

## The Effect of Innovation and Networking to Knowledge Management and Implications on Sustainability Competitive Advantage (Case Study of Event Organizer in Jakarta)

Lenny Ch Nawangsari<sup>1\*</sup>, Ahmad Hidayat Sutawidjaya<sup>2</sup>

<sup>1</sup>Magister Management, Mercu Buana University, Jakarta, Indonesia

<sup>2</sup>Doctoral Management, Mercu Buana University, Jakarta, Indonesia

**\*Corresponding author**

*Lenny Ch Nawangsari*

**Article History**

*Received: 11.06.2018*

*Accepted: 21.06.2018*

*Published: 30.06.2018*

**DOI:**

10.21276/sjbms.2018.3.6.18



**Abstract:** This study aims to analyze the influence of innovation and networking on Knowledge Management and its implications on competitive advantage in Small and Medium Enterprises Event Organizer. The type of research used is quantitative with survey method. Research respondents were 55 people from Small and Medium Business Event Organizer in Jakarta. The data were analyzed using Partial Least Square (PLS). The results show that there is an influence of innovation and networking on Knowledge Management and Sustainability Competitive Advantage in Small and Medium Business Event Organizer in Jakarta.

**Keywords:** Small and Medium Enterprises, Event Organizer, Innovation, Networking, Knowledge Management, Sustainability Competitive Advantage.

**INTRUDUCTION**

Currently the competition in the field of event organizer has increased significantly. To be competitive, companies must have competitive advantage that can ensure sustainability of the life of the company. According to previous theories and research there are several factors that influence the Sustainability Competitive Advantage of SMEs such as networking, innovation and knowledge management. Small and Medium Enterprises in running a business often experience limitations related to funds, human resources, information systems, technology so that must run a networking strategy.

Each SME always provides core competencies that add value to the company and if the competencies are combined it will certainly be its own strength to achieve competitive advantage. Improvement on the internal SMEs should also be done in the face of Hypercompetitive is to improve innovation and knowledge Management.

Research related to innovation and Sustainability Competitive Advantage conducted by Deniz [1]. While Shu-Hsien [2] conducted a research related to the influence of networking with Sustainability Competitive Advantage SMEs with the result that states that Networking has an influence on competitive Advantage. While the Research of Julio's [3], Von [4] and Hongyi [5] proved that Knowledge Management has a positive and significant impact on Sustainability Competitive Advantage in SMEs. Sudi [6] Research has results that innovation has influence on Knowledge Management. While Osamah [7] in his research proves networking affects Knowledge Management. Based on previous research and phenomenon above, it is done research related to "Influence of innovation and networking to Knowledge Management and its implication to Sustainability

Competitive Advantage (case study of SMEs Event Organizer in Jakarta)".

**LITERATURE REVIEW**

**Competitive Advantage**

David [8] defines Competitive Advantage is the ability gained through the characteristics and resources of a company to have a higher performance than other companies in the same industry or market. Furthermore, Porter describes there are 3 main things to achieve Competitive Advantages of Cost Leadership, Differentiation and Focus

**Knowledge Management**

Dalkir [9] explains Knowledge Management is a systematic coordination within an organization that manages human resources, technology, processes and organizational structures in order to increase value through reuse and innovation. There are two types of knowledge contained in the company are Tacit Knowledge and Explicit Knowledge.

**Networking**

Networking in business can be interpreted as a useful and mutually beneficial relationship in business.

Some important things in the network are Equal Vision-Mission, Trust, mutual benefit, Efficiency and Communication effectiveness and Strong Commitment.

**Innovation**

Roger [10] states that Innovation is a new idea, practice or object. Based on Organization for Economic Co-operation and Development [11] mentioned there are 4 things related to innovation are Product Innovation, Innovation Process, Innovation Marketing and Innovation organization.

