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Boosting Business Performance in East Java Msmes: Unleashing Network Capability Through Knowledge Creation

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ARTICLE INFO	ABSTRACT
	This study addresses the challenges faced by MSMEs in the food and beverage sector in Indonesia, especially in East Java Province, which have undergone significant environmental shifts, including the rapid transformation of the digital era and the pressing need to enhance performance in the post-pandemic recovery phase. MSMEs play a crucial role in sustaining regional economic growth, making their adaptability and resilience essential. To thrive in this dynamic environment, leveraging network capabilities becomes a key strategy, particularly by fostering knowledge creation to improve business performance. This study surveyed 228 MSME owners in East Java's food and beverage sector. Data were collected through structured questionnaires and analyzed using the Partial Least Squares (PLS) method. The findings demonstrate that network capabilities positively influence business performance, both directly and indirectly, through the mediating role of knowledge creation. These results highlight the importance of strategic collaboration and knowledge management as essential tools for MSME sustainability and growth in dynamic market conditions. **Keywords:** Business Performance, Knowledge Creation, Network capability.

INTRODUCTION

MSMEs (Micro, Small, and Medium Enterprises) in Indonesia contributed more than fifty percent of the total Indonesia's GDP, which are the backbone of the economy, covering almost total businesses in this country (Depkop, 2017). Despite dominating the number of businesses, the contribution of MSMEs to the economy is still less significant than large businesses which are only one percent but contribute up to forty percent of the GDP. This condition shows the need for a more effective strategy to increase the role of MSMEs in national economic growth, especially through strengthening innovation and adaptability (Thaha, 2020). However, a pandemic, that lasted between 2019 and 2022, has brought major challenges with a decline in income of more than fifty up to sixty percent in the trade, tourism, and restaurant sectors due to social restriction policies (Thaha, 2020). Kearney's study shows a significant shift in consumer preferences post-pandemic, where half of restaurant customers still choose to eat out (Databoks, 2020). This change forces business actors to adapt, especially with digitalization and business process innovation to maintain competitiveness. In previous literature, the Resource-Based View (RBV) theory emphasizes the importance of strategic resource management to achieve sustainable competitive advantage (Barney, 1991; Craig & Robert, 1997; Julianthry et al., 2022). However, various studies in the last five years have shown inconsistent results regarding the application of RBV in the context of MSMEs. Several studies have found that network capability can improve business performance through knowledge creation (Gulati, 1999). However, other studies state that the effect of network capability on business performance is not always significant, especially in MSMEs that have limited resources or operate in a very dynamic environment (Chong, 2008; Julyanthry et al., 2022). This inconsistency indicates a research gap that needs to be further investigated to understand the factors that moderate or mediate this relationship.

The research model developed in this study integrates internal and external aspects based on RBV to address the challenges of an increasingly competitive business environment (Sumartik et al., 2023). The main focus is to explore the relationship between networking capabilities and knowledge creation as a basis for competitive strategy. Network capabilities enable companies to access external resources that they do not have, through the

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exploitation and mobilization of complementary networks (Gulati, 1999). Theory of network also supports the view that access to these resources can increase flexibility and innovation, which in turn drives optimal business performance (Luo, 1999).

This study seeks to contribute to the literature by explaining the mediating mechanisms of knowledge creation in the relationship between networking capabilities and business performance. This is important, considering that many previous studies have not fully explored this relationship empirically, especially in the context of MSMEs in the cafe and restaurant sector in Indonesia. Thus, this study not only fills the gap in the literature, but also provides strategic recommendations for MSME actors to utilize networking capabilities more effectively to face challenges in the digitalization era.

LITERATURE REVIEW

Business Performance

Business performance is one of the main aspects used to evaluate the success of an organization in achieving its strategic goals. According to recent research, business performance can be defined as the achievement of results measured through financial and non-financial indicators that reflect the company's ability to create value for its stakeholders (Kaplan & Norton, 2015; Neely, 2021). Financial indicators, such as sales, net income, and revenue growth, are used to describe the company's direct financial performance. Meanwhile, non-financial indicators include customer satisfaction, customer loyalty, employee turnover, and productivity, which provide an overview of the company's operational efficiency and relationships with its stakeholders (LoongLee, 2019; Cardoni et al., 2020). In measuring business performance, various approaches are used to obtain a more comprehensive picture (Sumartik et al., 2023).

