

Innovation and Organizational Learning at MSMEs, What Impacts on Financial Performance

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Abstract: This article aims to empirically examine the impact of innovation and organizational learning conducted by SMEs on their financial performance. This research is a survey research using a questionnaire. Respondents in this study are owners of MSMEs in Solo, Semarang, and Yogyakarta. Sampling technique using random sampling, 77 data were collected. Data analysis techniques using regression. Regression test results show that innovation and organizational learning had a positive impact on MSME performance.

1 INTRODUCTION

Globalization causes increasingly fierce business competition. Micro, Small, and Medium Enterprises (MSMEs), as the majority of businesses in Indonesia, are required to have a competitive advantage in order to win in business competition. Competitive advantage is the company's ability to produce beyond the limits of ability because it is able to create more value from its resources (Jones, 2013). Innovation is often cited as a key factor that encourages increased competitive advantage. In order to improve competitiveness, SMEs are very important in the face of being skilled at innovating (Parida et al., 2012). SMEs create innovation by doing something, ways, methods, or new processes and producing new products. This is important to do in the face of a changing market (Nelly and Hii, 1998).

Through innovation, MSMEs can face turbulence from the external environment, because innovation can lead to long-term success, especially in dynamic markets. In addition, SMEs that innovate can respond to challenges more quickly through new products so they can capture market opportunities better than competitors (Jimenez and Valle, 2011). Empirical studies find that the level of innovation of MSMEs is lower than that of large companies. MSMEs have limited resources making it difficult to carry out innovation activities themselves. Therefore it is important to collaborate with various parties such as other companies or universities to develop innovation (OECD, 2018).

In developing countries like Indonesia, innovation is often seen as a cost rather than a long-term investment. This is because the technology is still imported from developed countries. LIPI research (2010) shows that innovation in Indonesia is still low. This can be seen from the low attention of research and development conducted at both universities and companies.

Several previous studies have also tested many of these relationships. Research conducted by (Bierly and Chakrabarti, 1996; Brown and Eisenhard, 1995; Damanpour, 1991; Damanpour and Evan, 1984; Damanpour et al., 1989; Roberts, 1999; Thornhill, 2006) provides similar results that prove a positive influence between innovation and performance. Different results are shown by Simpson et al. (2006), who concluded that innovation is a high-cost activity and also very risky, so the results on performance can be positive and can be negative. Wright et al. (2005) also found that innovation does not affect the performance of MSMEs that are environmentally friendly, but has a positive effect on performance in hostile environments. Some of these studies show inconclusive results, so it is important to examine the effect of innovation on MSME performance.

The increasingly fierce business competition also requires MSMEs to operate more efficiently and effectively. Organizational learning is a vital process for MSMEs to be able to manage growth through better development of new core competencies. Even the speed of organizational learning is one source of the company's competitive advantage in the future (Ajay and Moreno, 2015). Companies that carry out

organizational learning have the ability to integrate people and structures to move the organization towards learning and sustainable change (Marsick and Watkins, 2003). Through organizational learning, companies can develop new knowledge that comes from each employee's personal experience. This will affect the behavior of human resources, which can ultimately increase the company's capabilities (Ajay and Moreno, 2015).

Several studies have found that organizational learning influences company performance. The results of the research Bontis et al. (2002) provide empirical evidence that companies that are oriented towards organizational learning will show a positive influence on company performance. Darroch and McNaughton (2003) show that organizational learning processes produce better performance. Research conducted by Jimenez and Valle (2011) also provides empirical evidence that organizational learning influences company performance.

Previous studies were mostly done at large companies, and there was a research gap on organizational learning at MSMEs. Therefore this research is expected to fill the research gap. The purpose of this study is to provide empirical evidence of the effect of innovation and organizational learning on the performance of MSMEs in the Solo and Yogyakarta regions.