**Hypothesis in this research are**

- H1:Networking has an effect on Knowledge Management
- H2:Networking effect on Sustainability Competitive Advantage
- H3:Innovation has an effect on Knowledge Management
- H4:Innovation has an effect on Sustainability Competitive Advantage
- H5:Knowledge Management has an effect on Competitive Advantage Sustainability
- H6:Networking affects the Sustainability Competitive Advantage through Knowledge Management mediation
- H7:Innovation affects Sustainability Competitive Advantage through Knowledge Management mediation

**RESEARCH METHODS**

This research uses quantitative approach with survey method conducted on SME Event Organizer with total sample of 55 people. All variables in the study were measured using a Likert scale of 1-5.

**RESULTS AND DISCUSSION**

**Statistical Analysis**

Statistical Analysis in this research using Partial Least Square (PLS)

**Unidimensionality Test**

Unidimensionality test of each construct is done by looking at the convergent validity of each construct indicator. According to Chin [12] in Ghozali [13] an indicator is said to have good realibility, if the value of outer loading or loading factor is greater than 0.70, but the loading factor 0.50 to 0.60 can still be maintained at an early stage. Based on the above criteria, then if the outer loading is found below 0.50 then it will be dropped from the model. Testing is done by doing some testing: Convergent Validity, Discriminant Validity and Composite Reliability as follows:

**Convergent Validity Test**

Calculation of convergent validity aims to find out the instrument items that can be used as indicators of all latent variables. The convergence validity test is measured by the value of loading factor (outer loading) of the latent indicator (construct). Convergent validity test results that have outer loading value below 0.50 will be dropped from the model, then the initial analysis results from the value of outer loading can be seen as visualization Table 1 as follows.

Table 1 above shows X1.4 indicators that have an outer loading value smaller than 0.5. Further data is re-tested and convergent validity test results can be seen as described in Table 2 as follows:

**Tabel-1: Result of Convergent Validity Testing**

Variable	Indicator	Outer Loading	Note
X1	X1.1	0.921	Valid
	X1.2	0.884	Valid
	X1.3	0.600	Valid
	X1.4	0.216	Invalid
X2	X2.1	0.856	Valid
	X2.2	0.737	Valid
	X2.3	0.853	Valid
	X2.4	0.912	Valid
Y1	Y1.1	0.795	Valid
	Y1.2	0.890	Valid
Y2	Y2.1	0.850	Valid
	Y2.2	0.873	Valid
	Y2.3	0.874	Valid

**Tabel- 2: Result of Convergent Validity re-testing**

Variable	Indicator	Outer Loading	Note
X1	X1.1	0.923	Valid
	X1.2	0.883	Valid
	X1.3	0.599	Valid
X2	X2.1	0.795	Valid
	X2.2	0.891	Valid
	X2.3	0.795	Valid
	X2.4	0.891	Valid
Y1	Y1.1	0.795	Valid
	Y1.2	0.891	Valid
Y2	Y2.1	0.851	Valid
	Y2.2	0.873	Valid
	Y2.3	0.874	Valid

Table 2 above, is the result of re-testing after outer loading that has a value below 0.5 drop, then the test results show all indicators have the value of outer loading above 0.5. Thus, the indicator has met the criteria of decent convergent validity.

**Discriminant validity**

Discriminant validity is a measure of reflexive indicators based on cross loading with latent variables.

Another method is to compare the square root of Average Variance Extracted (AVE) value of each construct, with the correlation among other constructs in the model. In connection therewith, it is recommended that the measurement value be greater than 0.50. Furthermore, Discriminant validity test results can be viewed as visualization of Table 3 as follows.

**Table-3: Discriminant validity test results**

Variabel	Average Variance Extracted (AVE)
Networking (X1)	0.664
Inovation (X2)	0.709
Knowledge Management (Y1)	0.712
Sustainibility Compctetitive Advantage (Y2)	0.750

Table 3 above shows the discriminant validity test results where all Average Variance Extracted (AVE) values are more than 0.50. Thus it can be concluded that this measurement has met Convergent Validity requirements based on the value of Average Variance Extracted (AVE).

