The Mediating Dynamic Capabilities In The Relationship Between Knowledge Management, Strategic Orientation In Improving Business Performance In Interior Design Companies In Province West Java And Banten, Indonesia

Ende, Suryana, Agus Rahayu, Lili Adi Wibowo, Yudi Nur Supriadi

Abstract: The purpose of this study is to empirically verify the role of knowledge management and strategic orientation in contributing to business performance with the mediating variable of dynamic ability. This research was conducted at an interior design firm in province West Java and Banten, Indonesia. This study uses a quantitative approach with purposive sampling, a sampling technique of 210 firms. The results showed that only two aspects that affect business performance are strategic orientation and dynamic capabilities. Strengthening strategic orientation is done through customer orientation and the ability to analyze the strengths of competitors. This novel research found that there is a strong variable between the dynamic capability built with the increased ability to see new business opportunities and the ability to create new products. Furthermore, it is felt that the company supports a positive effect on improving business performance.

Index Terms: Business Performance, Dynamic Capabilities, Strategic Orientation, Knowledge Management.

1 INTRODUCTION

Research regarding business performance dominated in the period 1980 to 2005 (Furrer & Thomas, 2008). The dominance of research on business performance continued throughout the period 2009-2011 (Uygun & Altin, 2011). Business performance in the SME sector is still an interesting study (Lechner & Gudmundsson, 2012; Arshad, Rasli, Arshad, & Zain, 2014; Slam, et.al, 2014; Lindblom, 2015). Creative industries are the main focus of scientists and policymakers in urban areas and industrial policy (Waal, 2009). The study of business performance in the context of the creative industry is of particular interest given its very dynamic characteristics both in Europe and in developing countries (Bujor & Apsilica, 2016). Increased productivity and competitiveness of the creative industries is very dependent on the performance management system in the company (Waal, 2009). Improving the performance of the creative industries is one of the keys to improving the economy of a region (Hermawati & Runiawati, 2015). The interior design sector is one of the sectors with the lowest contribution to GDP, a very high level of competition, a limited market, a high level of innovation, and a large amount of capital so the level of risk is high (Sari, 2015).

Home interior design trends are growing, around 5% of Indonesian interior designers are triggered by changing trends (Kontan.co.id). Forecasts, the 2018 growth rate is around 5.1%-5.5% (Marketeers.com). This sector is almost 99.9 percent driven by local designers (The More Famous Interior Industry, 2012). Hamdan (2016) revealed that the interior design sector is a sector with a low growth rate and market share with the main problems of supporting resources, financing, and technology. Business performance is one indicator of company success (Rufaidah, 2012). In an era with high levels of competition, there are three key critical factors in competition, namely quality, speed, and flexibility (Slack et.al, 2007). The company's delay in responding to changes has an impact on the decline in market share (Suwigjno, Biltici, Carrie, 2000). Flexibility is a dynamic capability of a company that has a strong influence on business performance in a dynamic environment (Anand & Ward, 2004). One strategic step to build dynamic capabilities is the strategic orientation (Zhou & Li, 2010). Through a strategic orientation, the company will be able to interact with the external environment such as competitors, consumers, and technological development (Day, 1994; Gatignon and Xuereb, 1997). Dynamic capabilities are also built not only by the external environment but also by the internal environment, namely knowledge management. Knowledge management is believed to contribute greatly to the improvement of dynamic abilities (Gonzales & Melo, 2017). In the context of the creative industries especially the interior design sector, research regarding each other's dynamic capabilities are relatively rare. Tseng & Lee (2014) examined the effect of knowledge management on dynamic capacity and organizational performance in different contexts and did not involve knowledge management and strategic orientation.

