

The Effect of Innovation and Entrepreneurial Orientation on Business Performance with Knowledge Management as Mediation Variables in MSMEs West Java

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Abstract: *The development of the contribution of GDP to micro, small, and medium enterprises is seen to have increased from year to year. Besides being able to have a positive impact on the country, MSMEs also have a good impact on several provinces in Indonesia, one of which is West Java. MSMEs take part in increasing income in West Java. However, in reality, West Java only provides the fourth largest contribution (14.33%) to the National Gross Domestic Product (GDP) after DKI Jakarta, East Java and East Kalimantan (Ministry of Industry, 2017). Even though 50% of the total national industry is in West Java. This indicates that the performance of MSMEs in West Java has not improved over time. So it can be stated that the performance of the MSME business in West Java is still low. The cause of the weak performance of MSMEs is allegedly due to weak innovation and entrepreneurial orientation as well as inadequate knowledge management in managing businesses.*

Based on this phenomenon, this study aims to find, describe, and analyze the effect of innovation and entrepreneurial orientation on performance through the development of knowledge management in MSMEs West Java. This research uses descriptive and verification quantitative methods with the number of analytical observations of 100 respondents, who were analyzed by the Path Analysis method.

The results showed that innovation and entrepreneurial orientation through knowledge management could not affect the performance of MSMEs, meaning that knowledge management could not affect the performance of MSMEs.

Keywords: *innovation, entrepreneurial orientation, knowledge management, business performance.*

I. Introduction

Micro, Small and Medium Enterprises (MSMEs) have a very important role in driving the economy of West Java. This business management is carried out simply so that there are more choices as a place for businesses that generate economic value. This business is the main choice because it requires relatively small capital. Therefore, UMK activities are economic activities that cannot be separated into people's lives in fulfilling their daily needs. In other words, MSEs play a role as the basis for social-economic development.

The development of Micro, Small and Medium Enterprises (MSMEs) is an effort to improve the national economy, because most businesses in Indonesia, both small and medium enterprises, are labor-intensive and utilize domestic resources. Based on these conditions, it also encourages the Indonesian state to continue to develop MSMEs. Because even though they are small in the number of workers, assets and turnover because there are quite a lot of them, MSMEs play an important role in supporting the economy.

The very large number of MSEs in West Java will certainly play a role in absorbing labor and reducing unemployment. Based on data from the National Labor Force Survey (Sakernas) August 2017, unemployment in West Java reached 8.22 percent, mostly in vocational graduates who reached 16.80 percent. The high

contribution of SMK graduates to the number of unemployed in West Java is due to the low soft skills of SMK graduates, especially in SMKs where the quality of education has not been tested. Apart from SMK, unemployment also occurs in high school graduates, reaching 10.03 percent. This indicates that quite a lot of unemployment occurs in the workforce with secondary education levels.

The absorption of the MSE workforce occurred mostly in the wholesale and retail trade, repair and maintenance of cars and motorbikes (category G), reaching 3.98 million people or two-fifths of the workforce at non-agricultural MSEs. Processing Industry (Category C) and Provision of Accommodation and Provision of Food and Drink (Category I) rank second and third in the absorption of labor at non-agricultural MSEs.

In other words, with this UKM, unemployment due to the workforce that is not absorbed in the world of work is reduced. The SME sector has been promoted and made the main agenda for Indonesia's development. The SME sector has proven to be resilient when the 1998 economic crisis occurred, only the SME sector survived the economic collapse, while the larger sectors were uprooted by the crisis. SMEs always have an important position, because most of the population of Indonesia has a low educational background and lives from small business activities in both the traditional and modern sectors. The government hopes that developing SMEs can have a positive impact on the economic development of the Indonesian people.

This statement is reinforced by data from the State Ministry for Cooperatives & SMEs which show that the development of the GDP contribution to micro, small and medium enterprises has seen an increase in development from year to year. Apart from being able to have a positive impact on the country's economy, MSMEs also have a good impact on several provinces in Indonesia, one of which is West Java. MSMEs contribute to income generation in West Java.

However, in reality, West Java only provides the fourth largest contribution (14.33%) to the National Gross Domestic Product (GDP) after DKI Jakarta, East Java and East Kalimantan (Ministry of Industry, 2017). Even though 50% of the total national industry is in West Java. This indicates that the performance of MSMEs in West Java has not improved over time. The causes of weak performance and productivity of MSMEs are strongly suspected due to the weak character of entrepreneurship and the lack of optimal managerial role in managing businesses. So it can be stated that the conditions above show the performance of the SME business in West Java is still low.

This is supported by the statement of Dwiwinarno (2008) which states that several factors are inhibiting the development of MSMEs (Micro, Small and Medium Enterprises), including lack of capital and low managerial ability. Although the demand for their businesses increases due to constraints on funds, they are often unable to meet demand. This is due to the limited ability to obtain information on procedures for obtaining funds and the limited ability to make proposals for obtaining funds. Most small-scale businesses run a business without planning, controlling, or evaluating business activities. This is reinforced by several research results which state that managerial abilities in the form of knowledge management can affect the performance of an organization.