**Composite Reliability**

Composite reliability test aims to test the validity of the instrument in a research model. Composite reliability test results can be seen as visualization Table 4 as follows:

**Table-4: Composite Reliability Test Results**

Variable	Composite Reliability	Note
Networking (X1)	0.851	Reliabel
Inovation (X2)	0.906	Reliabel
Knowledge Management (Y1)	0.832	Reliabel
Sustainibility Compctetitive Advantage (Y2)	0.900	Reliabel

Based on Table 4 above, it can be explained the results of composite reliability testing, where all latent variables have been reliable because all the values of variables have composite reliability value  $\geq 0.70$ . In other words, the questionnaire used as an instrument in this study is reliable or consistent. Thus it can be concluded that, all indicators are to measure their own constructs.

**Modeling of Structural Equation Partial Least Square (PLS)**

This research uses Structural Equation Model of Partial Least Square (PLS) approach. Before analyzing, first test or evaluation empirical research model. The results of empirical model testing of this study can be seen in the visualization of Figure 1 as follows:

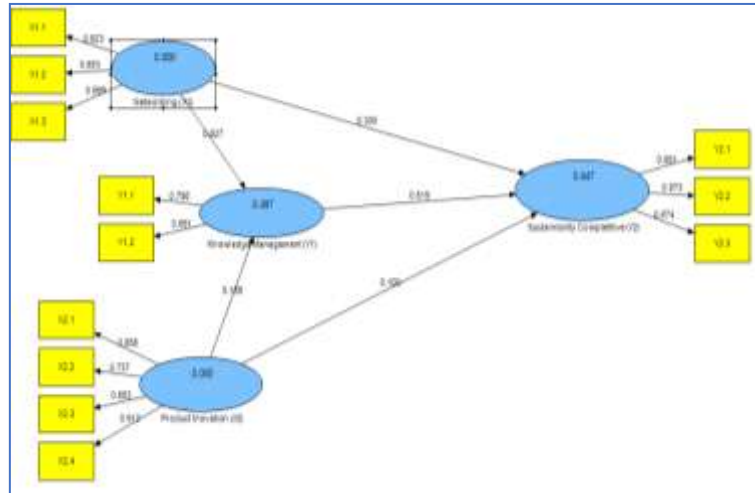


Fig-1: Results of Analysis with PLS

**Goodness of Fit Model**

Goodness of Fit test of structural model in inner model using predictive-relevance (Q<sup>2</sup>). R<sup>2</sup> value

of each endogenous variable in this study can be seen as visualization of Table 5 as follows:

Table-5: R<sup>2</sup> Value of Endogenous Variables

Variabel Endogen	R-square
Knowledge Management (Y1)	0.497
Sustainability Competitive Advantage (Y2)	0.647

The predictive-relevance value is obtained by using the following formula:

$$Q^2 = 1 - (1 - R_1^2) (1 - R_p^2)$$

$$Q^2 = 1 - (1 - 0.497) (1 - 0.647)$$

$$Q^2 = 1 - 0.178$$

$$Q^2 = 0.822$$

The above calculation results show the predictive-relevance value of 0.822 is greater than 0. That is, the variation variables (endogenous variables) are explained by the variables used by 82.20% and the rest of 17.80% is explained by other factors outside the

model. Thus the model is said to be worthy of having a relevant predictive value.