The objective approach measures the company's success in achieving predetermined targets. The resource system approach assesses the organization's ability to obtain and manage the necessary resources efficiently. The stakeholder approach evaluates the organization's ability to meet the needs and expectations of external stakeholders, such as customers, suppliers, and business partners (Nyamrunda & Freeman, 2021). Finally, the competitive value approach focuses on the organization's ability to create sustainable competitive advantage (Porter, 2021). In the context of MSMEs, performance is often measured using three main indicators, namely profitability, productivity, and market share, which represent business efficiency, competitiveness, and sustainability (Tambunan, 2021). In addition, sales growth, workforce growth, and market share growth are also identified as important indicators that are often used in recent studies (Barney et al., 2021; Hitt et al., 2021). This study adopts the profitability, productivity, and market share approaches to assess business performance, in order to provide a holistic perspective on MSME achievements in facing the dynamics of a competitive business environment.

The Relationship between Network Capability and Business Performance

Network capability is a company's strategic ability to access and utilize external resources through networks, and build mutually beneficial collaborations (Zheng et al., 2020). The main dimensions of network capability include coordination, relational skills, partner knowledge, and internal communication (Hitt et al., 2023). Coordination refers to the ability to organize and manage activities between partners efficiently to achieve common goals. Relational skills include the ability to build and maintain effective relationships with business partners. Partner knowledge involves understanding the resources, expertise, and capabilities of partners to maximize synergies. Internal communication refers to the process of effectively conveying information within the organization to support external collaborations (Zhu & Gao, 2021). In the context of business in developing countries, companies with good network capabilities are better able to overcome limitations such as minimal resources, inadequate infrastructure, and limited government support, thereby significantly improving their business performance. Recent studies have shown that network capabilities contribute positively to business performance by increasing the company's access to market opportunities, strategic resources, and innovation (Park et al., 2019). For example, good coordination allows companies to synchronize operational processes with partners, thereby increasing efficiency. Relational skills, on the other hand, help in strengthening trust and commitment between partners, which impacts the stability of long-term relationships. Partner knowledge allows companies to identify the strategic value that can be gained from collaboration. Strong internal communication supports rapid information dissemination and more effective decision-making (Chen et al., 2022). The study also highlights that companies in developing countries can leverage network capabilities to address the challenges of a dynamic business environment and strengthen their competitive advantage.

H1: There is an influence of Network Capability on Business Performance

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The Relationship between Knowledge Creation and Business Performance

A key tactic in generating new knowledge is combining internal firm knowledge with that of network partners. This is particularly important for small enterprises dealing with technological complexity and fierce rivalry in the market. Knowledge management also improves organizations' performance (Rofiaty, 2019). Nonaka and Takeuchi said that the four primary components of this knowledge-creation process are internalization, externalization, combination, and socialization (Hoe, 2006). Internalization is the process of turning explicit knowledge into tacit knowledge through learning; externalization is the process of articulating tacit knowledge into explicit form; combination is the integration of different explicit knowledge; and socialization is the sharing of tacit experiences among individuals, that emphasized the importance of this cycle in organizational innovation (Hoe, 2006).

Effective knowledge creation supports the emergence of new ideas and innovation in small businesses, enabling them to exploit market opportunities and compete aggressively to improve business performance. A study by Lee et al. (2016) showed that firms with high knowledge creation capabilities tend to be more innovative and have better performance. Similarly, research by Wang and Zhou (2021) found that the knowledge creation process contributes significantly to a firm's competitive advantage. Therefore, small businesses should focus on developing knowledge creation capabilities to stay competitive in a dynamic market.

