

# THE INFLUENCE OF KNOWLEDGE MANAGEMENT AND ENTREPRENEURIAL ORIENTATION ON BUSINESS PERFORMANCE MEDIATED BY COMPETITIVE ADVANTAGE (A STUDY ON SMES IN THE CITY OF BANDAR LAMPUNG)

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**Abstract:** Micro, Small and Medium Enterprises (MSMEs) have an important role in the economic growth of a country. The contribution of MSMEs to Indonesia's GDP experienced a depression due to the emergence of Covid-19 at the beginning of 2020. However, two years after the government declared pandemic for Indonesia, the performance of MSMEs has begun to recover from its downturn. This is shown by the increase in the contribution of MSMEs to Indonesia's GDP and employment in Indonesia. Moreover, the performance of MSMEs in Bandar Lampung City has also experienced an improvement as shown by an increase in MSME profits. This research aims to analyze the influence of knowledge management and entrepreneurial orientation on business performance in Small and Medium Enterprises (SMEs) as well as the mediating effect of competitive advantage in this relationship. This research uses a quantitative approach to draw conclusions from the proposed hypothesis. Sample was selected using the census method so that the total sample was 44 respondents who were SMEs registered in Dinas Koperasi dan UKM Kota Bandar Lampung. Data collection method uses a questionnaire and the data is analyzed using SEM-PLS with the bootstrap method. The results show that knowledge management, entrepreneurial orientation, and competitive advantage have a direct and significant influence on business performance. Furthermore, competitive advantage was also found to play a mediating role in the relationship between knowledge management and entrepreneurial orientation on business performance.

**Keywords:** Knowledge Management, Entrepreneurial Orientation, Competitive Advantage, Business Performance

## INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) have an important role in the economic growth of a country. The important role of MSMEs is not only felt in developing countries such as Indonesia. MSMEs also have a considerable role in the economy of developed countries. Data from the Ministry of Cooperatives and SMEs reveals that Indonesian MSMEs account for almost 97% of domestic employment and for 56% of total business investment (OECD, 2018). In addition, some

academics also mentioned that MSMEs play an important role in a country's economy. One of them is for example research by (Jaya et al., 2021) which states that MSMEs have an important role in the Indonesian economy because many drive the national economy through absorption unemployment which is very high and contributes to a high Gross Domestic Product (GDP). Graph 1 shows the contribution of MSMEs to Indonesia's overall GDP during 2010-2020.



**Figure 1. MSME Contribution to Indonesia's GDP in 2010-2020**

Source: Ministry of Cooperatives and Small and Medium Enterprises

The very significant decrease in contribution from 2019 to 2020 as depicted in Graph 1 can be caused by the emergence of the Corona Pandemic (Covid-19) in Indonesia in early 2020. Two years after the government determined the pandemic status in Indonesia, the *United Nations Conference on Trade and Development (UNCTAD)* reported through the *ASEAN Investment Report 2022* published in October 2022 which stated that there were 65.46 million MSME players who contributed 60.3% to GDP and were able to absorb 97% of the workforce in Indonesia. This means that the performance of MSMEs has begun to rise again from their slump during the Covid-19 Pandemic.

Many companies have identified *knowledge* as an important tool necessary

in the success of the organization. This is in line with a study conducted on Batik MSMEs in Banyumas by (Widiastuti, 2019) who found that *knowledge* Significant effect on business continuity. Furthermore, research conducted by (Prihartini & Sanusi, 2019) found the result that *Knowledge Management* able to influence performance in an organization or company. So in order to be able to maintain business and achieve superior performance, companies must be able to apply knowledge management in their companies effectively.

*Knowledge Management (KM)* has the main objective to increase productivity and performance by acquiring, using or applying knowledge, change into useful things, and grow it systematically in

organizational routines (Azyabi, 2018). Organizations with orientation *Knowledge Management* A good one will know where to look for opportunities, be able to accurately gauge the value of possible opportunities and be better equipped to extract value from these thus allowing the creation of an advantage over its competitors who do not apply it (Farooq, Rayee. & Vij, 2018). Antunes, HDJG & Pinheiro (2020) suggest that practice *Knowledge Management* will help the development of Small and Medium Enterprises (SMEs) and their activities so that they become stronger and more effective to last longer. In a post-pandemic recovery situation, MSMEs must be able to survive by having *Knowledge Management* good and effective in order to have a competitive advantage that will ultimately improve business performance so as to maintain or even improve national economic conditions.

