

EFFECTS OF SOCIAL NETWORKING AND KNOWLEDGE ABSORPTION ON MICRO ENTERPRISE PERFORMANCE OF “BATIK”

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Abstract

Batik "Gajah Oling" is a form of mixing of “Using” people culture and business values in Banyuwangi Regency, East Java Province, Indonesia. The disappearance of batik "Gajah Oling" will make one of belief also disappear, therefore it needs to be preserved. In this study, we attempt to understand and explain the influence of social networks the knowledge absorption, entrepreneurial orientation, product innovation, and competitive advantage to the business performance of micro batik "Gajah Oling" as well as the direct influence of each variable on performance. The research location is in Banyuwangi. The study population is 154 craftsmen. The sampling technique used simple random sampling method. Determination of the number of respondents used Slovin formula, the result is 111 respondents. Data collection instrument put the questionnaire. Data analysis used structural equation modeling with software SmartPLS 3. The findings show i) the performance of micro-enterprises of batik "Gajah Oling" was directly affected by the competitive advantage, entrepreneurial orientation, and knowledge absorption, ii) the performance of micro-enterprises of batik "Gajah Oling" was affected not directly by the knowledge absorption through competitive advantage, entrepreneurial orientation and product innovation, iii) social network has an indirect effect on the performance of micro-enterprises of batik "Gajah Oling" through knowledge absorption.

Keywords: Competitive Advantage, Entrepreneurial Orientation, Knowledge Absorption, Performance, Product Innovation, Social Networks.

1. Introduction

1.1 Background

Performance is a business achievement, manifesting the ultimate ride of all personnel activities of the organization/company that can be measured, both financially and non-financially. Performance can be good and bad. Many factors affect the performance of the business, but they can be grouped into external and internal factors (Sampurno, 2011; Kuncoro, 2006; Purnomo and Zulkieflimansyah, 2005; Hitt et al., 2001; Wright et al., 1996). One example of external factors that influences performance is social networks while examples of internal factors are the absorption of knowledge, entrepreneurial orientation, product innovation, and competitive advantage. Business performance has always many challenges which are different from time to time.

The present era is the era of globalization. It is the era in which goods, services, capital, technology and labor are in and out freely between countries. Global era has made the business environment changes rapidly and become unstable due to the very tight competition. Enforced single market of the ASEAN Economic Community is a form of free competition at the regional level which requires companies in Indonesia to create or improve competitive advantage. To exist in the market, it needs to build a social network, absorb knowledge (new), split in its internal and making optimal use. Exploitation of their social networks and new knowledge for the company can be realized by their entrepreneurial orientation, product innovation, and competitive advantage. But to acquire new knowledge depends on the capacity to absorb the company's knowledge of the social network.

Without the ability to absorb knowledge, there would be no new thing created by the company. Thus the ability to absorb knowledge has been linked to almost all the company's operations. The ability includes entrepreneurial orientation, new product delivery capability and competitive advantage, which in turn form a business performance. Without this, the company will slowly be death.

Social networks are essential mediums for companies to acquire knowledge. The social networks can be defined as the number of elements in the environment outside the company such as customers, suppliers, clients, consultants, educational institutions (for example, universities), social institutions (for example, local government), economic institutions (for example, banks) and the internal

environment such as employee. Therefore, every company needs to have a social network to exist in the market.

Absorbing knowledge can be done in the external and internal environment of the company. Both environments are important for generating additional new knowledge (for the uninitiated). But, what is more important is the environment to absorb knowledge from outside the company. There is a new value that can be brought into the company from outside established company.

The findings of the researchers demonstrated that the ability to absorb knowledge and product innovation by "Gajah Oling" batik makers in Banyuwangi, East Java Province, Indonesia has not been able to boost the performance of their business. In the next few years, if this ability is not immediately improved then the micro business batik "Gajah Oling" will be unable to compete. This situation is certainly not expected because batik "Gajah Oling" is an expression of the values of using public confidence as well as the values of commercialization or business. Therefore, it is very interesting to explore in depth social networks and competitive advantage variables as new variables in this study.

1.2 Research Questions and Objectives

Based on the above description, there are several problems that will be discussed in this paper. Did social networks affect the absorption of knowledge? Did knowledge absorption effect on product innovation, competitive advantage, entrepreneurial orientation and business performance? Did the entrepreneurial orientation influence on product innovation, competitive advantage and business performance? Did product innovation affect the competitive advantage and business performance? Did the competitive advantage affect on business performance?.