While it is known, the entrepreneurial process requires entrepreneurial orientation because entrepreneurial orientation determines the direction of the business that has been initiated (Knight, 2000). According to Hassim, et.al. (2011), the key to entrepreneurship is how to make the right decisions with various calculations and reasoning. Various theories and research in the field of entrepreneurship have been able to explain well the importance of the role and impact of entrepreneurial orientation on business performance. The inconsistent results from previous studies provide an interesting research gap for further investigation. Previous research conducted by several researchers (Covin, Green, and Slevin, 2006; Rauch, Wiklund, Lumpkin, and Frese, 2009; Zhao, Li, Lee and Chen, 2011; Wicklund, Patzelt and Shepherd, 2009) shows that entrepreneurial orientation is influential significant to business performance. However, in the research conducted by Covin, Slevin and Schultz, (1994), and Reswanda (2011), there is no significant influence between entrepreneurial orientation on the performance of MSMEs.

Another problem faced is regarding the performance of MSMEs, namely the competitiveness of MSMEs to continue to develop new ideas and creativity, which are generated through their products, processes and competitiveness against similar products from other provinces. Competitive advantage and performance are

significantly related. As illustrated by an empirical study by Morgan et al., (2004), competitive advantage is proven to significantly predict variance in performance. There are also several studies that state that knowledge management has a significant effect on competitive advantage (Castro et al, 2005); Lee and Tsai (2005); Subramanian et al. (2009) in Kanya, et.al., 2010).

In addition to other problems related to creativity and performance, the programs carried out by the government are only aimed at established and capitalized MSMEs, while growing and developing MSMEs have not been touched and the lack of development programs for emerging MSMEs such as sword MSMEs, which is on the edge of the road and home-based MSMEs.

II. Literature Review

Innovation

Innovation is a process and/or development result of the utilization of a product/resource that has been there before so that it has more meaningful value. Some say that the meaning of innovation is a renewal of various resources so that these resources have more benefits for humans. The innovation process is greatly influenced by advances in technology and science because these two things can make it easier to produce something new and different.

The term innovation has always been interpreted differently by several experts. According to Suryani (2008: 304), innovation is a broad concept that is not only limited to products. Innovation can be in the form of ideas, methods, or objects that are perceived by someone as something new. Innovation is also often used to refer to changes that are perceived as new by the experiencing society. However, in the context of marketing and the context of consumer behavior, innovation is associated with a new product or service. New to refer to a product that has never existed before in the market and is new in the sense that there are different things which are improvements or improvements from previous products that consumers have encountered in the market.

The word innovation can be defined as a "process" or "result" of the development and or utilization or mobilization of knowledge, skills (including technological skills), and experience to create or improve products, processes that can provide more meaningful value. According to Rosenfeld in Sutarno (2012: 132), innovation is the transformation of knowledge into new products, processes and services, the act of using something new. Meanwhile, according to Partners in the book and on the same page, innovation is the successful exploitation of a new idea or in other words the mobilization of knowledge, technological skills and experience to create new products, processes and services. However, according to Fontana (2009: 20), innovation is economic and social success thanks to the introduction of new ways or new combinations of old ways of transforming inputs into outputs that create major changes in the relationship between use-value and prices offered to consumers and/or users, communities, societies and the environment.

Almost the same as organizational innovation according to Sutarno (2012: 134-135) which is defined as new ways of working arrangements, and is carried out in an organization to encourage and promote competitive advantage. The essence of organizational innovation is the need to improve or change a product, process or service. Organizational innovation encourages individuals to think independently and creatively in applying personal knowledge to organizational challenges. All organizations can innovate, including corporate organizations, hospitals, universities, and government organizations. The importance of value, knowledge and learning in organizational innovation is very important.

The benefit of innovation is to improve or enhance the function of the use of a product or resource so that people get more benefits. Innovations occur in various fields of life, starting from the world of business, education, communication, and so on.

According to Rogers (2003), the notion of innovation is an idea, idea, motorcycle taxi, and practice that is based on and is accepted as something new by a certain person or group to be applied or adopted. According to Kuniyoshi Urabe, the notion of innovation is anything that is produced through a long and cumulative process, covering many decision-making processes, from idea discovery to implementation in the market.

According to Andrew H (1989), the definition of innovation is the development and implementation of new ideas by people within a certain period carried out by various transaction activities within a certain

organizational structure. According to Law Number 19 of 2002, the definition of innovation is a research, development, and / or engineering activity carried out for the development of practical application of new values and scientific contexts, or new ways to apply existing science and technology to products. or the production process.