In addition, *Entrepreneurial Orientation* (EO) or entrepreneurial orientation is also one of the factors that can affect the performance of MSMEs or business performance. Entrepreneurship has been recognized by many companies and academics as an important factor in corporate success. EO drives business performance by developing and shaping new idea-based knowledge that is essential for creating new competencies, redesigning existing competencies, and promoting creative attitudes in business (Choi & Williams, 2016). Therefore, EO provides a solid basis for companies to act and undertake more entrepreneurship, followed by strategy-oriented actions and

decisions. EO is a *Strategic Business Unit* (SBU) level phenomenon. At this level, such "units" can range from undiversified small-to-medium enterprises to single business units of multibusiness firms (Covin & Lumpkin, 2011). Miller revealed that companies that emphasize *Entrepreneurial Orientation* are those that pursue innovative, risk-taking and proactive (Putniņš & Sauka, 2019).

In management strategy, there are internal and external factors that determine success. According to Palmer, et al. (2017), internal factors that affect business performance clearly become two levels, namely the individual level such as CEO independence, and the organizational level such as Entrepreneurial Orientation (EO). Some researchers such as Al-Mamary, et al. (2020) mentioned that EO is a major component in organizational success and leads to higher performance. Research conducted by Rauch, et al. (2009) also agrees with the idea that the EO dimension is important in explaining the company's business performance. This result is also reinforced by Gupta & Batra's (2016) research which found a strong positive relationship between EO and company performance (performance). EO affects a company's performance when the company strategically acquires, develops and utilizes resources in its exploitation to gain a competitive advantage.

Bandar Lampung City is the capital of Lampung Province. LAKIP The Cooperative and SME Office of Bandar Lampung City in 2022 reported that the increase in the resilient and independent MSME entrepreneurial program has been realized

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by 30.54% from the target of 31.50% with 96.95% employability and is included in the very good category. This is shown from the data that 580 MSMEs experienced an increase in profits in 2022. This figure increased from the previous year, which only 430 MSMEs experienced an increase in profit in 2021. The increase in profits for MSMEs is based on improving business performance (LAKIP Bandar Lampung, 2022). This increase in profit is one indication that the performance of MSME businesses in Bandar Lampung City is improving from year to year after the pandemic.

Some researchers have tried to test both variables of both knowledge management and entrepreneurial orientation towards business performance. Research conducted by Hussinki, et al. (2017), Abuaddous, et al. (2018), Albassami, et al. (2019), Joshi & Chawla (2019), Dabic & Kiessling (2019), and Winarto (2020) shows that knowledge management has a positive and significant influence on business performance. However, research by Yeşil, et al. (2013) shows that knowledge sharing has no effect on innovation ability and innovation performance. Another different result was found by Saraswati & Widiartanto (2016) who concluded from the results of their analysis that sharing knowledge and implementing knowledge partially has a significant negative influence on business performance.

Research by Gupta & Batra (2016), Sidek et al. (2019), and Asemokha et al. (2019) shows that entrepreneurial orientation has a positive and significant influence on business performance. Similar but not the same results are also described

in the studies of Mahmood & Hanafi (2013) and Anwar & Shah (2020) which show a significant relationship between entrepreneurial orientation and business performance. However, research by Messersmith & Wales (2013) shows that entrepreneurial orientation does not have a significant effect on business performance. Differences in research results were also found in the research of Tang, et al. (2008), Chen & Hsu (2013) which found an inverse U-shaped relationship in the relationship of EO to company performance.

The difference in the results of the study provides an opening for researchers to conduct research again. This was done to examine the effect of knowledge management (KM) and entrepreneurial orientation (EO) on business performance (BP) directly and with competitive advantage (CA) variables to be added as mediating variables in this study. This is done on the basis of the company's resource-based view (RBV) which states that competitive advantage (CA) only arises from the use of scarce, intangible and specific company assets. According to Barney in the research of Haseeb, et al. (2019), the company's competitive advantage and superior performance come from company-specific resources and capabilities that are expensive to replicate by rivals, valuable, scarce, cannot be perfectly imitated, and cannot be replaced. These resources include but are not limited to assets, capabilities, organizational processes, company attributes, information, and knowledge. In this study, knowledge management (KM) and entrepreneurial orientation (EO) are intangible corporate resources that will

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create such competitive advantages and in their partners will improve business performance.