The purposes of this study are to analyze and explain several issues: the influence of social networks on the absorption of knowledge; the effect of absorption of knowledge to product innovation, competitive advantage, entrepreneurial orientation and business performance; the effect of entrepreneurial orientation towards product innovation, competitive advantage and business performance; the effect of product innovation on competitive advantage and business performance; and the effect of competitive advantage to the business performance.

2. Theoretical Framework and Hypothesis Development

2.1 Performance

The concept of performance is defined as in the Great Dictionary of Indonesian newest interpreted as accomplishments or the end result is achieved. Performance is the performance of all personnel in the organization/company involved in conducting business activities. The excellent performance demonstrated satisfactory results achieved so that it can be used as a foothold to further develop the business. Otherwise if performance is poor, then it is difficult for developing the company.

Neely (2007) defines performance as the activities carried out to generate value in the future that can be measured with certainty. Kaplan and Norton (1992) in Marr (2006) stated that there are four elements that need to be measured with regard to the performance namely: i) internal perspective with the central question of what to excel in the business they work?, ii) innovation and learning perspective with the central question whether we can continue to improve and create value?, iii) customer perspective with the central question of how customers see us?, and iv) financial perspective with the fundamental question of how we look at our shareholders?. The output of this model is the profile of achievement that has experienced a thorough review of the company's activities. Looking at this concept we can conclude the performance can be measured from financial and non-financial perspective.

2.2 The Social Network

The social network is considered as an instrument to support the flow and the use of organizational knowledge to solve complex problems, encourage and plan for innovation, learning, and the use of resources (Abrams et al., 2003; Bosua & Scheepers, 2007; Hansen, 2002). Network, by Sastrowardojo (2009) in Evans & Bosua (download 15/01/2016) is defined as "a powerful means to connect people and achieve a purposeful goal," while Easterby-Smith (2008) define it as a "superior conduct for knowledge flow". Leadership organization (organization leadership) is a key factor in building a social network. According to Hope & Reinelt (2010), there are four types of leadership networks namely i) peer leadership networks, ii) organizational leadership networks, iii) field-policy leadership networks, and iv) collective leadership networks that could affect the performance of the organization.

Based on the brief description above, it is natural that the Swan et al., (2007) stated the organization's ability to be more innovative and to have a competitive advantage require knowledge flow among internal and external actors such as clients, customers, suppliers, consultants, educational institutions, and institutions research. The organization appears effectively through a social network that consists of a collection of people with which one would maintain its contacts (Rejeb-Khachlouf et al., 2011).

2.3 Knowledge Absorption

Knowledge is one of the intangible assets (Barney Clark, 2007). It was attached to an individual, organization or company. Other management experts often use a specific constructs that incorporate knowledge, such as intellectual capital (Mar, 2006; Pierre et al., 2011). Knowledge is the most important factor to everyone as a source of innovation. It is also important for, the growth of the values of entrepreneurship (Drucker, 1985), as the capital to compete (Teece, 2007), to build relationships, and to improve performance. Knowledge can be tacit or explicit (Nonaka and Takeuchi, 1995). Characteristics of knowledge: it can be measured, transferred, and cumulative (Kerste et al., 2002). Therefore, the ability to absorb knowledge becomes very important to improve business performance.

The concept of the absorption of knowledge was first introduced by Cohen and Levinthal (1989). In 1989, they regard that the absorption of knowledge has three elements namely the acquisition, assimilation and exploitation/implement. In 1990, they incorporate elements of the types of learning organization in that context. In 1994, they incorporate elements of the ability to predict accurately the nature of technological progress. Finally, in 1994, they define the capacity to absorb knowledge for companies/individuals as the ability to recognize the new value of information/external knowledge, to assimilate it, to apply it, and to predict the nature of technological advances in the future accurately, for commercial purposes.