**The Results of Hypothesis Testing**

The result of hypothesis testing with Partial Least Square shows that from three direct influence of hypothesis stated significant. While the test results from one indirect influence, the hypothesis is stated significant. Testing of hypothesis of direct influence is done by using t test (t-test) on each path of influence between endogenous variable with exogenous variable, while for indirect effect test done by calculating Z-test and P-value. Furthermore the results of hypothesis testing can be seen as visualization Table 6 as follows:

Table-6: Results of Hypothesis Testing of Direct and Indirect Effects

Direct Effect	Path Coefficient	Standard Deviation	T-Statistic	Note
Networking (X1) -> Knowledge Management (Y1)	0.6270	0.019883	31.534485	Significant
Networking (X1) -> Sustainability Competitive Advantage (Y2)	0.3002	0.028519	10.525499	Significant
Inovation (X2) -> Knowledge Management (Y1)	0.1665	0.027995	5.947062	Significant
Inovation (X2) -> Sustainability Competitive Advantage (Y2)	0.0998	0.019866	5.022711	Significant
Knowledge Management (Y1) -> Sustainability Competitive Advantage (Y2)	0.5191	0.032116	16.163731	Significant
Indirect Effect	Axb	Z-test	P-value	Note
Networking (X1) -> Knowledge Management (Y1) -> Sustainability Competitive Advantage (Y2)	0.627(0.519)=0.325	5.844048	0.000	Significant
Inovation (X1) -> Knowledge Management (Y1) -> Sustainability Competitive Advantage (Y2)	0.166 (0.519)=0.054	4.532994	0.000	Significant

Table 6 above, describes the results of hypothesis testing of direct and indirect effects as follows:

**Hypothesis 1: Networking Has Significant Influence on Knowledge Management**

Hypothesis testing with PLS approach resulted in direct path coefficient of networking to knowledge management with path coefficient of 0.627 and t-statistic of 31.53 significant at the error rate  $\alpha$  5% (t-count value > t-table value = 1.96). Because t count > t-table then there is enough empirical evidence to accept H1 which states that networking has a significant effect on knowledge management, hence the hypothesis is accepted.

Path coefficient marked positive significant, hence can be concluded that relation between them is one direction and very strong. This means that networking can determine knowledge management.

**Hypothesis 2: Networking Significant Influence against Sustainability Competitive Advantage**

Hypothesis testing with PLS approach resulted in direct path coefficient of networking to Sustainability Competitive Advantage with path coefficient of 0, 300 and t-statistic of 10.52 significant at error level  $\alpha$  5% (t-value value > t-table value = 1.96). Because thitung > t-table then there is enough empirical evidence to accept H2 which states that networking has significant effect on Sustainability Competitive Advantage, thus hypothesis accepted.

Path coefficient marked positive significant, hence can be concluded that relation between them is one direction and very strong. This means that networking can determine the Competitive Advantage Sustainability.

**Hypothesis 3: Inovation Significant Influence on Knowledge Management**

Hypothesis testing with PLS approach resulted in direct path coefficient of Inovation networking to knowledge management with path coefficient of 0.166 and t-statistic of 5.95 significant at error level  $\alpha$  5% (t-count value > t-table value = 1.96). Because thitung > t-table then there is enough empirical evidence to accept H3: which states that Inovation has significant effect on knowledge management, thus hypothesis accepted.

Path coefficient marked positive significant, hence can be concluded that relation between them is one direction and very strong. This means that Inovation can determine knowledge management.

**Hypothesis 4: Inovation Significant Influence against Sustainability Competitive Advantage**

Hypothesis testing with PLS approach resulted in direct path coefficient of Inovation to Sustainability Competitive Advantage with path coefficient of 0.099

and t-statistics of 5.02 significant at error level  $\alpha$  5% (t-count value > t-table value = 1.96). Because t count > t-table then there is enough empirical evidence to accept H4 which states that Inovation has significant effect on Sustainability Competitive Advantage, thus hypothesis accepted.

**Hypothesis 5: Knowledge Management Significant Influence on Sustainability Competitive Advantage**

Hypothesis testing with PLS approach resulted direct path coefficient of Knowledge Management toward Sustainability Competitive Advantage with path coefficient of 0.519 and t-statistic of 16.16 significant at error level  $\alpha$  5% (t-value value > t-table value = 1.96). Because thitung > t-table then there is enough empirical evidence to accept H5: which states that Knowledge Management has a significant effect on Sustainability Competitive Advantage, thus the hypothesis is accepted. Path coefficient marked positive significant, hence can be concluded that relation between them is one direction and very strong. This means that Knowledge Management can determine the Sustainability Competitive Advantage.