## **LITERATURE REVIEW**

### **Resource Based View**

The concept of Resource Based View (RBV) was first created and developed by Barney, according to him (Siregar, 2019) Resource-based theory which comes from the principle that the main resources of companies to create competitive advantage are in their internal environment. Competitive advantage is determined by the uniqueness and capability of internal resources owned. According to the RBV concept, a company is a collection of strategic and productive resources that are unique, scarce, complex, complementary and difficult to replicate competitors that can be used as elements to maintain their competitive strategy.

### **Knowledge Management**

Khan (2012) states that knowledge management is the formalization and access to experience, knowledge and expertise that creates new capabilities that enable superior performance, drive innovation and increase customer value. According to Wiig in Khan's research (2012), knowledge management is the management of company knowledge and intellectual assets that can increase the range of organizational performance characteristics and added value by enabling a company to act smarter. Knowledge-based management aims to create informational knowledge and transform this expertise into a sustainable

competitive advantage so that it becomes part of business success (North & Kumta, 2020)

From some of these theories, it can be concluded that knowledge management is a strategy that can be applied by organizations / companies consisting of a series of activities that include the process of creating, sharing, distributing, and using or applying knowledge in organizations / companies to increase the ability to compete more effectively and achieve their goals so that in turn it will have an impact on improving the performance of organizations / companies aforementioned.

### **Entrepreneurial Orientation**

Entrepreneurial Orientation (EO) is defined by Lurtz & Kreutzer (2017) as the process and practice of creating strategies that organizations use to engage in new ventures or enter new markets, and is further conceptualized as a multidimensional dynamic construct by Lumpkin & Dess in 1996. Miller in Hernández-Perlines, et al. (2019) defines EO in terms of its components consisting of an innovative mindset characterized by risk-taking and a proactive approach to market competitiveness. Entrepreneurial orientation is also defined by Contreras & dos Santos (2018) as the ability of companies to carry out activities related to innovation, risk-taking and pioneering new actions.

### **Competitive Advantage**

Competitive Advantage (CA) is defined by Porter in Anwar (2018) as a

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firm's "strategic" advantage over its competing firms in the industry, allowing the firm to perform better than its competitors. According to Lestari, et al. (2019), competitive advantage is the heart of the company's performance in a competitive market and competitive advantage comes from many different activities carried out by companies in designing, producing, marketing, handing over, and supporting their products. Competitive advantage is the ability of a company to achieve economic benefits above the profits that can be achieved by competitors in the market in the same industry (Sari & Ali, 2019). Competitive advantage ultimately grows out of the value or benefits a company can create for its buyers more than it costs the company to create it. Companies that have a competitive advantage always have the ability to understand changes in market structure and are able to choose effective marketing strategies. Competitive strategies are intended to maintain a level of profit and a lasting position when facing competition.

### **Business Performance**

There is no universal definition of business performance. Academics define it according to their respective research objectives. Business performance is usually defined as the extent to which an organization is able to meet its dimensional needs and its own needs for survival (Farooq & Vij, 2018). The study suggests a self-reported approach to measuring performance where SMEs are asked to rate performance based on sales growth rate, market share, pretax profit growth rate, and

overall performance over the past three years compared to their competitors (Tang et al., 2008).

### **The Effect of Knowledge Management on Business Performance**

Several previous studies have examined the relationship between Knowledge Management (KM) and performance. Literature review conducted by Abuaddous, et al. (2018) shows that KM has a significant positive influence on all aspects of organizational performance both directly and indirectly. Joshi & Chawla (2019) found that there is a strong, positive, and significant relationship between KM and business performance. Dabic & Kiessling (2019) also examined a subsidiary multinational company (MNC) in Croatia and showed a significant positive relationship between knowledge management and company performance. Suchitra & Gopinath (2020) also found positive and significant results in the relationship between knowledge management and SME performance. Therefore, researchers propose the first hypothesis, namely:

H1: Knowledge Management has a significant direct effect on Business Performance

### **The Influence of Entrepreneurial Orientation on Business Performance**

Previous research has found a positive influence of entrepreneurial orientation on company or organizational performance. Research by Rauch, et al. (2009) shows that EO and performance have a considerable correlation. Furthermore, research by Mahmood &

Hanafi (2013), Sidek, et al. (2019), and Ibrahim & Mahmood (2016) also found positive and significant results in the relationship between EO and business performance. Asemokha, et al. (2019) also found that EO has a positive influence on the international performance of SMEs. Anwar and Shah (2020) also found a positive and significant relationship between EO and corporate financial performance. This finding is in accordance with Barney's resource-based theory which shows that a company's competitive advantage and superior performance come from company-specific resources and capabilities (Kiyabo & Isaga, 2020). Therefore, the researcher proposed a second hypothesis, namely:

H2: Entrepreneurial Orientation Significant Effect Directly on Business Performance

### **The Effect of Knowledge Management on Competitive Advantage**

Several previous studies have examined the relationship of Knowledge Management (KM) to Competitive Advantage (CA). Meihami & Meiham (2013) found that KM has a positive and significant impact on CA. Josephine, et al. (2018) also found the same results when researching the role of KM in CA food and beverage companies in Southeast Nigeria. Significant positive results in the KM-CA relationship were also found in the studies of Hajimohammadi, et al. (2019), Mahdi, et al. (2019), and Wijaya & Suasih (2020). Therefore, the researcher proposes a third hypothesis, namely:

H3: Knowledge Management has a significant direct effect on Competitive

Advantage

### **The Effect of Entrepreneurial Orientation on Competitive Advantage**

In this study, entrepreneurial orientation is an intangible company resource that will create a competitive advantage, as explained in the concept of resource-based view theory. Entrepreneurial orientation can affect company performance when the company strategically acquires, develops and utilizes resources in exploiting opportunities to gain competitive advantage. As shown in the results of the research of Mustafa, et al. (2015), Anwar & Shah (2020), Kiyabo & Isaga (2020) and Ibrahim & Mahmood (2016) which show that entrepreneurial orientation has a significant positive influence on competitive advantage. Therefore, the researcher proposes a fourth hypothesis, namely:

H4: Entrepreneurial Orientation Significant Effect Directly on Competitive Advantage

### **The Effect of Competitive Advantage on Business Performance**

Ferdinand in Afiyati & Hariadi's (2019) research states that companies with differentiation strategy adaptations offer unique products to their customers in the market so that this can be used as a characteristic of a company. Thus, the company can charge a higher price which further contributes to the profitability of the company. That is, a high competitive advantage will lead to high performance as well. Conversely, companies with lower competitive advantage will lose their performance and fear failure in the market.

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This assumption is also supported by the results of empirical studies such as Saeidi, et al. (2015), Ibrahim & Mahmood (2016), Anwar (2018), Anwar & Shah (2020), Kiyabo & Isaga (2020) which found a significant positive relationship between competitive advantage and business performance. Therefore, the researcher proposes a fifth hypothesis, namely:

H5: Competitive Advantage has a significant direct effect on Business Performance

### **The Influence of Knowledge Management on Business Performance Through Competitive Advantage**

Knowledge management is the management of company knowledge and intellectual assets that can increase the range of organizational performance characteristics and added value by enabling a company to act smarter. This research assumes that KM is an intangible company resource that is able to create competitive advantage and ultimately improve business performance. The influence of mediation in this relationship has also been found in Wijaya & Suasih's (2020) research which found that knowledge management has a significant positive effect on business performance through competitive advantage. Therefore, the researcher proposed a sixth hypothesis, namely:

H6: Competitive Advantage mediates the relationship of knowledge management to business performance

### **The Influence of Entrepreneurial Orientation on Business Performance Through Competitive Advantage**

The study anticipates that competitive advantage is likely to mediate the relationship of EO with SME performance. This mediation was concluded based on a resource-based view (RBV) according to Barney which shows that the company's competitive advantage and superior business performance come from the company's specific resources and capabilities that are expensive for competitors to imitate, valuable, scarce, cannot be perfectly imitated, and cannot be replaced (Haseeb, et al., 2019). This research assumes that EO is an intangible company resource that is able to create competitive advantage and ultimately improve business performance. The results of the effect of competitive advantage mediation in this relationship were also found by Mahmood and Hanafi (2013) who explained significant positive findings in the relationship of entrepreneurial orientation to business performance through competitive advantage mediation. Therefore, the researcher proposed the seventh hypothesis, namely:

H7: Competitive Advantage mediates the relationship of Entrepreneurial Orientation to Business Performance

### **RESEARCH METHODS**

This research was conducted using a quantitative approach. This study aims to analyze the influence of knowledge management and entrepreneurial orientation on business performance in Small and Medium Enterprises (SMEs) and the mediating effect of competitive advantage in such relationships. The data collected are primary data and secondary data. The primary data in this study was

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obtained from the results of a survey to respondents using a research questionnaire distributed by researchers to SME sector business people in Bandar Lampung City. Secondary data includes scientific articles such as journals or books related to the variables used in the study.

The population in this study is Small and Medium Enterprises registered with the Cooperative and SME Office of Bandar Lampung City. The number of registered small businesses is 34 while medium enterprises are 10 so that the total population is 44 SMEs. The sampling technique uses the census method, which is a sample consisting of all members of the population so that the sample in this study is as many as 44 respondents. This study collected data through a questionnaire instrument with a 5-point Likert scale in order to obtain valid and reliable data.

The data analysis used in this study is Partial Least Square (PLS) which is a Structural Equation Modeling (SEM) equation model based on a variant-based or component-based structural equation model. Data analysis begins by displaying the outer model and inner model. Outer model analysis is carried out to ensure that the measurements used are suitable for

measurement or valid and reliable. While the inner model analysis or structural analysis of the model is carried out to ensure that the structural model built is accurate. Furthermore, hypothesis testing and mediation testing were carried out using the bootstrap method on SmartPLS 3.0.

## RESULTS AND DISCUSSION

### Validity and Reliability

Table 1 shows indigo cronbach alpha, ccomposite realibility, and Average Variance Extract (AVE). The AVE value of all latent variables shows a score greater than 0.5 so that it can be concluded that the construct or measurement model has good discriminant validity. Cronbach's alpha of all variables as a reliability criterion is also quite high, ranging from 0.916 to 0.984. Table 1 also shows that the composite realibility values of all variables are above 0.70. The construct is considered reliable if the value of composite reliability or Cronbach alpha is above 0.70. So based on this value, it can be concluded that the construct or measurement model used has good reliability.

**Table 1. Composite Realibility and Cronbach Alpha**

<b>Variable</b>	<b>Cronbach's Alpha</b>	<b>Composite Reliability</b>	<b>Average Variance Extracted (AVE)</b>
Business Performance	0,916	0,942	0,804
Competitive Advantage	0,940	0,948	0,625
Entrepreneurial Orientation	0,947	0,957	0,760
Knowledge Management	0,984	0,986	0,832

Source: Data processing with SmartPLS, 2023

The calculation of the Goodness of Fit

(GoF) value shows a result of 0.773 or

77.3%. This shows that the model obtained is well used in making predictions. This means that the model has a high ability to explain empirical data.

### Hypothesis Testing

The results of both direct and indirect hypothesis testing using the PLS SEM bootstrap method are presented in Table 2. Drawing conclusions is carried out by comparing the values of t-table and t-count or t-statistic. In addition, the p-value can also be compared with an error rate ( $\alpha$ ) of 5% to draw conclusions. If t-count is greater than t-table and p-value is less than the error rate ( $\alpha$ ) of 5% then the hypothesis is accepted.

Table 2 shows a t-statistic value of 2.178 and a p-value of 0.030 for the first hypothesis test, namely the effect of knowledge management on business performance. That is, the t-count value (2.178) > t-table (1.960) and p-value (0.030) < 0.05. Then it can be concluded that H1 is accepted. The second hypothesis test, namely the influence of entrepreneurial orientation on business performance, showed a t-statistic value of 2.356 and a p-value of 0.019. That is, the t-count value (2.356) > t-table (1.960) and p-value (0.019) < 0.05. Then it can be concluded that H2 is accepted. The third hypothesis test, namely the effect of knowledge management on competitive advantage, showed a t-statistic