Zahra and George (2002) improved the concept by inserting elements of transformation capability. They stated that there are four dimensions of capacity to absorb knowledge: acquisition, assimilation, transformation and exploitation. The acquisition of the knowledge and capability to assimilate are categorized as "capacity to absorb potential" while the transformation of knowledge and capability to exploit as "the capacity to absorb real" (in Zornoza & Julian, 2006). Further, they

explained, the acquisition value is defined as the ability to know and acquire external knowledge that is critical for the company. Assimilation refers to the capacity of companies to absorb external knowledge. It is also defined as routines and processes that allow companies to understand, analyze, interpret and incorporate information from external sources. Transformation refers to the ability of the company to build and redefine routines that facilitate the transfer and combination of presence and assimilation of knowledge by obtaining new knowledge. The main targets of this ability are to find a solution and adaptation or to reconfigure new knowledge to the needs of specific organizations and real. Exploitation refers to a company's ability to apply knowledge to new external commercial basis for realizing the goals of the organization or it refers to the routines that allow companies to redefine, expand and leverage existing competencies or to create something new by combining the knowledge acquired and assimilated into the company's operations.

Observing these concepts, we can say the ability to absorb knowledge or knowledge absorption refers to the dynamic capacity of an individual or organization that allows creating value through the acquisition and development assimilation of external knowledge, to transform and exploit them to improve their business performance. Thus absorbing capacity is the result of a combination of internal and external learning at the individual or organization.

Van Den Bosch et al., 2003, states the focus of absorption of knowledge is dependent upon the type of environmental knowledge. Here's his view.

Table 2.1 Focus of Knowledge Absorption

Type of knowledge environment	Focus of knowledge absorption	Dimension of knowledge absorption		
		Efficiency	Scope	Flexibility
Stable, majority single industry	Exploitation	High	Low	Low
Turbulent, complex industry	Exploration	Low	High	High

Reference: Van Den Bosch et al., 2003

2.4 Entrepreneurial Orientation

Lumpkin and Dess (1996) define of entrepreneurial orientation as a firm's strategic orientation, capturing the specific entrepreneurial aspects of decision-making styles, methods, and practices. Shane and Venkataraman (2000) defines entrepreneurship as the discovery and exploitation of opportunities to bring into existence future goods and services (in Wiklund et al., 2003), while Griffin et al., (2004)

suggests entrepreneurs are people who take the risk of doing business and put expansion as a primary goal. Understanding of entrepreneurship or entrepreneurial orientation from these experts suggest that entrepreneurship is business expansion for the sake of growth or development, because without this the company runs without thinking of expansion although growth may be obtained.

Frank et al., (2010) cited Guth and Ginsberg (1990), Zahra and Covin (1995), explain entrepreneurial orientation as potential ways to revitalize existing firms. Lumpkin and Dess (1996) state there are five elements of the entrepreneurial orientation: innovativeness, pro-activeness, risk-taking, aggressive competition, and autonomy. Certo et al., (2009), considered that the five elements of entrepreneurial orientation can exist in the individual/worker, the founder of the business, and companies that have existed but with different emphasis on each element.

2.5 Product Innovation

Camison et al., (2010), defines the product innovation as manufacture products or new or improved services introduced to the market. Product innovation is closely related to the main activities of the company; therefore, product innovation is seen as an important resource that can improve organizational performance. In a positive perspective, product innovation reflects solutions to threats and market opportunities, creating what is called a base of survival and successful company into the future. On the other hand, it contains costs and product innovation activities at risk.

Product innovations are typically created to make the competition continues to increase (Ellitan et al, 2009), creating barriers to entry for competitors and old or new entrants, strengthening the company's position as the market leader, opening up new distribution channels, and gathering new customers in order to improve its market position. Product innovation happens because of the successful exploitation of new ideas. Therefore, product innovation contains two conditions: novelty and usefulness.

2.6 Competitive Advantage

Porter (1985) states that the competitive advantage are the ability to benefit from investments made in the company's above-average within an industry. According to Barney (1991), the company has a competitive advantage when it implements a value creation strategy not simultaneously carried out also by a competitor and when a competitor can not duplicate benefits of the strategy.

According to Meso and Smith (2000), competitive advantage results from assets that are strategic (in Kamukama et al., 2011), which according to Barney et al., (2007) are controlled by the company and formulated into strategy and implemented effectively and efficiently. Competitive advantage depends on the resources and capabilities that are valuable, rare, hard to imitate, and hard to substitute (Barney et al., 2007).

Based on the description above, the competitive advantage will be achieved if the company has strategic resources and use them through the processes of the organization to gain market position. While Hitt et al., (2001) holds that a competitive advantage would be obtained if the company is able to meet if: i) it is difficult for competitors to imitate, ii) it can exploit anything of a commercial nature with the capability now, iii) it can provide significant value to customers; and iv) it is timely.