Something innovative does not only give birth to something new but must be useful for the innovator or other people as well, meaning that something innovative can be useful for innovators, for example, it can be more economical, more efficient in product manufacturing, can generate large profits, and be beneficial for other people mean that products that innovate should be even better and more useful, for example, if previously the products being sold were large and heavy packaging, manufacturers tried to innovate to make packaging that was light and easy to carry, of course, this created something new and useful. The innovator must also be able to take risks in every path he takes, an entrepreneur must be able to have a calm attitude even when facing difficult conditions, an entrepreneur who can innovate will be calm in facing any situation because he will continue to create something new with his creation, move something less productive becomes a productive resource so that it can provide benefits, economic value and most important benefits for entrepreneurs and other people.

According to Christensen (1997), introducing the idea of "disruptive innovation" in the business world. He uses this expression as a way of thinking of successful companies that not only meet the needs of today's customers but anticipate their needs in the future. His theory explains how a small company with minimal resources can enter the market and replace an already established system.

Entrepreneurial Orientation

Knight (2000: 2) explains that entrepreneurial orientation is related to seeking opportunities, the courage to take risks and the decision to act on the head of the organization. Entrepreneurial orientation is the company's value system and will determine the company's strategy. Companies that have a value system will continue to look for opportunities to try to penetrate new markets to take opportunities to improve company performance (Murni, Alhansji, Idrus, Arifin, 2014).

Porter (2008: 11) defines entrepreneurial orientation as a corporate benefits strategy to be able to compete more effectively in the same market place. Meanwhile, according to Gosselin (2005: 45), that there is a significant relationship between established entrepreneurial orientation and company performance. The findings of Culhane (2003: 33) who conducted research, showed that entrepreneurial spirit partially did not determine company performance but through the interaction of strategic processes and changes in economic conditions in each country, the entrepreneurial spirit had a significant effect on company performance.

According to Lumpkin and Dess (1996: 32) and Wiklund and Shepherd (2005: 67) entrepreneurial orientation and organizational culture are closely related to the strategy formulation process that will provide the basis for decision making and business implementation of the organization. Entrepreneurial orientation plays an important role in improving business performance (Keeh et al., 2007: 2). Meanwhile, Miller and Fneseri (1982: 11) reveal that entrepreneurial orientation becomes an acceptable meaning to explain business performance. Entrepreneurial orientation refers to processes, practices, and decision making that lead to new inputs and has three aspects of entrepreneurship, namely taking risks, acting proactively and always being innovative (Lumpkin and Dess, 1996: 22).

Daring to take risks is an entrepreneurial attitude that involves his willingness to tie up resources and the courage to face challenges by exploiting or engaging in business strategies where the possible results are full of uncertainty (Keeh et al. 2002: 32). Proactivity reflects the willingness of entrepreneurs to dominate competitors through a combination and aggressive and proactive movements, such as introducing new products or services on top of competition and activities to anticipate future demands to create change and shape the environment. Innovative refers to an entrepreneurial attitude to be involved creatively in the process of experimenting with new ideas that make it possible to produce new production methods to produce new products or services, both for the current market and for new markets. A high entrepreneurial orientation is closely related to the main driver of profit so that an entrepreneur has the opportunity to take advantage and the

emergence of these opportunities, which in turn has a positive effect on business performance (Wiklund, 1999: 11).

Stated by Covin and Slevin (1991: 89); Wiklund (1999: 12), stated that the higher entrepreneurial orientation can increase the company's ability to market its products towards better business performance. Therefore, companies that are increasingly innovative, proactive, and dare to take risks tend to be able to perform better in business. Apart from entrepreneurial orientation, that can influence strategy.

Charson (2002: 23) defines entrepreneurial orientation as an effort to learn about a person's values, abilities and behavior to create and innovate. Therefore, the study of entrepreneurship is related to a person's values and abilities which are expressed in the form of behavior. This is in line with what is stated by Day et al (2006: 77), in principle, entrepreneurial orientation is the nature, traits, and traits that can bring innovative ideas into the real world which are done creatively or in short, the ability to create. The new and different thing entrepreneurship orientation as a process, with an action-oriented management style that uses innovation and change as the focus of thought and behavior. Meanwhile, Charson (2008: 2) states that entrepreneurial orientation is a combination of creativity, innovation and courage in facing risks by working hard to form and maintain new businesses. Creativity is a pattern of thinking something new, while innovation is a way of acting to do something new. Thus according to etymology, entrepreneurship is essentially an ability to think creatively and behave innovatively which is used as a basis, resources, driving force, goals, strategies, tips in facing life's challenges.

About entrepreneurial orientation, Solomon (2004: 2) states that there are significant contributions from several authors about entrepreneurial orientation from time to time. He further stated that entrepreneurial orientation has a positive correlation with the performance of small businesses. These dimensions are independence, competitive advantage, the courage to take risks, competitive aggressiveness and proactivity.