value of 2.249 and a p-value of 0.025. That is, the t-count value (2.249) > t-table (1.960) and p-value (0.025) < 0.05. Then it can be concluded that H3 is accepted. Testing the fourth hypothesis, namely the influence of entrepreneurial orientation on competitive advantage, showed a t-statistic value of 5.242 and a p-value of 0.000. That is, the t-count value (5.242) > t-table (1.960) and p-value (0.000) < 0.05. Then it can be concluded that H4 is accepted. The fifth hypothesis test, namely the effect of competitive advantage on business performance, shows a t-statistic value of 4.923 and a p-value of 0.000. That is, the t-count value (4.923) > t-table (1.960) and p-value (0.000) < 0.05. Then it can be concluded that H5 is accepted.

Table 2 shows a t-statistic value of 1.994 and a p-value of 0.048 on the sixth hypothesis test, namely the effect of knowledge management on business performance through competitive advantage. That is, the t-count value (1.994) > t-table (1.960) and p-value (0.048) < 0.05. Then it can be concluded that H6 is accepted. Testing the seventh hypothesis, namely the influence of entrepreneurial orientation on business performance through competitive advantage, showed a t-statistic value of 3.566 and a p-value of 0.000. That is, the t-count value (3.566) > t-table (1.960) and p-value (0.000) < 0.05. Then it can be concluded that H7 is accepted.

**Table 2. Hypothesis Testing Results**

Hypothesis	Variable Relationships	Path coefficient t	T-Statistics	P-Values	Result	
H1	Knowledge Management -> Business Performance	0,187	2,178	0,030	Significant	Accepted

**863| The Influence Of Knowledge Management And Entrepreneurial Orientation On Business Performance Mediated By Competitive Advantage (A Study On Smes In The City Of Bandar Lampung)**

H2	Entrepreneurial Orientation -> Business Performance	0,288	2,356	0,019	Significant	Accepted
H3	Knowledge Management -> Competitive Advantage	0,321	2,249	0,025	Significant	Accepted
H4	Entrepreneurial Orientation -> Competitive Advantage	0,594	5,242	0,000	Significant	Accepted
H5	Competitive Advantage -> Business Performance	0,561	4,923	0,000	Significant	Accepted
H6	Knowledge Management -> Competitive Advantage -> Business Performance	0,180	1,994	0,048	Significant	Accepted (partial)
H7	Entrepreneurial Orientation -> Competitive Advantage -> Business Performance	0,333	3,566	0,000	Significant	Accepted (partial)

Source : Data Processing with PLS, 2023

**DISCUSSION OF HYPOTHESIS TESTING RESULTS**

**The Effect of Knowledge Management on Business Performance**

This research resulted in findings that knowledge management has a positive and significant influence on business performance. This shows that a business that has good management knowledge will improve business performance. The results of the descriptive analysis show that knowledge conversion is the dominant indicator in determining knowledge management. This means that Small and Medium Enterprises (SMEs) are very concerned about the process of converting or changing knowledge. In this case, knowledge can be either tacit (implicit) knowledge or explicit knowledge (available and formal). Small meetings, such as coordination and evaluation meetings that are routinely conducted by SMEs, are examples of activities that indicate that the

knowledge conversion process has been implemented. The better a business is at converting knowledge, it will improve business performance.

The results of this study are in line with those of research by Joshi & Chawla (2019) and Suchitra & Gopinath (2020) which found positive and significant results in the relationship of knowledge management with entrepreneurial performance and SME performance. Research by Hussinki, et al. (2017) also explained in the results of their research that companies with a high level of knowledge management practices show superior performance or performance compared to low levels of knowledge management practices.

**The Effect of Entrepreneurial Orientation on Business Performance**

This research resulted in findings that Entrepreneurial Orientation has a positive

and significant influence on business performance. This shows that the higher the entrepreneurial orientation in SMEs, the business performance will also increase. The results of the descriptive analysis show that innovation is the dominant indicator in determining Entrepreneurial Orientation. This shows that SMEs in Bandar Lampung City always innovate their products. This form of innovation can be in the form of new product development to the business development strategy used. Products produced by SMEs are always "up to date". Likewise with the strategy used. Innovation in business strategy is also always carried out. One of them is innovation in product marketing strategies. In this digital era, SMEs in Bandar Lampung City also participate in pursuing the world of digital marketing. SMEs that often innovate, are proactive and dare to take risks in their business will have an impact on improving business performance.

