mechanism for driving technological innovation.



Dyhdalewicz dan Grześ-Bukłaho (2021) also explained a competency model was produced for accelerating innovation.

According to the results, the sixth hypothesis was accepted, indicating that motivation positively affected the ability to innovate. In this analysis, the level of innovation ability was completely influenced by motivation. These results were supported by (Swasty, 2015), where the development of innovation capabilities was required by forming new business models through self-awareness establishment in the business environment.

From the results, the seventh hypothesis was accepted, proving that knowledge management directly and indirectly affected the innovation ability positively, through competency and motivation. In this analysis, the level of innovation ability was completely influenced directly and indirectly by knowledge management, through competence and motivation. Novelty or novelty is an element contained in a study. Based on the research findings, the researchers found a novelty (novelty) combining all the findings models into a mixed model, namely the influence of knowledge management on the ability to innovate through competence and motivation.

This research model can be applied to show that knowledge management through competence and motivation can strengthen innovation capabilities for the better and this will have an impact both directly and indirectly on the innovation capabilities of SMIs. Based on the research conducted by the researchers, they have not found the use or combination of four variables at once in relation to knowledge management, competence, and motivation and innovation ability in general. The model proposed in this study has never been done by other researchers before. In previous studies only partially tested variables Ting et al (2021), Tongsamsi (2015), Bjornali and Storen (2012), Prasetyo et al (2020), Rajian et al (2016). This research combines four variables at once, namely the exogenous in this case namely knowledge management, endogenous variable ability to innovate while intervening variables namely competence and motivation.

The model in this study describes an empirical model that examines the influence of knowledge management on the ability to innovate through the competence and motivation of SMIs.

Novelty in research can be described as follows:

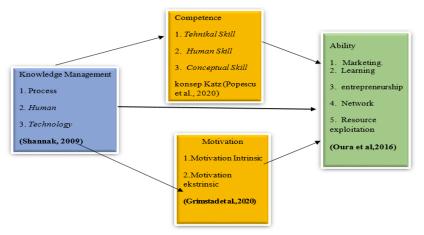


Figure 2: The Influence of Knowledge Management on Innovation Ability through Competence and Motivation as Novelty



# **5. CONCLUSIONS**

Based on the results, the following conclusions were obtained:

- 1. Knowledge management at SMEs in Jambi Province was in a good category. This indicated that some indicators are quite good in the process dimension, namely incentives and knowledge contributors. Meanwhile usability was quite good as the indicator of the technology dimension. The results also showed that competence, motivation, and innovation ability were in a good category.
- 2. Knowledge management positively and significant influenced innovation capabilities, proving that the better IKM manages intelligence dissemination, the greater the new ability becomes in Jambi province. This was specifically considered for the capabilities related to marketing, learning, entrepreneurial, networking, and resource exploitation abilities.
- 3. Knowledge management positively and significant affected competence. This showed that better IKM knowledge management led to the more competence possessed in Jambi, specifically in technical, conceptual, and human skills.
- 4. Knowledge management positively and significant impacted motivation. This indicated that the management practices completely determined good or bad IKM motivation in Jambi, specifically in intrinsic and extrinsic drives.
- 5. Competence positively and significant influenced innovation ability, showing that better IKM proficiency led to greater innovative capabilities in Jambi province, specifically in marketing, learning, entrepreneurial, networking, and resource exploitation skills.
- 6. Motivation positively and significant affected the ability to innovate, confirming that better the IKM encouragement in the business environment led to greater innovation capabilities within Jambi province, specifically in marketing, learning, entrepreneurial, networking, and resource exploitation skills.
- 7. Knowledge management positively and significant directly and indirectly impacted the ability to innovate positively, through competence and motivation. For the direct influence, a weakness was observed between the effects of knowledge management, competence, and motivation on innovation ability. Meanwhile, a total impact (direct and indirect) generated a moderate strength. This confirmed that knowledge management greatly strengthened innovation capabilities through competence and motivation.

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