The Effect of Business Knowledge and Self-Confidence, PRosiding

by Lpmi UPIYPTK

The Effect of Business Knowledge and Self-Confidence on Business Performance With Business Innovation as Mediating Variable Among SMEs in Padang City

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ABSTRACT

The era of digitizing the industry 4.0 has an impact on changes in the competence of all organizations, in order to survive and improve the performance of organizations. This study aimed to analyze the impact of business knowledge and self-confidence on business performance with business innovation as mediating variable among SMEs in Padang. This research used 225 Small and Medium Enterprises (SMEs). This research applied the Structural Equation Modeling (SEM) using Amos's version 23. This research concluded that business knowledge, self-confidence, and business innovation factors have significant effect on business performance. Other facts showed that business innovation was proven to mediate and enhance the influence of business knowledge and self-confidence on business performance.

Keywords: Business Knowledge, self-confidence, Business Innovation, Business Performance.

1. INTRODUCTION

The development of information technology systems in the industrial era 4.0 has had a wide impact on the workplace and industrial activities. The work that was done conventionally begins to be replaced by the presence of Artificial Intelligence (AI). The impact also provides challenges to the business world, especially in micro and small businesses (SMEs) whether they can increase their growth and business performance. Zambon, Cecchini, Egidi, Saporito, and Colantoni (2019), Bakkari and Khatory (2017), revealed that the industrial era 4.0 is able to create excellence for large companies,while Small and Medium Enterprises (SMEs) often face complications in innovative processes due to sustainable development in innovation and technology. It was also said that SMEs, must strive to improve their operations management such as production control, planning and implementation, measurement of operational performance, and valuation (Ihlau, Duscha, & Gödecke, 2013). Nyoni and Bonga (2018), stated that many families who lost their jobs running SME businesses have an impact on the growth of SMEs in Zimbawe. SMEs have become a safety net whereas most Zimbabweans have found a way to survive, (Nyathi, Nyoni, Nyoni, & Bonga, 2018).

Belkahla and Triki (2011), stated that the ability to perceive changes in the business environment is needed in innovation. Cohen and Levinthal (1990) in Taherparvar, Esmaeilpour, and Dostar (2014) explained that the ability to understand environmental change enables companies to obtain external knowledge and manage it internally which

can help them identify opportunities and provide new knowledge for innovations to improve performance.

In Indonesia, SMEs have the potential to increase economic growth and reduce unemployment. Data from the Ministry of Cooperatives and SMEs in August 2019, stated that as much as 98.7 percent of businesses in Indonesia were micro businesses, which contributed as much as 36.82 percent to GDP (Gross Domestic Product) and were able to absorb 89.17 percent of domestic workforce (www.cnnindonesia.com/ekonomi). However, cultural conditions and low knowledge and confidence and low innovation have an impact on the low performance of SME businesses. So, SME products are still unable to compete with those from other regions and even abroad. Working capital issues also worsen the business performance.

2. LITERATURE REVIEW

2.1 Business Performance

Performance according to Abdullah (2014), is a picture of the level of achievement of the implementation of activities in realizing the goals, objectives, vision and mission expected through strategic planning in organizations. For that purpose, factors that affect organizational performance are needed. According to Maupa (2004), the performance of SME sector is influenced by two main factors namely a). external factors and b). internal factors. Internal factors include the aspects of HR (owner, manager, as well as financial aspects, technical aspects of production,

innovation and marketing aspects, while external factors consist of government policies, socio-cultural and economic aspects, as well as the role of related institutions such as the government, higher-educational institution, private sector, and surrounding communities. Gibson, Ivancevich, and Donnelly Jr (1996), stated that performance is influenced by two factors: 1). Ability factors which include knowledge and skills, 2). Motivation factors which include social conditions, individual needs, and physical conditions.

2.2 Business Knowledge

Knowledge generally includes two things, namely the facts a person learns and strategies for how these facts are used. Berliner, Borich, and Fenton (1977); in Singh (2010) stated that: Knowledge competence specifies the cognitive understanding of a worker which is expected to demonstrate. Then Daft and Marcic (2008) stated that "Knowledge is a conclusion drawn from information after it is linked to other information and compared to what is already known". Blanchard (2006) provided a more detailed understanding: "Knowledge is an organized body of facts, principles, procedures, and information acquired over time". Knowledge owned by a person as part of HR competency can be grouped into three categories, Blanchard (2006) namely: a). Declarative knowledge, which is factual information about a subject that is stored in a person's memory, b). Procedural knowledge, which is one's understanding of how and when factual information is used and c). Strategic knowledge, which is one's understanding of facts and procedures used to plan, monitor and revise the direction of the activity's objectives.

2.3 Self-Confidence

Self-confidence or confidence is a belief in the assessment of the ability to succeed. Bandura (2005) defined self-confidence as a belief that someone is able to behave as expected and desired. Ignoffo (1999), simply defined self-confidence as having confidence in oneself.