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Ende, lecture Universitas Bina Bangsa, Serang, Indonesian. E-mail: endestmba@yahoo.co.id
Suryana, Professor of Economic and Business Education in Universitas Pendidikan Indonesia, Indonesian. E-mail: Suryana@upi.edu
Agus Rahayu, Professor of Economic and Business Education in Universitas Pendidikan Indonesia, Indonesian. E-mail: Agusrahayu@upi.edu
Lili Adi Wibowo, Lecture of Economic and Business Education in Universitas Pendidikan Indonesia, Indonesian. E-mail: Liliadiwibowo@upi.edu
Yudi Nur Supriadi, Lecture of Business administration, in Sekolah Tinggi Ilmu Sosial dan Ilmu Politik YuppenTek, Indonesian, E-mail: yudinur_supriadi@yahoo.co.id.
2 LITERATURE REVIEWS AND HYPOTHESIS DEVELOPMENT

2.1 The Relationship of Knowledge Management on Dynamic Capabilities

Davidson & Voss (2003) describe knowledge management as a way for organizations to manage their employees, identify the knowledge they have, store and share it with teams, improve the quality and value of that knowledge to produce knowledge-based innovation. Knowledge management is the foundation of creating dynamic capabilities (Hung, Lien, & Mc. Lean, 2009) and contributes to the improvement of dynamic capabilities (Tseng & Lee, 2014). The relationship between knowledge management and dynamic capabilities is mutual interaction and both contribute to the achievement of better performance (Smith & Prieto, 2012).

Thus, the hypothesis is formulated: H1: Knowledge management influences dynamic capabilities.

2.2 The Relationship Of Dynamic Capability of Business Performance

Dynamic capabilities can be understood as the company's ability to renew its competence so that the company can achieve competitive advantage all the time and survive in the turbulence of the business environment (Cao, 2011). Dynamic capabilities in the form of organizational flexibility have a positive impact on company performance (Chen et.al, 2015; Saragih et.al, 2017). Companies operating in a dynamic environment must create flexibility to create corporate performance (Lin, Zhao, & Lee, 2014) and sustainable competitive advantage (Cingoz & Akdogan, 2013). Building dynamic capabilities suitable for all small, medium or large scale companies (Jeng & Pak, 2014). Dynamic ability reflects the company's ability to achieve competitive advantage, meaning that dynamic ability has a very close relationship with company performance (Griffith, Noble, & Chen, 2006; Lin & Wu, 2014; Takashi, Bulgacov, & Giacomini, 2017). Knowledge Management is a management tool that justifies the belief that knowledge is an asset to increase organizational capacity to be able to work more effectively (Nonaka & Takeuchi, 1994). Through dynamic capabilities, functional performance such as marketing and technology are encouraged to increase and ultimately company performance will increase (Protoperou, Lioukas, Calaghirou, 2008). Thus, the hypothesis is formulated: H2: Dynamic capabilities affect business performance.

2.3 Knowledge Management of Business Performance

Knowledge management is a systematic process for finding, selecting, organizing, abstracting and presenting knowledge in a certain way, so that workers are able to utilize and increase the mastery of knowledge in a specific field of study, for later there is an institutionalization process so that the knowledge created becomes company knowledge (Jann & Lantu, 2006). Knowledge management and learning processes are translated into the main outcome, namely improving company performance (Zahra et.al, 2006). The creation of business performance is realized not only on the aspect of knowledge but the most important is the ability to apply knowledge so that new knowledge is created as a source of creating unique capabilities. Thus, the hypothesis formulated: H3: Knowledge management influences business performance.

2.4 The Relationship of Strategic Orientation Towards Dynamic Capabilities

Strategic orientation is very important to find organizational opportunities, be adaptive to the environment, and to secure corporate excellence (Jassmy & Bhaya, 2016) The concept of strategic orientation reflects managers' perceptions about the environment of competition and reaction (Ferraresi et.al, 2012). Strategic orientation is the company's reaction to focus on the external environment such as consumers, competitors, and technology (Day, 1994; Gatignon & Xuereb, 1997). Strategic orientation is a source of information for the creation of dynamic capabilities in responding to dynamic environments (Zhou & Li, 2010). Thus, the hypothesis formulated: H4: Strategic orientation influences dynamic capabilities.