H2: There is an influence of Knowledge Creation on Business Performance

The Relationship between Network Capability and Knowledge Creation

A company's ability to build and use inter-organizational relationships to access resources owned by other entities is referred to as network capability (Garousi Mokhtarzadeh et al., 2020). Given that networks are vital channels for resource sharing and teamwork, this capacity is critical to value generation (Ziggers & Henseler, 2009). Building these networks involves a lot of informal relationships with other organizations, which help resources and information flow and can result in creative outcomes (Ritter, 2021). As a result, companies with strong networking skills are in a better position to spur innovation and produce new information (Ritala et al., 2009).

According to research, companies with high networking capabilities can use inter-organizational knowledge systems to successfully promote co-learning and develop networked innovations (Chiu, 2009). By integrating and rearranging internal and external competences, these processes help businesses stay competitive and adjust to quickly changing surroundings (Garousi Mokhtarzadeh et al., 2020). Furthermore, it has been demonstrated that building inter-firm network capabilities greatly improves supplier and buyer performance, highlighting the significance of cooperative partnerships in attaining better results (Ziggers & Henseler, 2009). As a result, companies looking to improve their performance in knowledge creation and innovation must establish and maintain strong networks (Ritter, 2021).

To sum up, network capability is essential for promoting knowledge generation in businesses. Businesses can access a variety of resources, knowledge, and information that spur innovation and competitive advantage by building and utilizing strong inter-organizational ties (Garousi Mokhtarzadeh et al., 2020; Ritala et al., 2009). Both formal and informal networks are vital venues for collaboration, information sharing, and co-learning that help businesses become more flexible in ever-changing business settings (Ritter, 2021; Chiu, 2009). Additionally, companies can enhance their internal knowledge generation processes, overall effectiveness, and sustainability over time by investing in networking capabilities (Ziggers & Henseler, 2009). Establishing robust network connections ought to be a top concern for companies looking to boost their capacity for innovation and keep a competitive advantage.

H3: There is an influence of Network Capability on Knowledge Creation

The Influence of Network Capability on Business Performance Through Knowledge Creation

Recent academic research has focused a lot of attention on how network capabilities affect corporate performance through knowledge production. Network capability is becoming more widely acknowledged as a crucial component that improves a company's capacity for innovation and efficient operation in a competitive environment. In order to clarify the connection between network capability, knowledge generation, and company performance, this literature review summarizes the main conclusions from a number of studies. The ability of businesses to build and sustain relationships with outside partners, which can have a big impact on their success, is referred to as network capability. Permatasari and Praswati (2024), for example, point out that network capabilities mediate the relationship between firm performance and entrepreneurial orientation, implying that successful business relationships cultivated through network capabilities can improve performance outcomes. The idea that network capabilities are crucial for utilizing external relationships for

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performance improvement is further supported by Abbas et al. (2019), who contend that entrepreneurial business networks give firms vital dynamic capabilities that support sustainable performance.

Furthermore, a number of studies highlight how network capabilities aids in the development of knowledge. The three dimensions of network capability—network vision, construction, and management—are categorized by Yuan et.al. (2016), who also shows how these dimensions enhance innovation performance by generating knowledge. This supports the findings of Johan et al. (2022), who highlight the value of knowledge management in promoting innovation by putting forth a framework that connects network capabilities to innovation strategies. Udayana et al. (2021) further reinforce the relationship between network capability and knowledge production by showing how relational capabilities allow businesses to create networks that improve product innovation and, in turn, business performance. The importance of network capability goes beyond how it affects competitive advantage and innovation. According to Mulyana & Wasitowati (2021), collaborative networks have a major impact on competitive advantage and innovation capability, both of which enhance business success. Li et al. (2023) supports this association by claiming that companies with robust network capabilities may quickly spot innovation opportunities, improving their sustainability performance.