**Hypothesis 6: Networking Significant Influence against Sustainability Competitive Advantage through Knowledge Management**

Hypothesis testing with PLS approach resulted in indirect effect path coefficient of Networking Influential Significant to Competitive Sustainability Through Knowledge Management with path coefficient of 0.325 significant at 5% error level ( $p < 0.05$ ) then there is enough empirical evidence to accept H6 which states that Networking Affects Significant to Competitive Advantage Sustainability Through Knowledge Management thus the hypothesis is accepted. Positive and significant results show a strong relationship networking against Sustainability Competitive Advantage through Knowledge Management.

**Hypothesis 7: Inovation Significant Influence on Sustainability Competitive Advantage through Knowledge Management**

Hypothesis testing with PLS approach resulted in indirect effect coefficient of influence of Inovation Significant to Competitive Sustainability Through Knowledge Management with path coefficient of 0.054 significant at 5% error level ( $p < 0.05$ ) then there is enough empirical evidence to accept H7 which states that Influential Inovation Significant to Competitive Advantage Sustainability Through Knowledge Management thus the hypothesis is accepted. Positive and significant results show a strong relationship Inovation against Sustainability Competitive Advantage through Knowledge Management.

## **DISCUSSION**

### **Networking has an effect on Knowledge Management**

Networking affects Knowledge Management which means that optimal Networking can improve Knowledge Management in SMEs. Research shows that of the 3 indicators in Knowledge Management that is commitment, trust and communication, the most dominant indicator is commitment. This means that with a good commitment in partnership will affect the organization in improving knowledge management.

### **Networking effect on Sustainability Competitive Advantage**

Networking Affects the Competitive Advantage Sustainability. The indicator in networking that needs to be improved is communication. Given good communication with business partners will improve the quality of business partnerships that will affect Competitive Advantage. While the 3 indicators in the Sustainability Competitive Advantage is cost leadership, differentiation and focus of the most influential indicator is Focus. SMEs are expected to focus more on understanding and serving better target markets than other companies so as to enhance their sustainability competitive advantage.

### **Innovation has an effect on Knowledge Management**

Innovation has an effect on Knowledge Management. This means that a good Innovation will improve Knowledge Management in SMEs. The research findings show that the innovation of SME employees is good enough. The most influential characteristic of Innovation is characteristic of innovation organization. While in knowledge Management the most dominant indicator is Explicit Knowledge. Explicit Knowledge is Knowledge that can be translated in the form of documentation so that it can be easily shared to others.

### **Innovation has an effect on Sustainability Competitive Advantage**

Innovation has an effect on competitive advantage which means that good innovation in SME Event Organizer will influence the improvement of Competitive Advantage Sustainability. The innovation characteristic that needs to be improved is process innovation, while for Sustainability Competitive Advantage is indicator of cost leadership. SMEs need to consider a reasonable assessment of product prices so that later will improve operational efficiency.

### **Knowledge Management has an effect on Sustainability Competitive Advantage**

Knowledge Management has an effect on Competitive Advantage Sustainability. This means that a good Knowledge Management will increase competitive advantage. The results of the study found that the characteristics that need to be improved in Knowledge Management are the indicator of Tacit

Knowledge. Basically tacit knowledge is personal, developed through experiences that are difficult to formulate and communicate. Tacit knowledge is not expressed in written form, but something that is in the minds of the people who work in an organization. By increasing Tacit Knowledge HR in SME Event Organizer will improve Sustainability Competitive Advantage.

### **Networking affects the Sustainability Competitive Advantage through Knowledge Management mediation**

The results prove that the influence of Networking on Competitive Advantage Sustainability through Knowledge Management mediation on SME Event Organizer. The existence of good networking with business partners will be able to support the process of Knowledge Management within the organization so as to improve the performance and competitive advantage of SMEs.