Previous research has revealed that the level of entrepreneurial orientation is a differentiating factor in the success or failure of business organizations. Companies with successful entrepreneurship are more entrepreneurial oriented and this orientation is exemplified by their commitment to encouraging entrepreneurial behavior such as competitive advantage, proactivity, and organizational risk-taking (Casillas, Moreno and Barbero, 2010: 3; Messeghem, 2003: 3; Miller 1983. : 33; Stam and Elfring, 2008: 1; Voss and Moorman, 2005: 90) Muchtolifah (2008: 21) explains that entrepreneurial orientation is an organizational capability that contributes to the creation of unique organizational resources, positional advantages that affect performance. Furthermore, Risnawati and Noermijati (2008: 45) explain entrepreneurial orientation is the orientation of corporate strategy in entrepreneurship to gain a competitive advantage with indicators: decision making, practice and methods. Entrepreneurial orientation is also the tendency of individuals to exercise competitive advantage, be proactive and willing to take risks to start or manage Ginsberg's businesses in Isa (2011: 22). Furthermore, Morris and Paul in Fayolle (2007: 12) explain that entrepreneurial orientation is the tendency of top management to take calculated, innovative and proactive risks.)

The entrepreneurial orientation is the desire of the organization to promote and support consideration of creativity, flexibility and risk. It shows the entrepreneurial process and answers questions about how an activity is carried out. Jambulingan et.al (2005: 3), in Muchtolifah (2008: 3) states that entrepreneurial orientation is defined as a process. Practices and decision-making activities that lead to the development and delivery of new and innovative services that can differentiate an organization from others in the market. Lumpkin and Dess (1996: 7) Wiklund and Shepeard (2005: 45), in Muchtolifah (2008: 10), states that "entrepreneurial orientation with corporate strategic orientation includes aspects of specific entrepreneurial decisions - making styles, methods, and practices".

According to Sudjana in Isa (2011: 44), entrepreneurship is an entrepreneurial attitude and behavior. Entrepreneurs are people who are innovative, anticipatory, initiative, risk-taking and profit-oriented. According to Untoro and the Indonesian Teacher Team (2010, p.55), entrepreneurship is the courage to make efforts to meet the necessities of life made by someone, based on the ability by utilizing all the potential they have to produce something useful for themselves and people. Meanwhile, according to Hariandja (2007,153),

orientation is a program to introduce new employees to their roles, organization, policies, values, beliefs and their colleagues.

From some of the opinions of the experts above regarding entrepreneurial orientation, the authors conclude that entrepreneurial orientation is the company's ability to manage resources to be able to carry out strategies in entrepreneurship to gain a competitive advantage.

Knowledge Management

According to Tripathi and Reddy (2008, p.2), management is the art of getting things done through other people. This understanding is a concern for important differences between a manager and other members of an organization. According to Hasibuan (2009, p.124), management is the science and art of regulating the process of utilizing human resources and other resources effectively and efficiently to achieve certain goals. So it can be concluded that management is a science and art regarding the process of managing resources to achieve efficient effectiveness.

Knowledge management is often viewed as a multidimensional and multidisciplinary concept. There are many definitions of knowledge management in the literature, so comparisons should be made to determine the focus of each author. As stated by Beccera-Fernandez (2004: 113), knowledge management can be simply defined as "doing what is needed to get the maximum of knowledge resources". Knowledge management is also defined as the process required to create, capture, codify and disseminate knowledge to organizations to achieve competitive advantage. Every individual is a source of organizational knowledge. Meanwhile, Hwang et al (2008: 98) states that knowledge management is a process to optimize intellectual property which can be seen from the performance of employees in an organization for the benefit of the organization. The existence of knowledge management in an organization cannot be seen directly by the results. This is due to several things related to intellectual property such as human capital, social capital and corporate capital (Hwang et al, 2008: 67).

As stated by Nonaka& Takeuchi. (1995: 97) in Nasimiet et al., (2013: 34) that "knowledge management is the process which through organizations deals with generates a wealth of knowledge and their intellectual capital". While other definitions state that knowledge management is a process or activity by creating, acquiring, capturing, sharing and using knowledge, wherever it exists, to improve learning and performance in organizations (Scarborough, S & Preston. 1999 in Nasimi et.al, 2013: 22).

Furthermore, knowledge management is the formalization of and access to, experience, knowledge and expertise that creates new capabilities that enable superior performance, encourage innovation and increase customer value (Khan, 2012: 23). Knowledge management is a process that helps organizations to find, select, organize, disseminate and transfer important information and expertise needed for activities (Zaied, 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 (Wiig, 1993 in Khan, 2012: 33).

Business Performance

Performance is the most important construct in management and business research. Various definitions of performance have been proposed in the literature (Barney, 2007: 28), with frequent references to how efficiently and effectively a company utilizes resources in producing economic results.

Wiklund and Shepherd (2005: 77) state that performance can be seen from the company's sales, profitability, return on capital, turnover level and market share. According to Hilmi et.al. (2011: 23), business performance can be measured by seven indicators: several complaints, return on investment, financial performance, sales growth, productivity, customer satisfaction and employee satisfaction.