Additionally, according to Sarwar et al. (2021), improving network capabilities increases social capital, which is essential for creating an inventive atmosphere, in addition to creativity capability. In the context of knowledge exchange, network capabilities are just as important as innovation. Effective partnerships and network strategies can result in better marketing performance by allowing information sharing among organizations, according to research by Mustikaningsih et al. (2019). This is in line with the findings of Jeong et al. (2019), who point out that business networks are especially helpful for SMEs when they are first starting to internationalize. They also suggest that network capabilities are crucial for learning new things and improving performance in flexible settings. The research concludes that there is a strong correlation between company performance, knowledge generation, and network capability. Businesses are better positioned to innovate, strengthen their competitive edge, and eventually perform better when they make full use of their network capabilities. The significance of developing robust network capabilities as a strategic advantage for companies hoping to prosper in the complicated business environment of today is shown by this synthesis of findings.

H4: There is an influence of Network Capability on Business Performance with Knowledge Creation as a mediating variable

METHOD

This study was conducted from 2023 to 2024 in Indonesia, especially in East Java Province. The respondents of this study were 227 restaurants and cafes' owner or top management. This study had more than eighty five percent response rate, which was selected from the population of 800 restaurants and cafes. Those population are members of the East Java Province's Indonesian Cafe and Restaurant Entrepreneurs Association or Apkrindo. The cafes and restaurants in question fall under the small and medium business category if they have more than five employees, sales of at least IDR 300 million to a maximum of IDR 50 million in a single year, and business capital of between IDR 100 million and IDR 10 billion, excluding land and business buildings. This study uses Likert scales, where 1 represents strongly disagree and 5 represents strongly agree. This inquiry was examined using inner and outer models in SEM-PLS.

The independent variable used in this study is Network Capability, which has 16 indicators, such as partner strategy, coordinator appointment, partner building capacity, partner self-positioning, adaptability, constructive problem solving, understanding partner markets, understanding partner products/services, understanding partner strengths, understanding partner weaknesses, understanding potential, understanding competitor strategies, conducting analysis, holding regular meetings, understanding partner positions, communicating nationally, and knowing partner positions. Business performance is the study's dependent variable, and it is assessed using ten indicators, those are increasing profits, growing business capital, increasing business assets, maintaining product quality, meeting production targets, being punctual, creating new products and services, increasing staff productivity, increasing sales volume, and gaining a more expansive and varied market position. In this study, the mediating variable is knowledge generation. The nine indicators of knowledge creation include implementing interdepartmental cooperation; rotating employees across departments; providing a forum for opinion sharing; using mentors to transfer knowledge; adopting technology-based problem solving; embracing collaborative learning tools in collaboration; providing expert guidance; transferring data access via the web to the use of websites and databases; and implementing on-the-job training—learning by doing.

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RESULT AND DISCUSSION

This study involved small and medium business owners in the cafe and restaurant sector located in East Java Province, where forty two percent are in the provincial capital area, namely Surabaya, eleven percent in Sidoarjo, eighteen percent in Malang, nine percent in Batu, six percent in Mojokerto, six percent in Banyuwangi, eight percent in Kediri and Lamongan. More than fifty percent of the cafes and restaurants have capital between IDR100 million and IDR500 million, less than thirty percent have capital between IDR500 million and IDR2 billion, and eighteen percent have capital above IDR 2 billion. The sales turnover generated by forty seven percent in one year is IDR 300 million to IDR 500 million, thirty six percent have turnover between IDR 500 million and IDR 2 billion, seventeen percent have turnover above IDR 2 billion in one year. Most of the respondents, about more than fifty percent, stated that the business they manage has 5-25 employees, forty five percent of respondents have 26-50 employees, and less than five percent of respondents stated that the employees they have are more than 50 employees. The age of the business run by the majority of respondents, around seventy two percent, stated that their business has been running for 5 to 10 years, the rest, as many as twenty eight percent of businesses are more than 10 years old. Research with three variables, namely network capability as the independent variable, knowledge creation as the mediating variable, and business performance as the dependent variable, tested the influence between variables using Partial Least Square (PLS) using the SmartPLS program.