2.5 The Relationship of Strategic Orientation Towards Business Performance

Strategic orientation is defined as the strategic direction applied by companies to create expected behavior in order to achieve superior business performance (Gatignon and Xuereb, 1997; Narver and Slater, 1990 in Grawe, Chen, & Daugherthy, 2009). Strategic orientation is the principles that direct and influence company activities and produce behaviors aimed at ensuring the continuity and performance of the company (Handrimurtahijjo, 2015). Strategic orientation is the company's reaction to focus on the external environment such as consumers, competitors, and technology (Day, 1994; Gatignon & Xuereb, 1997). Strategic orientation is a source of information for assisting dynamic capabilities in responding to dynamic environments (Zhou & Li, 2010). Strategic orientation is believed to be a factor in directly increasing company performance (Verma, 2000; Jassmy & Bhaya, 2016; Nazdrol et.al, 2017) or through increasing competitive advantage (Jassmy & Bhaya, 2016) and even through innovation (Grawe, Chen, & Daugherthy, 2015). Market orientation as a component of strategic orientation plays a role in increasing the performance of companies (Verma, 2000; Jain & Bhatia, 2015; Ansah & Cinomona, 2017). While other components of the strategic orientation, namely the orientation of competitors in the context of creative industries and dynamic environmental conditions contribute to improving company performance (Jabeen & Mahmood, 2014; Parkman, Halloway, & Sebastiao, 2014). Based on the evidence from the researchers' analysis, the fifth hypothesis can be explained as follows, H5: Strategic Orientation has a significant effect on Business Performance.

The conceptual framework in this research further develops the synthesis of hypothesis development in various literature. The conceptual framework can be seen in Figure 1 below:

![Fig. 1 Conceptual Framework](www.ijstr.org)
3. METHODOLOGY
The unit of analysis of this research is the Firm. The company targets observed were all companies classified as creative industries in the interior design sector throughout West Java and Banten. Data collection method use cross section method. The sample of this research is interior companies in all provinces of West Java and Banten, which amount to 210 companies. The observation unit of this study is individuals from companies who have good managerial knowledge in the company.

4. QUESTIONNAIRE DEVELOPMENT
The process of measuring business performance refers to the concept of the Balanced Scorecard (Kaplan & Norton, 1992). Business performance concerning company performance both financially and financially or more specifically includes financial perspectives, customer perspectives, operational perspectives, as well as growth and learning perspectives. The more detailed and empirical indicators are developed referring to the indicators compiled by Kristinawati & Tjakraatmadja (2017). Dimensions of measuring dynamic capabilities include identification of new external opportunities, acquisition of external resources, reconfiguration and restructuring of internal resources, renewal of internal resources, and immediate capability (Teece & Pisano, 1994; Kristinawati & Tjakraatmadja, 2017). Strategic orientation is related to the direction of strategic implementation, including the orientation of consumers, customers, and costs (Grawe, Chan, & Daugherty, 2009). Measurement of the dimension of strategic orientation refers to Grawe, Chan, & Daugherty (2009). Knowledge management is related to activities of storing knowledge, sharing knowledge, assimilating information, and creating new policies (Wang, Hult, Ketchen, & Ahmed, 2014). The measurement dimension consists of four components, namely organizational memory, knowledge sharing, knowledge absorption, and knowledge receptivity. The next questionnaire was given to 210 respondents. Data on the characteristics of respondents can be seen in the following Table 1.

Table 1 Sample Demographics

<table>
<thead>
<tr>
<th>Item</th>
<th>Classification</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>40</td>
<td>19%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>170</td>
<td>81%</td>
</tr>
<tr>
<td>Age</td>
<td>&lt; 25</td>
<td>15</td>
<td>7%</td>
</tr>
<tr>
<td></td>
<td>25-35</td>
<td>69</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>36-45</td>
<td>95</td>
<td>45%</td>
</tr>
<tr>
<td></td>
<td>&gt; 45</td>
<td>31</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>&lt; 1 year</td>
<td>80</td>
<td>38%</td>
</tr>
<tr>
<td></td>
<td>1 - 5 years</td>
<td>50</td>
<td>24%</td>
</tr>
<tr>
<td>Work Experience</td>
<td>6-10 years</td>
<td>18</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>11-15 years</td>
<td>30</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>16-20 years</td>
<td>32</td>
<td>15%</td>
</tr>
</tbody>
</table>

5. RESULTS AND FINDINGS
Data processing was carried out using SEM. Based on the data processing using AMOS, the following results were obtained.

![Fig. 2 Coefficient t Calculated Full Model](image)

Validity and reliability tests are carried out through statistical tests. Based on statistical data obtained only a few significant question items. CR values above 0.6 indicate that the strategic orientation questionnaire, dynamic capability, and reliable business performance.