2.7 Micro Company

According to Kelliher et al., (2009), the criteria of micro-enterprises can be seen from two things, namely (a) the influence of the external environment, and (b) the limitations of the owner or manager. In the context of external influences, they can be identified five things, namely the power relationship, diseconomies of scale, externality enforced change, perfect competition, regulatory negative impact.

In the context of the power relationship, micro-enterprises usually have small size and have no great power to build relationships with other external parties, while the style of the manager or owner typically paternalistic. In the context of the diseconomies of scale, micro-enterprises are usually not able to play a strategy on economies of scale so that the strategy used is the strategy of niche. The strategy of niches market is relatively difficult to be penetrated by the efforts of non-micro, whereas the authority and control of the manager or owner herself. In the context of externally enforced change, micro-businesses make changes incrementally while the manager or owner role is as key decision makers. In the context of perfect competition, micro enterprises are vulnerable in the short term perspective, while the manager or owner has an informal role as a strategic planner. In the context of the negative regulatory impact, micro-enterprise structure are simple or even no structure, and resource-poor. They have informal communication, improvement of knowledge system, and expertise or skills

acquired from the training that followed, while the value system or corporate culture centered on the manager or owner and close to the parties concerned.

2.8 Relationship between Variables

According to Evans et al., (2013) there is a relationship between social networks with the absorption of knowledge, competitive advantage, product innovation, and performance. The relationship is illustrated by the two images below.

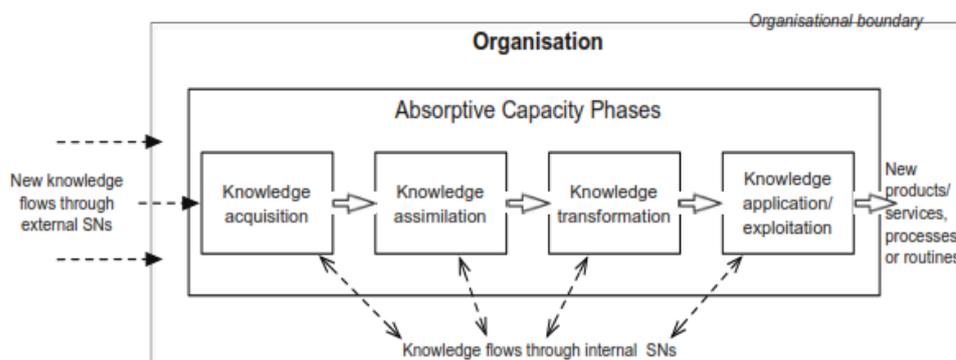


Figure 2.1: Social Networks Relations, Absorption Knowledge and Innovation

Product (Evans et al., 2013)

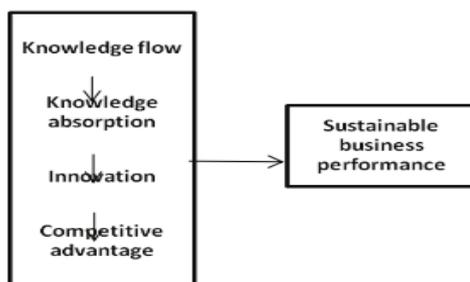


Figure 2.2: Relation of Knowledge Absorption, Competitive Advantage, Performance (Evans et al., (2013)

The result of absorptive capacity of knowledge, was an increase in new knowledge on old knowledge organization. This indicates that more and more knowledge is absorbed; the increasing the capacity of the knowledge of the individual or organization will very likely encourage the emergence

of an entrepreneurial orientation. Thus it can be stated that the absorption of knowledge related to entrepreneurial orientation.

Covin et al., (1999) believes there are four forms of entrepreneurship-oriented businesses associated with the base of competitive advantage, as shown in the table below.

Table 2.2 Establishments Entrepreneurship and Competitive Advantage

Form of Corporate Entrepreneurship	Focus of Corporate Entrepreneurship	Typical Basis for Competitive Advantage	Typical Frequency of New Entrepreneurial Acts	Magnitude of Negative Impact if New Entrepreneurial Act is Unsuccessful
Sustained Regeneration	New Product or New markets	Differentiation	High Frequency	Low
Organizational Rejuvenation	The organization	Cost Leadership	Moderate Frequency	Low to Moderate
Strategic Renewal	Business Strategy	Varies with Specific Form Manifestation	Less Frequent	Moderate to High
Domain Redefinition	Creation and Exploitation of Product Market Arenas	Quick Responses	Infrequent	Varies with Specific Form Manifestation and Contextual Consideration

Reference: Covin et al., (1999)

Entrepreneurial orientation for Sustained Regeneration is introducing a new product or a new driveway for the company in existing markets. Rejuvenation Organization is focused on improving the function of the company or the implementation of the strategy. Strategic Renewal is seeking a new strategic direction. Redefinition domain is the creation and exploitation of something new.