The results of this study are in line with research (Gupta & Batra, 2016) which found a strong positive relationship between Entrepreneurial Orientation and company performance. Al-Mamary, et al. (2020) mentioned that Entrepreneurial Orientation is a major component in organizational success and leads to higher performance. This positive and significant relationship between Entrepreneurial Orientation and company performance was also validated in the study (Anwar & Shah, 2021).

### **The Effect of Knowledge Management on Competitive Advantage**

The study found that knowledge management has a positive and significant

influence on competitive advantage. This shows that a business that has good management knowledge will increase competitive advantage or competitiveness. The results of the descriptive analysis show that knowledge conversion is the dominant indicator in determining knowledge management. This means, that Small and Medium Enterprises (SMEs) have often carried out the process of converting or changing knowledge in their business. Small meetings such as coordination and evaluation meetings are examples of activities that indicate that the knowledge conversion process has been implemented. SMEs that implement knowledge management strategies unconsciously already have unique resources that differentiate them from others in similar industries. The unique resource referred to in this case is the ability to manage knowledge itself. This is then a valuable asset of the company and can create a competitive advantage. This is in accordance with the concept of Resource Based View Theory that competitive advantage is determined by the uniqueness and ability of internal resources owned by the company.

The results of this study are consistent with several studies that have examined the relationship of knowledge management to competitive advantage. Significant positive results in the effect of knowledge management on competitive advantage were also found by Meihami & Meiham (2013); Josephine, et al. (2018); Hajimohammadi, et al. (2019), (Mahdi et al., 2019), and Wijaya & Suasih (2020).

**The Effect of Entrepreneurial**

### **Orientation on Competitive Advantage**

This research resulted in findings that Entrepreneurial Orientation has a positive and significant influence on competitive advantage. This shows that the higher the entrepreneurial orientation in SMEs, the competitiveness or competitive advantage will increase as well. The results of the descriptive analysis show that innovation is the dominant indicator in determining Entrepreneurial Orientation. This shows that SMEs in Bandar Lampung City always make new innovations in their products. This form of innovation can be in the form of new product development to the business development strategy used. The resulting products are always current. Likewise with the strategy used. Innovation in business strategy is also always carried out. One of them is innovation in product marketing strategies. In this digital era, SMEs in Bandar Lampung City are also pursuing the world of digital marketing. From what was originally only marketed directly, currently the introduction and sale of products are carried out online through social media. The Covid-19 pandemic has made this the "new normal" in the business world. SMEs that are able to survive are those who innovate in marketing strategies when people can no longer carry out activities directly as before this outbreak. This is what then makes the business survive in the market and even be able to compete along with the times and technology. In other words, SMEs that often innovate, are proactive and dare to take risks in their business will increase competitive advantage.

The results of this study are similar

to those described by Mustafa et al., (2015), Ibrahim & Mahmood (2016), Anwar & Shah (2021) and Kiyabo & Isaga (2020) which shows that Entrepreneurial Orientation has a positive and significant direct impact on increasing competitiveness or competitive advantage.

### **The Effect of Competitive Advantage on Business Performance**

This research found that competitive advantage has a positive and significant influence on business performance. This shows that the higher the competitive advantage or competitive advantage, the better the business performance. The results of the descriptive analysis show that delivery dependability and time to market are the dominant indicators in determining competitive advantage. It can be shown that SMEs in Bandar Lampung City have a short new product development process so that they are able to be the first to introduce new products. With a marketing team that is swift in monitoring market trends, this helps SMEs in developing new products in accordance with the latest trends and community needs. The dominant delivery dependability value also shows that SMEs in Bandar Lampung City are very oriented with fast delivery times. In direct transactions, this can refer to the preparation process when the product starts to be ordered until it is received by the customer. But in online transactions, this refers to when the order is processed, product delivery, until the order is received. Based on field observations, SMEs in Bandar Lampung City have an order preparation process and fast delivery

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judging from customer response reviews carried out by social media admins and marketing teams.