Previous research has examined the effect of innovation on performance. Research conducted by (Bierly and Chakrabarti, 1996; Brown and Eisenhard, 1995; Damanpour, 1991; Damanpour and Evan, 1984; Damanpour et al., 1989; Roberts, 1999; Thornhill, 2006) provides evidence that innovation has a positive effect on performance company. Different results are shown by Simpson et al. (2006), who concluded that innovation is an expensive and risky activity, so the results on performance can be positive and can be negative. Wright et al. (2005) also found that innovation does not affect the performance of MSMEs that are environmentally friendly, but has a positive effect on performance in hostile environments. Some of these studies show inconclusive results, so it is important to examine the effect of innovation on MSME performance.

The increasingly fierce business competition also requires MSMEs to operate more efficiently and effectively. Organizational learning is a vital process for MSMEs to be able to manage growth through better development of new core competencies. Even the speed of organizational learning can be the only source of competitive advantage in the future (Ajay and Moreno, 2015). Companies that carry out organizational learning have the ability to integrate

people and structures to move the organization towards learning and sustainable change (Marsick and Watkins, 2003). Through organizational learning, companies can develop new knowledge that comes from each employee's personal experience. This has the potential to influence behavior and enhance company capability (Ajay and Moreno, 2015).

Several studies have found that organizational learning influences company performance. The results of the research Bontis et al. (2002) concluded that learning orientation has a positive effect on company performance. Darroch and McNaughton (2003) show that organizational learning processes produce better performance. Research conducted by Jimenez and Valle (2011) also provides empirical evidence that organizational learning influences company performance.

Previous studies were mostly done at large companies, and there was a research gap on organizational learning at MSMEs. Therefore this research is expected to fill the research gap. Thus the goal of this study is to examine the effect of innovation and organizational learning on the financial performance of MSMEs in Surakarta and Yogyakarta.

2 LITERATURE REVIEW

2.1 RBV Theory

Resource-Based View theory assumes that valuable, rare, or unique resources that are difficult to imitate are the company's main assets in order to increase competitive advantage (Barney, 1991). When the environment changes rapidly, and competition is getting tougher, companies rely heavily on available resources. Therefore it is necessary to renew the skills and abilities of resources permanently to maintain competitive advantage (Vijande et al., 2012). Thus, the company's ability is needed to be able to integrate, build, and reconstruct both internal and external competencies of the company. It is this dynamic capability that is expected to change their operational routines and reconstruct resources and skills to be able to adapt to change (Zollo and Winter, 2002). In order to obtain valuable, rare, and unique resources that are difficult to replicate, an organizational learning process is needed. Companies that implement organizational learning can help increase knowledge and a deeper understanding of the environment so that it can provide customer satisfaction through its products and services (Vijande et al., 2012). Associated with innovation, it is expected that the company can optimize the ability

of its resources to implement new processes and create new products so as to increase the company's competitive advantage.

2.2 Innovation and Performance

Innovation is defined as the process of using organizational resources and competencies to develop new products or find better ways to make new products so they can increase their effectiveness (Jones, 2013). Whereas Kanter (1983) provides a definition of innovation as the implementation of new ideas both in the process, products, and services. The existence of innovation can help companies deal with turbulence in the external environment so as to increase long-term business success. Companies that use all their resources to innovate will be faster in responding to challenges and can explore new products and market opportunities (Jimenez and Valle, 2011).

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countries. Thus this research will propose the following hypothesis:

H1: Innovation has a positive effect on the performance of MSMEs

2.3 Organizational Learning and Performance

Organizational learning is a process in which companies develop new knowledge and new insights derived from the experience of employees in the organization. This new thing will potentially influence behavior that will ultimately support the company's success (Fiol and Lyles, 1985; Huber, 1991; Slater and Narver, 1995). Recent research defines organizational learning as a process that has four stages including; 1) obtain information; 2) knowledge dissemination; 3) shared interpretation and 4) organizing memory (Kandemir & Hult, 2005; Sinkula, 1994; Slater & Narver, 1995; Tippins & Sohi, 2003). Organizational learning is believed to strengthen companies in recognizing opportunities and always pursuing novelty so as to create sustainable harmony with the environment (Vijande et al., 2012).