Table 2 Validity and Reliability

<table>
<thead>
<tr>
<th>Construct</th>
<th>t-value</th>
<th>CR</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Orientation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SO2 Customer need orientation</td>
<td>8.566***</td>
<td>0.900</td>
<td>1.998</td>
</tr>
<tr>
<td>SO4 Company attention to competitors</td>
<td>21.508***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SO5 Awareness of company for competitors strength</td>
<td>17.443***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dynamic Capability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DC1 Discussion intensity to findout opportunities</td>
<td>8.992***</td>
<td>0.900</td>
<td>1.752</td>
</tr>
<tr>
<td>DC6 Company attention for new product innovation</td>
<td>12.488***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Performance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BP6 Customer satisfaction</td>
<td>13.277***</td>
<td>0.900</td>
<td>0.883</td>
</tr>
<tr>
<td>BP10 Degree of efficiency</td>
<td>7.172***</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Referring to Table 3, it can be seen that all indicators of model compatibility can be met so that the research model is declared suitable.

Table 3 Goodness of Fit Model

<table>
<thead>
<tr>
<th>The Goodness of Fit Indices</th>
<th>Model Test</th>
<th>Cut-off Value</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-square</td>
<td>30.67</td>
<td>Small</td>
<td>Good</td>
</tr>
<tr>
<td>Prob.</td>
<td>0.444</td>
<td>≥0.05</td>
<td>Good</td>
</tr>
<tr>
<td>CMIN/DF</td>
<td>1.092</td>
<td>≤2.00</td>
<td>Good</td>
</tr>
<tr>
<td>RMSEA</td>
<td>0.02</td>
<td>≤0.08</td>
<td>Good</td>
</tr>
<tr>
<td>GFI</td>
<td>0.972</td>
<td>≥0.90</td>
<td>Good</td>
</tr>
<tr>
<td>AGFI</td>
<td>0.976</td>
<td>≥0.90</td>
<td>Good</td>
</tr>
<tr>
<td>TLI</td>
<td>0.998</td>
<td>≥0.95</td>
<td>Marginal</td>
</tr>
<tr>
<td>CFI</td>
<td>0.997</td>
<td>≥0.95</td>
<td>Marginal</td>
</tr>
</tbody>
</table>

5. DISCUSSION
Based on statistical data processing, it was concluded that knowledge management had no significant effect on business performance (t = 1,960 <1, 967; p value = 0.051 > 0.05). Knowledge management has no significant effect on the company’s dynamic capabilities (t = 1,390 <1,967; p = 0.104 > 0.05). Strategic orientation has a significant effect on dynamic forgiveness (t = 6,290 > 1,967; p = ***), but does not have a significant effect on business performance (t = 1.90 <1,967; p = 0.054 > 0.05). Dynamic ability has a significant effect on business performance (t = 2,956 > 1,967; p = 0.003 <0.05).
This indicates that the better the dynamic capabilities, the business performance will increase.

6. IMPLICATION
The findings of this study have several implications. In the context of the interior design creative industry, knowledge management does not have a significant influence on business performance. This is possible because in general, the interior industry in Indonesia is the majority of small-scale companies. Interior design companies generally feature individual creativity. Companies, in general, have not managed knowledge as something that is stored and shared. The dynamic forgiveness in the sector is due to the foresight of the company is seeing opportunities. In contrast to knowledge management, strategic orientation has a significant impact on dynamic capabilities and business performance. In general, interior design companies in their business competition are accustomed to focusing on strategy. The condition of the sector's business environment is dynamic so that the company has a good customer and competitor orientation.

7. CONCLUSION
The results of the investigation concluded that efforts to improve business performance in the context of interior design are built by increasing dynamic capabilities. Dynamic capacity building is carried out by strengthening strategic orientation. Strategic orientation gives direction to companies to face competition and meet customer needs. Based on the results of the study, the success of strategic orientation is determined by three aspects, namely consumer orientation, company attention to competitors, and company awareness in observing competitors' strengths. An important aspect of enhancing a company's dynamic capabilities is the routine of discussing looking for opportunities and the company's attention to the birth of new products. Indicators of business performance in the interior design sector are unique in that this is due to the nature of the business and dynamic environmental conditions. Based on the research, it was concluded that the indicators of success in business performance are aspects of customer satisfaction and efficiency. The efficiency aspect has an impact on product pricing. Competitive product prices are the main choice of consumers in choosing interior design services.

8 REFERENCES