2.4 Business Innovation

Innovation can be described as a corporate choice in the face of market competition and sustainable management. Freeman (2004), considered innovation as an effort of a company through the use of technology and information to develop, produce and market new products for industry. According to Ahmed and Shepherd (2012), corporate innovation can produce R&D (Research and Development), production and marketing approaches and ultimately lead to the commercialization of these innovations. Ahmed and Shepherd (2012) said that innovation is not only limited to objects or goods produced, but also includes the attitudes to life, behavior, or movements towards the process of change in all forms of community life. So, in general, innovation means an idea, product, information technology,

institutional, behavior, values, and new practices that are not widely known, accepted, and used or applied by the majority of citizens in a certain locality, which can be used to encourage changes in all aspects of people's lives.

This study will analyze directly from business knowledge, self-confidence towards business innovation and business performance, as well as indirect effects through mediating variables, namely business innovation.

3. RESEARCH METHOD

The population of this research is all 225 small and medium-sized businesses (SMEs) units in Padang City. The research sampling technique is determined by the census method, in which the entire population is used as the research sample. The operational definition of the research variable begins with business performance, which is the organizational achievement produced by Small and Medium Enterprises (SMEs) in the city of Padang, which was measured using a questionnaire developed by Gomezelj Omerzel and Antoncic (2008). Next is business knowledge, which is the knowledge possessed by SMEs in the City of Padang, where as the measurement of this variable used the questionnaire developed by Gomezelj Omerzel and Antoncic (2008). Self confidence, is the trust or confidence possessed by business actors (SMEs) in managing and carrying out business activities. The measurement of this variable also used the indicator developed by Gomezelj Omerzel and Antoncic (2008). Furthermore, business innovation is the creativity and innovation that SMEs have in carrying out their activities. This variable is measured using the indicators developed by Al-Ansari, Pervan, and Xu (2013).

This study applied the Structrul Equation Modeling (SEM) by using AMOS version 23 software. Hypothesis assessment was done through assessing the probability of the value generated and compared to the error of rejecting data as much as 5% (or 0.05). Hypothesis assessment can also use t-Statistics or t-arithmetics compared with the value of t-Table of 1.96 (alpha 5%). If the t value of Statistics > 1.96 , then the hypothesis is accepted. And if the value of t Statistics < 1.96 , then the hypothesis is rejected (Ghozali, 2014).

4. RESULT AND DISCUSSION

The results of structural model test using Amos 23 are presented in the path analysis and regression weights in Table 1 below:
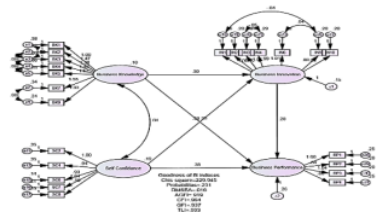

Fig. 1. Model Full

Table 1: Regression Weights

Hypothesis Description			Estimate	S.E.	C.R.	P	Decision
Business Innovation	<---	Business Knowledge	0.299	0.106	2.815	0.005	Accepted
Business Innovation	<---	Self-Confidence	0.578	0.088	6.597	***	Accepted
Business Performance	<---	Business Knowledge	0.352	0.143	2.452	0.014	Accepted
Business Performance	<---	Self-Confidence	0.379	0.123	3.090	0.002	Accepted
Business Performance	<---	Business Innovation	0.285	0.107	2.669	0.008	Accepted

4.1 The Effect of Business Knowledge on Business Performance

The results of regression weights show that business knowledge has positive and significant effect on SME business performance in the city of Padang, whereas the regression coefficient is 0.352 with a CR value (Critical Ratio) or t-statistics of 2.452 and the probability value of 0.014. This probability value is smaller than alpha 5% (0.014 < 0.05), and the CR value is 2.452 (> 1.96). This result is in line with the study conducted by Matin and Sabagh (2015), which concluded that knowledge management has significant effect on organizational performance. Furthermore, the results of the research conducted by Hsiao, Chen, and Chang (2011) indicated that the assessment of knowledge management capacity is positively related to organizational performance. Research by Zheng, Yang, and McLean (2010), stated that knowledge management has an impact on organizational effectiveness.

4.2 The Effect of Self-Confidence on Business Performance

The findings of regression weights conclude that self-confidence has positive and significant effect on SME's business performance in the city of Padang, whereas the regression coefficient is 0.379 with a CR (Critical Ratio) or t-statistics of 3.090 and the probability value of 0.002. This probability value is smaller than alpha 5% (0.002 < 0.05), and the CR value is 3.090 (greater than 1.96). The results of this hypothesis test can support the research conducted by Gomezelj Omerzel and Antoncic (2008), which stated that self-confidence also significantly determines company performance. Research conducted by Ratnasari and Salim (2014), stated that trust or self-confidence can improve organizational performance.