Previous studies studying the relationship between organizational learning and performance found that there was a positive relationship between the two. Bakel and Sinkula (1999); Keskin (2006); Bontis et al. (2002) provide empirical evidence that companies that are oriented towards organizational learning will show a positive influence on company performance. Darroch and McNaughton's (2003) research results show that the overall organizational learning process results in better performance. Furthermore, Jimenez and Valle's (2012) research also found similar results. Thus the hypothesis to be proposed is:

H2: Organizational learning has a positive effect on MSME performance

2.4 Conceptual Framework

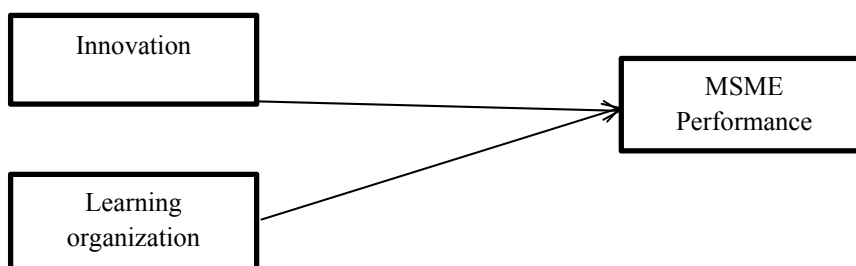


Figure 1. Conceptual Framework

3 METHOD

3.1 Research Respondents and Data Analysis Techniques

This research is quantitative research. Respondents in this study are the owners of MSMEs in Yogyakarta and Surakarta. Data collection techniques using a questionnaire. Sampling technique using random sampling, 77 data were collected. Data analysis techniques used multiple regression using SPSS software.

3.2 Operational Definitions and Measurement of Variables

3.2.1 UMKM Performance

Company performance is measured using perception or self-reported measurement. MSME's financial performance is measured by its effectiveness (sales growth, range of product), while efficiency is measured by (profitability and productivity) (Gronum et al., 2012). The reliability and validity testing of performance data obtained Cronbach alpha results of 0.764, and the Pearson correlation results were significant.

3.2.2 Innovation

The innovation referred to in this study, refers to the definition of Kanter (1983), namely the generation,

acceptance, and implementation of new ideas, processes, products, or services. The innovation instrument was adopted from the research of Chenhall et al. (2011) with reference to the indicators of new products launched, product modifications made, how often companies entered new markets, and how many times companies designed new products. Testing the reliability and validity of the innovation data obtained Cronbach alpha results of 0.811, and the results of the Pearson correlation are significant.

3.2.3 Organizational Learning

The definition of organizational learning referred to in this study, refers to the definition of Huber (1991), which is the process of obtaining information, disseminating knowledge, interpreting shared and organizational memory. The instruments compiled adopted from the research conducted by López-Sánchez et al. (2011). Testing the reliability and validity of organizational learning data obtained Cronbach alpha results of 0.827 and significant Pearson correlation results.

4 RESULTS

Before testing hypotheses, classical assumptions are tested first. Based on tests of normality, heteroscedasticity, and multicollinearity using SPSS, the model meets the requirements of BLUE (Best Linear Unlimited Estimator).

Table 1. Regression data analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t
	B	Std. Error	Beta	
(Constant)	6.225	1.087		5.727***
Inovasi	.403	.083	.437	4.841***
Learn org	.037	.008	.408	4.521***
R	.718a			
R2	.516			
Adjusted R Square	.502			
F statistic	39.372			

The equation model in this study is: $Y_1 = B_0 + B_1X_1 + B_2 X_2 + e$. Based on the results of the data analysis shown in table 1, B0B values (constants) are 6,225, and regression coefficients for X1 are .403, X2 .037. So that this equation model becomes $Y_1 = 6.225$

$+ 0.403 X_1 + 0.037 X_2 + e$. The results of testing hypothesis 1, which states that Innovation has a positive effect on performance, can be accepted. Neither does the results of testing the two

hypotheses, which say there is a positive effect of organizational learning on accepted performance.

5 CONCLUSIONS

This study aims to empirically examine the impact of innovation and organizational learning on MSME financial performance. Through a survey conducted on MSME owners in Surakarta and Yogyakarta, a sample of 77 respondents was obtained. The results of the data analysis show that innovation and organizational learning on performance. This has practical implications for SMEs to pay more attention to organizational learning and innovation to improve MSME performance.

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