Meanwhile, according to several researchers in Rauch et al., (2004: 22), the empirical literature reports state performance indicators with high diversity (Combs, Crook, & Shook, 2005: 11; Venkataraman&Ramanujam, 1986: 76); general definition consists of financial and non-financial. Mackey,

Mackey and Barney (2007: 127) define business performance in the context of market value when entrepreneurs are run with profit and appreciation of the value of 'stakeholders'.

Performance is influenced by many factors that drive employee behavior, innovation, creativity and attitudes in the workplace. It has become a challenging task for managers to maintain a positive and proactive work environment in organizations with changing economic environments and increasing difficulties in business (Krist, 2009: 45).

According to Soedjono (2005: 65), organizational performance or company performance is an indicator of the level of achievement that can be achieved and reflects the success of the manager/entrepreneur. According to Suci (2009: 98), the performance of a company is very important in the development of a company. Company performance refers to the level of achievement or achievement of the company in a certain period. According to Jauch in Suci (2009: 99), company performance can be seen from the level of sales, the level of profit, the return on capital, the turnover rate and the market share it achieves. According to Umar (2005, 155), company performance is in terms of how knowledge management responds to external and internal conditions, which with certain benchmarks can be seen at what level of turbulence and at what level the company can anticipate it. It can be concluded from several definitions of company performance above, namely company performance is a level of achievement of a company in a certain period as a measure of the success rate of an entrepreneur/manager (superior).

III. Research Methods

Research Design

This type of research is survey research. According to Singarimbun (1995: 3), survey research is a study that takes a sample from one population and uses a questionnaire as the main data collection tool.

The determining variables, namely the independent variable and the dependent variable, will be collected in the field employing a survey determined following the basic population and sample. It is the sample that will explain the true events. This type of research is basic research that is used to obtain descriptions of the object of research.

Population and Sample

According to Sugiyono (2004: 57), the population is a generalization area consisting of objects or subjects that have certain quantities and characteristics that are applied by researchers to study and then draw conclusions. The unit of analysis in this study is the UMKM in West Java. Meanwhile, to determine the data to be used, it is necessary to know the population and sample that will be used. According to Cooper & Schindler (2014) population is a collection of all objects to be studied. In other words, the population is a generalization area consisting of subjects/objects that have the same characteristics that are determined by the researcher for the study. The population in this study were 60,000 MSMEs in West Java. While the sample is "part of the number and characteristics of the population. Determination of the sample size using the Slovin formula (Azhari, 2002: 53). The size of the sample with Slovin with the results of 100 samples.

IV. Research Results and Discussion

Path Analysis

The data processing technique in completing this research is by using path analysis (path analysis), where this analysis serves to determine the direct and indirect effect of a set of variables, as a causal (exogenous) variable on the consequent (endogenous) variable.

Sub Structure Equations I

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 e_1$$

Sub Structure Equation II

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 Z + \beta_4 e_1$$

Hypothesis Test

After the data from the respondents and the questionnaires collected, the results of the filling in are described, and based on the test results, the requirements analysis shows that all the requirements have been met. The characteristics of the two types of variables to be correlated have the form of a normal distribution and linear shows significant, then the next step is testing the research hypothesis. Before testing the hypothesis, first, the simple correlation coefficient, determination coefficient, and linear regression equation are tested.

Path Coefficient

From the Model I Regression in the coefficients table section, the following results can be obtained:

Table 1. Regression Model, Correlation X1, X2 on Z
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	30.175	5.017		6.015	.000
	X1	.286	.090	.341	3.177	.002
	X2	.223	.095	.252	2.346	.021

a. Dependent Variable: Y

Referring to the Regression Model I output in the coefficients table section, it can be seen that the significant value of the two variables, namely X1 = 0.002, is smaller than 0.05. These results conclude that the regression model I, namely variables X1 and X2 have a significant effect on Y.

Table 2. Autocorrelation
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.531 ^a	.282	.268	5.98302

a. Predictors: (Constant), X2, X1

The value of R² or R Square contained in the table model summary is 0.282, this indicates that the contribution or contribution of the influence of X1 and X2 on Y is 28.2% while the remaining 71.8% is the contribution of other variables not included in the research. Meanwhile, the value of e1 can be found with the formula $e1 = \sqrt{1-0.282} = 0.847$. Thus the path diagram for the Structure I model is obtained as follows:

Path Coefficient Model II

From Regression Model II in the table coefficients, the following results can be obtained:

Table 3. Regression Model II, correlation of X1, X2, Z on Y

		Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	27.562	6.409		4.301	.000
	x1	.288	.090	.344	3.193	.049
	x2	.207	.098	.234	2.101	.038
	z	.552	.084	.059	6.571	.512

a. Dependent Variable: y

Based on the regression output model II on the table coefficients, it is known that the significant value of the three variables, namely X1 = 0.049, variable X2 = 0.038 and Z = 0, 059 is greater than 0.05. These results conclude that regression Model II, namely variables X1, X2 through Z have a significant effect on Y.