Morales et al., (2006); Harper (2003), Griffin et al., (2004), Lumpkin and Dess (1996), Certo et al., (2005) states entrepreneurship involves the creation of new resources or a combination of existing resources in new ways in order to build and commercialize new products, to entry into new markets, and / or the new customer service. Thus there is a relationship with the entrepreneurial orientation of product innovation. Harper (2003) and Griffin et al., (2004) stated entrepreneurship can enhance the performance of trade (business). Lumpkin and Dess (1996) states there are five dimensions of entrepreneurial orientation that is innovative, proactive, risk-taking, aggressive competition, and independent.

Caves and Ghemawat (1992) in the Low et al., (2007); Ellitan and Lina (2009) states that innovations have a relationship with the company's performance, for example, the success of the innovation process and product innovation have a positive relationship to the company's performance.

Studies Wright et al., (2005) shows the strategy of product innovation is positively related to the company's financial performance only in a hostile environment, but do not relate positively when done in a friendly environment.

Changhanti and Changhanti (1983), Figenbaum and Karnani (1991), as well as Meredit (1987) in Wright et al., (2005) state that innovation (process, organizational, product) as the main source of competitive advantage. Cooper and Kleinschmidt, 1987; Damanpour and Evan, 1984; Damanpour and Gopalakrishnan, 2001; Damanpour et al., 1989; Hitt et al., 1997; Kleinschmidt and Cooper, 1991; Rogers, 1983; Subramanian and Nilakanta, 1996, in Valencia et al., (2010) stated today innovation is considered as the key to achieve competitive advantage and business success in the marketplace. Camison et al., (2010) looked at product innovation as an important source of competitive advantage that can lead to the improved organizational performance.

2.2 Research Findings Accomplished

The research findings of Poernomo et al (2014) showed absorption of knowledge significantly influence entrepreneurial orientation and product innovation; entrepreneurial orientation has significant effect on the product innovation and performance. The research findings Poernomo et al., (2013) proved the competitive advantage has a significant effect on performance.

2.3 Research Model Framework

Based on the study of theory and previous research findings then it can be arranged the framework of this research model as below.