4.3 The Effect of Business Knowledge on Business Innovation

The results of model test using AMOS 23 show that business knowledge has positive and significant effect on SME's business innovation in the city of Padang, whereas the regression coefficient is 0.299 with a CR (Critical Ratio) or t-statistics value of 2.815 and the probability value of 0.005. This probability value is lower than alpha 5% (0.005 < 0.05), and the CR value is 2.815 (greater than 1.96). The findings of this study are still relevant with Özbağ, Esen, and Esen (2013), which stated that the ability of human resource management (HRM) is positively related to the ability of knowledge management that turns into innovation. Furthermore, Hertog (2000) stated that KIBS (Knowledge-Intensive Business Services) is seen as functioning as a facilitator, carrier or source of innovation for organizations.

4.4 The Effect of Self-Confidence on Business Innovation.

The results of this hypothesis test concludes that there is positive and significant influence of self-confidence on business innovation among SMEs in Padang due to the regression coefficient is 0.578 with a CR (Critical Ratio) or t-statistics value of 6.597 and the probability value of **** (near zero). This probability value is lower than alpha 1% (**** or 0.000 is less than 0.01) and the CR value is 6.597 (greater than 1.96). The results of this study are in line with the research by Heunks (1998) stating that there was a relationship between success, innovation and creativity with entrepreneurial values, attitudes, and education levels which constituted one's self-confidence. The results of the study conducted by Ashourizadeh, Chavoushi, and Schøtt (2014) concluded that people's trust in innovation is a component in the entrepreneurial mindset that can be very high for entrepreneurs and is related to other components such as self-efficacy and vigilance opportunities, risk tendencies, and role modeling.

4.5 The Effect of Business Innovation on Business Performance

The results of this hypothesis test concludes that there is positive and significant effect of business innovation on business performance among SMEs in Padang due to the regression coefficient is 0.285 with a CR (Critical Ratio) or t-statistics of 2.669 and the probability value of 0.008. This probability value is lower than alpha 5% (0.008 < 0.05) and the CR value is 2.669 (> 1.96). This finding strengthens the results of the research conducted by Al-Ansari et al. (2013) concluding that there was a significantly positive relationship between innovation and business performance. Once again, the research findings from Zehir, Altindag, and Acar (2011) are also in line with this study, which stated that innovation has an influence on organizational performance.

4.6 Business Knowledge Influences Business Performance through Business Innovation
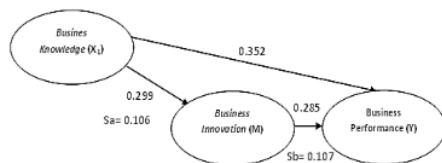

Fig. 2. Hypothesis 6

To assess the indirect effect, which is the contribution of business innovation in maximizing the influence of business knowledge on business performance, the Sobel Test, (Sobel, 1982), was conducted as follows:

$Sab = \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$
$Sab = \sqrt{(0.285)^2(0.106)^2 + (0.299)^2(0.107)^2 + (0.106)^2(0.107)^2}$
$Sab = 0.035440479$

Furthermore, the process of calculating the t-value to determine whether the hypothesis is accepted or rejected, is as follow (Ghozali, 2014).

$t = (ab) / (Sab)$
$= (0.299 \times 0.285) / 0.035440479$
$= 2.408$

The result of the calculated t-value was then compared with the value of t-table 1.96 by using alpha 5%. It can be concluded that the t-value of 2.408 is greater than 1.96, which means that business innovation is able to mediate or maximize the effect of business knowledge on business performance. This result supports the research conducted by Yousif Al-Hakim and Hassan (2013) finding that knowledge management strategies has positive and significant influence on organizational performance through the mediating effect of innovation.

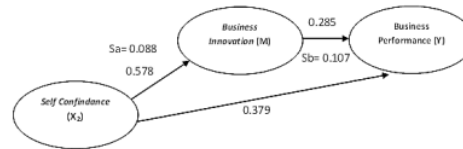### 4.7 Self-Confidence affects Business Performance through Business Innovation.

Fig. 2. Hypothesis 7

This is the measurement of indirect effects, which is namely the contribution of business innovation in maximizing the effect of self-confidence on business performance. To conduct the Sobel Test, (Sobel, 1982), the following calculation process was done:

$Sab = \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$
$Sab = \sqrt{(0.285)^2(0.088)^2 + (0.578)^2(0.107)^2 + (0.088)^2(0.107)^2}$
$Sab = 0.067398777$

The next step was calculating the value of t-arithmetics to determine the acceptance of research hypotheses compared to t-table on the error of rejecting data at 5%, (Ghozali, 2014).

$t = (ab) / (Sab)$
$= (0.578 \times 0.285) / 0.067398777$
$= 2.444$

Furthermore, the calculated t-value (2.444) compared with the t-table of 1.96 at 5% error in rejecting data, concludes that business innovation can mediate and maximize the effect of self-confidence on business performance. This research findings support the research by Ho (2011) concluding that administrative innovation is the most important element that influences organizational and financial performance.

5. CONCLUSION

The final results of this study conclude that business knowledge, self-confidence and business innovation are important factors that influence the business performance among SMEs in the city of Padang. Furthermore, this study also found empirical evidence that business innovation is a factor that is also able to strengthen the influence of business knowledge and self-confidence on the business performance among SMEs in the city of Padang.

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