Table 1. Description of Research Variables

Variable	Number of Indicators	Mean	SD	Min	Max
Network Capability	16	4,214	0,698	2	5
Knowledge Creation	9	4,267	0,739	1	5
Business Performance	10	4,264	0,648	2	5

Source: Research Data Processed (2023)

This research with three variables, namely one independent variable, namely network capability. Furthermore, this study uses a mediating variable, namely knowledge creation and the dependent variable in this study is business performance. Network capability is measured using sixteen indicators, where the average score of the answers is 4.214, while for the mediation variable, namely knowledge creation, it is measured using nine indicators where the average score of the answers is 4.267, furthermore, the dependent variable, namely business performance, is measured using ten indicators with an average score of the answers is 4.264.

Table 2. Outer Model Test Results

Variable	Number of Indicators	Loading Factor	AVE	Composite Reliability
Network Capability	16	0,714 – 0,831	0,586	0,958
Knowledge Creation	9	0,720 – 0,835	0,639	0,941
Business Performance	10	0,714 – 0,782	0,552	0,925

Source: Research Data Processed (2023)

The next test is the convergent validity test, which is satisfied if the factor loading of each indicator on all variables is more than 0.70. Each variable's AVE value indicates the construct validity test findings; if the value is greater than 0.50, the variable is considered fulfilled. Additionally, the AVE root value is bigger than the correlation between variables, indicating that the discriminant validity test using the Fornell-Larcker test is satisfied. This study demonstrates that each variable's composite reliability value is more than 0.70, indicating that the construct reliability test is satisfied.
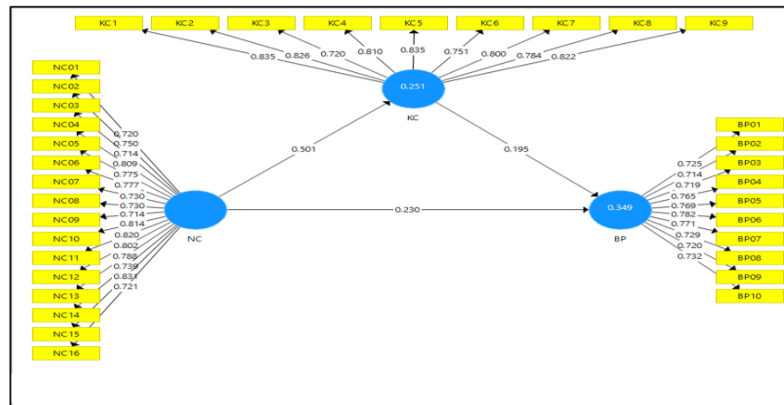
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Figure 1. Full Model of Path Diagram

Source: Research Data Processed (2023)

According to the path diagram in Figure 1, knowledge generation is made up of nine indications with loading factors ranging from 0.720 to 0.835, while network capability is made up of sixteen indicators with loading values between 0.714 and 0.831. Additionally, ten indicators with loading factors ranging from 0.714 to 0.782 are used to form business performance. According to the R-Square value's determination coefficient, network capability has more than twenty five percent impact on knowledge generation. Furthermore, knowledge generation and network competence account for the significant around thirty five percent influence on business performance. The study's analysis of the relationship between the variables reveals that network capabilities, knowledge development, and business performance all have a positive relationship.

Table 3. Hypothesis Testing Results

	Path Coef.	St.dev	T Stat	P	Description
NC -> BP	0,230	0,072	3,216	0,001	Sig.
KC -> BP	0,195	0,072	2,723	0,007	Sig.
NC -> KC	0,501	0,058	8,620	0,000	Sig.
NC -> KC -> BP	0,098	0,040	2,451	0,015	Sig.

Source: Research Data Processed (2023)

With a significance value (p) of less than 0.05, the direct relationship between network capability on business performance and also knowledge creation on business performance demonstrates positive and significant influence. This implies that the more network capability and knowledge creation a company engages in, the more significant the impact on improved business performance. With a significance value (p) of less than 0.05, the direct relationship between network capability and knowledge creation is shown to be significantly positive. This indicates that the more effectively network capability is implemented, the more positively knowledge creation will be influenced. A significance value (p) of less than 0.05 indicates a significant positive indirect influence between network capability and business performance with knowledge creation mediation. This means that improving network capability will have a significant impact on improving knowledge creation, which will in turn have a significant impact on improving business performance. Thus, there is a partial mediation between knowledge generation and the impact of network capabilities on corporate performance.