Table 4. Autocorrelation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.696 ^a	.484	.054	7.28660

a. Predictors: (Constant), Y, X2, X1

The value of R² or R Square contained in the table model summary is 0.484, this shows that the contribution of X1, X2 and Y to Z is 48.4% while the remaining 51.6% is the contribution of other variables not included in the study. Meanwhile, the value of e² can be found with the formula $e1 = \sqrt{1-0.484} = 0.718$. Thus the path diagram for the Structure II model is obtained as follows:

Hypothesis Testing

- 1) There is an influence of innovation (X1) on Knowledge Management (Z). From the results of the path analysis test above, it was obtained a value of 0.341 so it could be concluded that there was a direct effect of X1 on Z.
- 2) There is an influence of entrepreneurial orientation (X2) on knowledge management (Z). From the results of the path analysis test above, it was obtained a value of 0.252, so it can be concluded that there is a direct effect of X2 on Z.
- 3) There is an influence of innovation (X1) on business performance (Y). From the results of the path analysis test above, it was obtained a value of 0.049, so it can be concluded that there was a direct effect of X1 on Y.
- 4) There is an influence of entrepreneurial orientation (X2) on business performance (Y). From the results of the path analysis above, the value is 0.038, so it can be concluded that there is a direct effect of X2 on Y.
- 5) There is an influence of knowledge management (Z) on business performance (Y). From the results of the path analysis test above, it was obtained a value of 0.512, so it could be concluded that there was a direct effect of Z on Y.
- 6) Analysis of the effect of X1 through Z on Y: it is known that the direct effect of X1 on Y is 0.049. While the indirect effect of X1 through Z on Y is the multiplication of the beta value of X1 to Z and the beta value of Z to Y, namely: $0.341 \times 0.059 = 0.020$. Then the total effect given by X1 to Z is the direct effect plus the indirect effect, namely: $0.049 + 0.020 = 0.069$. Based on the results of the above calculations, it is known that the value of the direct effect is 0.049 and the indirect effect is 0.020, which means that the value of the indirect effect is smaller than the value of the direct effect. These results indicate that indirectly X1 through Z does not have a significant effect on Y.

7) Analysis of the effect of X2 through Z on Y: it is known that the direct effect of X2 on Y is 0.038. While the indirect effect of X2 through Z on Y is the multiplication of the beta value of X2 to Z and the beta value of Z to Y, namely: $0.252 \times 0.059 = 0.0148$. Then the total effect given by X2 to Y is the direct effect plus the indirect effect, namely: $0.038 + 0.015 = 0.040$. Based on the results of the above calculations, it is known that the value of the direct effect is 0.038 and the indirect effect is 0.015, which means that the value of the indirect effect is smaller than the value of the direct effect. These results indicate that indirectly X2 through Z does not have a significant effect on Y.

From the series of results above, it can be concluded that the hypothesis which reads "There is an Influence of Innovation and Entrepreneurial Orientation on Business Performance through Knowledge Management in West Java MSMEs is unacceptable."

Simultaneous Analysis

The hypothesis proposed is to determine the effect of the innovation variable (X1), entrepreneurial orientation (X2), knowledge management (Z) together on business performance (Y). To test the truth of the hypothesis, the F test and t-test were calculated. The first step was carried out by the F test, to prove the hypothesis with the following provisions: If the value of F count > F table, then Ho is rejected and Ha is accepted.

F Test Results

From the results of computer processing based on the calculation of SPSS version 16.0, the calculated F coefficient value is as follows:

Table 5. Value of F-count and F-table Hypothesis of the Four Variables

Equation	F value count	F-table value	Sig.
Innovation (X1), Entrepreneurial Orientation (X2) and Knowledge Management (Z) on Business Performance (Y)	12,797	2,65	0,000

Source: Processed Data for 2019

From the table above, it is known that the F-count value is 12.797. While the critical value of the value of F-table with the numerator of freedom 3 and the denominator 96 at alpha (0.05) is 2.65. Thus $F\text{-count} > F\text{-table}$, so it is clear that Ho is rejected and Ha is accepted. This shows that innovation (X1), entrepreneurial orientation (X2), knowledge management (Z) together on business performance (Y).

T-test

Hypothesis testing with a t-test is used to determine the individual influence of innovation (X1), entrepreneurial orientation (X2), knowledge management (Z) on business performance (Y). From the results of research data processing, the following results were obtained:

Table 6. Value of F-count and F-table Hypothesis of the Four Variables

Equation	F value count	F-table value	Sig.
InInnovation (X1) on Business Performance (Y)	3,193	1,960	0,000
Entrepreneurial Orientation (X2) on Business Performance (Y)	2,101	1,960	0,000
Knowledge Management (Z) on Business Performance (Y)	6,571	1,960	0,000

Source: Processed Data for 2019

Based on the table above, the t-count for the Innovation variable (X1) is 3.193, the t-count for the Entrepreneurial Orientation (X2) variable is 2.101 and the t-count for the Knowledge Management variable (Z) is 6.571, while the t-table at alpha (0.05) is 1.960. Thus $t\text{-count} > t\text{-table}$, so it is clear that H_0 is rejected and H_a is accepted. This shows that innovation, entrepreneurial orientation and knowledge management partially have a significant and positive effect on business performance.