### **Innovation affects Sustainability Competitive Advantage through Knowledge Management mediation**

This study proves the effect of innovation on Competitive Advantage through Knowledge Management. Field findings show that good innovation in business will affect Knowledge Management which will impact the Sustainability Competitive Advantage of SME Event Organizer.

## **CONCLUSION**

The results of this study can be summarized as follows:

1. Networking, innovation and Knowledge Management have a direct influence on sustainability competitive advantage. This means that good networking, innovation and knowledge management can improve competitive advantage of SME Event Organizer.
2. Networking and innovation has a direct and positive effect on Knowledge Management. This shows that good networking and optimal innovation can influence the increased effectiveness of Knowledge Management management in SME Event Organizer.

Networking and innovation directly affect Competitive Advantage through Knowledge Management mediation. If SME Event Organizer has Networking and optimal innovation then affects the effectiveness of Knowledge Management so as to improve Sustainability Competitive Advantage

Small and Medium Enterprises in the Event Organizer field need a strategy to survive in business one of them is to create a competitive advantage obtained by improving its ability to create networks and innovation to bring added value. Every Small and Medium Business has different added value, for example each Small and Medium Enterprises Event Organizer has advantages in the field of certain

products. For that collaboration between Small and Medium Enterprises is also needed to improve competitiveness with large companies. Internally the company is also expected to conduct the Knowledge Management process. Through Knowledge sharing it will get qualify Human Resources so that Competitive Advantage Sustainability can be achieved?

#### REFERENCES

1. Dereli, D. D. (2015). Innovation management in global competition and competitive advantage. *Procedia-Social and behavioral sciences*, 195, 1365-1370.
2. Liao, S. H., Hu, D. C., & Ding, L. W. (2017). Assessing the influence of supply chain collaboration value innovation, supply chain capability and competitive advantage in Taiwan's networking communication industry. *International Journal of Production Economics*, 191, 143-153.
3. de Guimaraes, J. C. F., Severo, E. A., & de Vasconcelos, C. R. M. (2018). The influence of entrepreneurial, market, knowledge management orientations on cleaner production and the sustainable competitive advantage. *Journal of Cleaner Production*, 174, 1653-1663.
4. Lee, V. H., Foo, A. T. L., Leong, L. Y., & Ooi, K. B. (2016). Can competitive advantage be achieved through knowledge management? A case study on SMEs. *Expert Systems with Applications*, 65, 136-151.
5. Mao, H., Liu, S., Zhang, J., & Deng, Z. (2016). Information technology resource, knowledge management capability, and competitive advantage: The moderating role of resource commitment. *International Journal of Information Management*, 36(6), 1062-1074.
6. Apak, S., & Atay, E. (2014). Global innovation and knowledge management practice in small and medium enterprises (SMEs) in Turkey and the Balkans. *Procedia-Social and Behavioral Sciences*, 150, 1260-1266.
7. Ghaleb, O. A., Mosleh, M. A., & Al-ariki, H. D. E. (2016). The Role of Social Networking in Knowledge Management Process: A.
8. David, F. R. (2011). *Strategic management: Concepts and cases*. Peason/Prentice Hall.
9. Dalkir, K. (2013). *Knowledge management in theory and practice*. Routledge.
10. Roger, V. L., Go, A. S., Lloyd-Jones, D. M., Benjamin, E. J., Berry, J. D., Borden, W. B., ... & Fullerton, H. J. (2011). Heart disease and stroke statistics—2012 update: a report from the American Heart Association. *Circulation*, CIR-0b013e31823ac046.
11. OECD Publishing. (2010). *The OECD innovation strategy: Getting a head start on tomorrow*. OECD Pub..
12. Chin, W. W. (1998). Commentary: Issues and opinion on structural equation modeling.
13. Imam, G. (2005). Aplikasi analisis multivariate dengan program SPSS. Semarang: Badan Penerbit Universitas Diponegoro.