One of the items of the quality indicator is also quite dominant in the measurement of this variable. Respondents agree that in addition to products that quickly enter the market, quality is also a fairly dominant factor in determining competition in the market. Businesses that are able to enter the market early with their new products and have quality products will get more attention and interest from the market. This is what makes the company competitive so that it can improve business performance through increased sales. The results of this study support the research conducted by Saeidi et al. (2015), Ibrahim & Mahmood (2016), Anwar (2018), Anwar & Shah (2021), Kiyabo & Isaga (2020) which found a significant positive relationship between competitive advantage and business performance.

#### **Mediating Competitive Advantage in the Effect of Knowledge Management on Business Performance**

This study found that competitive advantage has a mediating effect or influence in the relationship of knowledge management with business performance. That is, knowledge management can improve business performance through increased competitiveness or competitive advantage. The mediating effect of competitive advantage in the relationship of knowledge management to business performance is partial. This partial mediation effect means that the better the knowledge management ability of a business, it will increase competitiveness or

competitive advantage which then affects the improvement of business performance. However, even without increased competitive advantage, SMEs' ability in knowledge management is already able to improve business performance. So it can be concluded that with competitive advantage or not, knowledge management is still able to improve business performance. This result is in accordance with research by Wijaya & Suasih (2020) which found that knowledge management has a significant positive effect on business performance through competitive advantage.

#### **Mediating Competitive Advantage in the Effect of Entrepreneurial Orientation on Business Performance**

This study found results that competitive advantage has a mediating effect or influence in the relationship of Entrepreneurial Orientation with business performance. That is, entrepreneurial orientation can improve business performance through increasing competitiveness or competitive advantage. The mediating effect of competitive advantage in the influence of Entrepreneurial Orientation on business performance is partial. This partial mediation effect means that the better the entrepreneurial orientation of a business, it will increase competitiveness or competitive advantage which then affects the improvement of business performance. However, even without increased competitive advantage, Application Entrepreneurial orientation in SMEs has been able to improve business performance. So it can be concluded that with competitive advantage or not,

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Entrepreneurial Orientation is still able to improve business performance. These results are consistent with research by Mahmood & Hanafi (2013) which explains significant positive findings in the influence of Entrepreneurial Orientation on company performance through the mediation of competitive advantage.

## **CONCLUSION**

Based on the results and discussion above, conclusions can be drawn

1. Knowledge management can improve business performance. This means that the application of good knowledge management in a business can improve business performance. The process of managing knowledge in a business starting from the knowledge is taken, processed and shared to its protection and security can affect business performance or business performance.
  2. Entrepreneurial orientation is able to improve business performance. This means that businesses that apply Entrepreneurial Orientation can affect the improvement of business performance. Businesses that are increasingly innovative, proactive, and dare to take risks can affect the improvement of business performance.
  3. Knowledge management can increase competitive advantage. This means that the application of good knowledge management in a business can increase competitiveness or competitive advantage in the market. Knowledge management acts as a unique company resource and asset that can be a hallmark of a business so as to increase competitiveness in the market.
  4. Entrepreneurial Orientation is able to increase competitive advantage which means that businesses that apply Entrepreneurial Orientation can increase competitiveness or competitive advantage in the market. SMEs that often innovate, are proactive and dare to take risks in their business will be able to increase competitive advantage. Entrepreneurial orientation also acts as a unique company resource and asset that can be a hallmark of a business so as to increase competitiveness in the market.
  5. Competitive advantage can improve business performance. A business or business that has competitiveness or competitive advantage in the market can affect its business performance. The greater the competitiveness of a business in the market, the greater the increase in business performance.
  6. Knowledge management is able to improve business performance through competitive advantage. Competitive advantage acts as a mediation that can be a link in the relationship between knowledge management and business performance. This is because the application of good knowledge management can create competitive advantages which are then able to improve business performance. This mediation is partial, which means that knowledge management can still affect business performance even without going through competitive advantage.
  7. Entrepreneurial orientation is able to improve business performance through
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competitive advantage. Competitive advantage acts as a mediation that can be a link in the relationship between Entrepreneurial Orientation and business performance. This is because the application of Entrepreneurial Orientation is able to create competitive advantages which are then able to improve business performance. This mediation is partial, which means that Entrepreneurial Orientation can still affect business performance even without going through competitive advantage.

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