This study demonstrates that a company's network capacity directly affects its performance. This is consistent with the study's findings (Zacca et al., 2015), which indicate that network capabilities affect small business performance across several research contexts. Network capability, which includes flexibility, constructive problem resolution, regular meetings, and the ability to communicate nationally, will have an impact on improving business performance as business owners progressively maximize the network they have established with partners. In a very dynamic commercial climate where a company must be able to exist in its surroundings, networks are essential. East Java Cafe and restaurant owners that use their networks to boost their company's success deal with this in real life.

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This study demonstrates that a company's knowledge development directly affects its performance. In various research contexts, small business performance or an organizatition is impacted by knowledge generation (Zacca et al., 2015; Rofiaty, 2019). Inter-departmental cooperation, employee rotation, a forum for opinion sharing, the use of mentors for knowledge transfer, the adoption of technology-based problem solving and collaborative learning tools in collaboration, the provision of expert guidance, the transfer of data access via the web to the use of websites and databases, and on-the-job training learning by doing all contribute to the increasing amount of knowledge created in a business. In a highly dynamic corporate world, knowledge generation is essential to maintaining company performance, allowing an organization to compete and thrive. In order to thrive in this age of digital revolution, café and restaurant owners in East Java are, of course, also developing an entrepreneurial mindset. This has an indirect effect on how they build their business management.

This study demonstrates that knowledge development is directly impacted by a company's network capacity. A company's strong network capabilities are the reason for this knowledge production (Zacca & Sellen, 2011; Zacca et.al., 2015). By increasingly maximizing the network that has been established with partners, along with flexibility, constructive problem solving, regular meetings, and the ability to communicate nationally, business owners demonstrate their networking capabilities and have the potential to influence the creation of knowledge in their industry. This will assist businesses in navigating a highly dynamic business climate where they must be able to thrive in East Java's Cafe and restaurant industry.

This study proves that the network capacity owned by a business affects business performance through knowledge creation within the organization. The findings in this study are that the relationship between network capability and business performance is partially mediated by knowledge creation. Network capability has four dimensions including coordination, relational skills, partner knowledge, and internal communication that improve business performance (Walter et al., 2006). Network is one of the most important resources for knowledge creation in a business (Zacca & Sellen, 2011; Zacca et.al., 2015). This study supports the findings of previous studies, namely that network capability (NC) can measure the performance of small businesses through knowledge creation (Zacca et al., 2015). Cafe and Restaurant business managers in East Java Province showed that by having a qualified network capability and supported by knowledge creation in their organization, it will have an impact on their business performance which includes increasing profitability, being more productive, and being able to sustain in industrial competition.

CONCLUSION

This study demonstrates how network capabilities might impact the operational efficiency of MSMEs operating cafes and restaurants in the Province of East Java, Indonesia. This study discovered that knowledge production plays a part in how network capabilities affect corporate performance. Optimizing network capabilities will have an effect on improving business performance, particularly as the organization is creating knowledge to deal with environmental dynamics that result in digitalization.

This research finding implies that managing network capability within the same industry cluster is important because it will lead to partnerships and collaborations that support the achievement of better business performance. Additionally, it is anticipated that MSMEs in the East Javan cafe and restaurant industry will prioritize knowledge creation as an internal organizational effort to survive in industry competition.

The findings of this study cannot be applied to similar businesses of different sizes or even to the circumstances of MSMEs of different business types because it solely focuses on small and medium-sized businesses in the cafe and restaurant industry. Since not all microbusinesses are able to generate knowledge in their operations, this study is unable to include microbusinesses. Additionally, it is advised that future studies be able to include microbusiness owners in the East Java Province's Cafe and restaurant industry and take into account additional mediating factors that might enhance business performance and are pertinent to the circumstances of microbusinesses.

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