V. Discussion

1. The influence of The Innovation Variable on Knowledge Management

From the results of the path analysis shows that the innovation variable affects knowledge management. From the results of the path analysis test as discussed in the previous chapter, the significant value of the innovation variable is 0.341, so it can be concluded that there is a direct influence of innovation on knowledge management.

The results of this study are in line with the opinion of (Yuan et al., 1996; Huang, 1999; and Schuler and Jackson, 1987) which states "the consequences of companies implementing innovation strategies produce feelings of control and high personal morale and greater commitment to self. Itself and the profession, not just the organizations that employ it. This means the organization and employees will get additional benefits from the successful implementation of the innovation strategy.

2. The Influence of Entrepreneurial Orientation on Knowledge Management.

From the results of the path analysis test as discussed above, the significant value of the Entrepreneurial Orientation Variable is 0.252, so it can be concluded that there is a direct influence of Entrepreneurial Orientation on Knowledge Management. This is in line with the opinion of Ginsberg in Isa (2011: 22) which states "Entrepreneurial orientation is also the tendency of individuals to exercise competitive advantage, be proactive and willing to take risks to start or manage a business".

3. The Influence of Innovation on Business Performance.

From the results of the path analysis test as discussed above, the significant value of the Innovation Variable is 0.049, so it can be concluded that there is a direct influence of the Innovation Variable on Business Performance.

This is in line with the opinion (Wiklund, 1999: 11) which states that "a high entrepreneurial orientation is closely related to the main driver of profit so that an entrepreneur has the opportunity to take advantage and the emergence of these opportunities, which in turn has a positive effect on business performance".

4. The Influence of Entrepreneurial Orientation on Business Performance.

From the results of the path analysis test above, the significant value of Entrepreneurial Orientation Variable is 0.252, so it can be concluded that there is a direct influence of Entrepreneurial Orientation on Business Performance. This result is following the opinion expressed by Covin and Slevin (1991: 89); Smart and Conant (1994: 65); Wiklund (1999: 12), state that the higher entrepreneurial orientation can increase the company's ability to market its products towards better business performance. Therefore, companies that are increasingly innovative, proactive, and dare to take risks tend to be able to perform better in business. Apart from entrepreneurial orientation, that can influence strategy.

5. The Effect of Knowledge Management on Business Performance

From the results of the path analysis test above, the significant value of Knowledge Management Variable is 0.059, so it can be concluded that there is a direct influence of Knowledge Management on Business Performance. This result is in line with the opinion of Scarborough, S & Preston (1999) in Nasimi et.al., (2013) which states that "knowledge management is a process or activity by creating, acquiring, capturing, sharing and using knowledge, wherever it exists. , to improve learning and performance in organizations "

6. The Influence of Innovation on Business Performance through Knowledge Management.

The direct effect given by the innovation variable on knowledge management is 0.049, while the indirect effect of innovation through knowledge management on business performance is the multiplication of the innovation beta value against z with the z beta value against y, namely: $0.341 \times 0.059 = 0.020$. Then the total effect given by X1 to Y is the direct effect plus the indirect effect, namely: $0.049 + 0.020 = 0.069$. Based on the results of the above calculations, it is known that the direct effect value is 0.049 and the indirect effect is 0.020, which means that the value of the indirect effect is smaller than the value of the direct effect.

These results indicate that indirectly innovation through knowledge management does not have a significant effect on business performance. This is in line with Rosenfeld's opinion in Sutarno (2012: 132) which states that "innovation is the transformation of knowledge into new products, processes and services, the act of using something new. Meanwhile, according to Partners in the book and on the same page, that innovation is the successful exploitation of a new idea or in other words the mobilization of knowledge, technological skills and experience to create new products, processes, and services. the direct effect is 0.038 and the indirect effect is 0.015, which means that the value of the indirect effect is smaller than the value of the direct effect. These results indicate that indirectly X2 through Z does not have a significant effect on Y.

7. The Influence of Entrepreneurial Orientation on Business Performance through Knowledge Management.

The direct effect of entrepreneurial orientation on business performance is 0.038. While the indirect effect of entrepreneurial orientation through knowledge management on knowledge management is the multiplication of the beta value X2 against Z with the beta value of Z on Y, namely: $0.252 \times 0.059 = 0.0148$. Then the total effect given by X2 to Y is the direct effect plus the indirect effect, namely: $0.252 + 0.020 = 0.272$

Based on the results of the above calculations, it is known that the direct effect value is 0.038 and the indirect effect is 0.020, which means that the value of the indirect effect is smaller than the value of the direct effect. These results indicate that indirectly Entrepreneurial Orientation through Knowledge Management does not have a significant effect (E-learning) on Business Performance. These results are in line with the findings of Culhane (2003: 33) who conducted research, showing that entrepreneurial spirit does not partially determine company performance but through the interaction of strategic processes and changes in economic conditions in each country, entrepreneurial spirit has a significant effect on company performance.

VI. Conclusions and Suggestion

Conclusion

- 1) There is an influence of innovation (X1) on knowledge management (Z). From the results of the path analysis test above, it is concluded that there is a direct effect of innovation on Knowledge Management.
- 2) There is an influence of entrepreneurial orientation (X2) on knowledge management (Z). From the results of the path analysis test, it can be concluded that there is a direct influence of entrepreneurial orientation on Knowledge Management.
- 3) There is an influence of innovation (X1) on business performance (Y). From the results of the path analysis test above, it can be concluded that there is a direct effect of innovation on business performance.
- 4) There is an influence of entrepreneurial orientation (X2) on business performance (Y). From the results of the path analysis test, it can be concluded that there is a direct effect of entrepreneurial orientation on business performance.
- 5) There is an influence of knowledge management (Z) on business performance (Y). From the results of the path analysis test, it can be concluded that there is a direct effect of knowledge management on business performance.
- 6) Based on the results of the above calculations, it is known that the value of the direct effect of innovation (X1) on performance (Y) is 0.049 and the indirect effect is 0.020, which means that the value of the indirect

effect is smaller than the value of the direct effect, this result shows that indirectly Innovation through knowledge management does not have a significant effect on business performance.

- 7) Based on the results of the above calculations, it is known that the value of the direct effect of innovation (X2) is 0.252 and the indirect effect is 0.019, which means that the value of the indirect effect is greater than the value of the direct effect, these results indicate that the entrepreneurial orientation indirectly through knowledge management does not have a significant effect on business performance.
- 8) It is known that the F-count value is 12,797. While the critical value of the value of F-table with the numerator of freedom 3 and the denominator 96 at alpha (0.05) is 2.65. Thus $F_{count} > F_{table}$, so it is clear that H_0 is rejected and H_a is accepted. This shows that innovation (X1), entrepreneurial orientation (X2), knowledge management (Z) together on business performance (Y).
- 9) Obtained the t value of the Innovation variable (X1) of 3.193, the t value of the entrepreneurial orientation variable (X2) of 2.101 and the t value of the Knowledge Management variable (Z) of 6.571, while the t table of alpha (0.05) of 1.960. Thus $t_{count} > t_{table}$, so it is clear that H_0 is rejected and H_a is accepted. This shows that innovation, entrepreneurial orientation, and knowledge management partially have a significant and positive effect on business performance.

Suggestion

Based on the results of research on the effect of innovation and entrepreneurial orientation on business performance through knowledge management, the following suggestions can be made:

It should be considered that the results of this research can be further developed, especially in the development of management science related to the influence of innovation and entrepreneurial orientation on business performance through knowledge management.

For companies / SMEs, there is a direct influence of innovation on knowledge management. Companies must be able to increase innovation by improving knowledge management by making new products, adding new variations of options, making products with new techniques, implementing shuttle services to customers. There is a direct influence of entrepreneurial orientation on knowledge management. The company should research how the entrepreneurial orientation of company members is such as the attitude of employees in the sales department after implementing management control systems, with the help of the personnel department and using a questionnaire for example. If this has been done, it is easy to know whether the change in the management control system is effective or not. Directly there is the influence of innovation on business performance so that employees are required to further increase their creativity and innovation to optimize performance. Because even though it has been supported by a good work environment, if the motivation of each employee is lacking in creativity and innovation, it will still affect the results of their products. There is a direct influence of entrepreneurial orientation on business performance. Along with the development of the company, the company's needs will continue to change. The accuracy in executing consumer orders shows the good performance of SMEs.

Companies must always have the vision to continue to grow and have high work motivation. There is a direct influence of knowledge management on business performance. Along with the development of the company, the company's needs will continue to change, in the development of further systems, this knowledge management system can be added with other facilities that can meet the needs of the company. Indirectly, innovation through knowledge management has a significant effect on business performance. Companies should not be closed to research and studies, especially regarding the implementation of knowledge management. Companies should no longer consider the implementation of knowledge management as a rule, but as a necessity for the company's sustainability and clarity of duties at the company, so that management can take more consideration in making decisions to increase the company's profitability and performance. Indirectly, entrepreneurial orientation through knowledge management has a significant effect on business performance. Companies must continue to increase net income and develop facilities.

The company owner must also maintain good relations with consumers and suppliers of raw materials, including maintaining relationships with the government and other business communities. Business

development strategies and wise investment and use of funds can also improve business performance. With the current millennial era 4.0, MSMEs can adapt to using technology to improve performance and break new ground with technology in it, directly on business performance to examine variables that have not been examined in this study.

It is necessary to make a new reference in future research by using one or more of the methods used in the 10 models (hyper disruptive business model). As is known in the millennial era, it has now entered the 4.0 era wherein business processes have started to use technology transfer in their business to support their business performance, such as in business processes, customers are currently doing everything at home without having to go to markets, supermalls or places, other shopping, but already using the program application for it all.

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