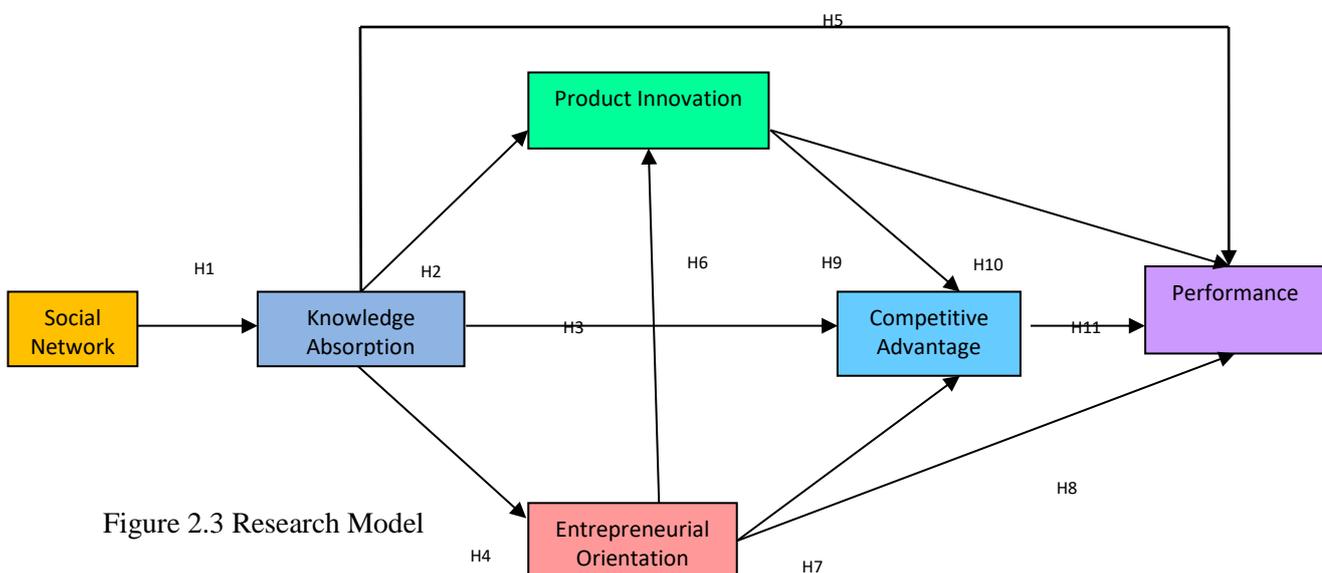


Figure 2.3 Research Model

2.4 Research Hypothesis Development

The study hypothesis is structured as follows: H1: Social networks affect the absorption of knowledge; H2: knowledge absorption effect on product innovation; H3: Absorption of knowledge affect the competitive advantage; H4: knowledge absorption effect on entrepreneurial orientation; H5: Absorption of knowledge effect on the performance; H6: Entrepreneurial orientation influence on product innovation; H7: Entrepreneurial orientation influence on competitive advantage; H8: Entrepreneurial orientation influence on performance; H9: Product innovation impact on competitive advantage; H10: Product innovation affect the performance; and H11: Competitive advantage effect on performance.

III. RESEARCH METHODS

3.1 Population Research

The study population of all batik "Gajah Oling" amounted to 154 micro-scale producers based on the latest data in the Office of Industry, Trade and Mining at Banyuwangi Residence.

3.2 Sample and Sampling Techniques

The samples are part of the population. The sampling technique applies simple random sampling method. Decision number using the formula Slovin (Umar, 2010) is as follows.

$$n = \frac{N}{N \cdot d^2 + 1}$$

Where:

n is the number of samples, N is the number of population, d is the percentage of non-tolerance carefully situations because of sampling error that can be tolerated by 5% (d = 0.05). $n = 154 (154 \times 0.0025 + 1) = 111, 19$, rounded down into 111. Total sample is 111 batik "Gajah Oling".

3.3 Respondent and Location Research

Respondents amounted to 111 people. The research location is in the district of Banyuwangi, East Java Province, Indonesia.

3.4 Analysis Unit

The unit of analysis is the study of batik artisans "Gajah Oling" micro-scale.

3.5 Definitions Operational Variables

The operational definition of Social Networking is the number of elements in the environment outside the company such as customers or consumers, suppliers, consultants, clients, banks, cooperatives, schools, universities, local governments, NGOs that can be woven relationship by the company in order to acquire new knowledge. The operational definition of Knowledge Absorption is the ability to absorb new information from outside the company by individuals in the company, bringing together the existing knowledge, giving birth to new knowledge that gives new value, and applying them for purposes of profit. This is measured by indicators: (a) the acquisition of new knowledge, (b) the assimilation of new knowledge, (c) the transformation of new knowledge, and (d) the exploitation of the application of new knowledge.

Operational definitions for entrepreneurship orientation is an individual's behavior that leads to new things. This is measured by indicators: (a) pro-activeness, (b) innovativeness, (c) risk taking, (d) competing aggressiveness, and (e) autonomy. The operational definition of Product Innovation is a new product. This is measured by the number, type and quality of the new products produced. The operational definition of Competitive Advantage is the company's products absorbed by the market or consumers. Indicators of competitive advantage are: (a) reduction of costs, (b) the exploitation of market opportunities, and (c) survive the threat of competition. The operational definition of performance achievements or results of operations, achieved is measured by indicators of the financial results better than before.

3.6 Measuring Instruments

This study measures the attitudes of respondents. Suitable measurement instrument uses a Likert Scale (Black and Champion, 2001). Likert scale studies using five alternative answers, such as "strongly disagree" identical value of 1, "disagree" identical value of 2, "neutral" identical grades of 3, "agree" identical grades of 4, and "strongly agree" identical score of 5.

3.7 Scale Measurement

The scale of measurement used in this research is ordinal scale.

3.8 Test Reliability and Validity Research Instruments

Reliability and validity test of research instruments was performed on 30 of batik artisans outside respondent. The tests were carried out to ascertain whether the full questionnaire can be understood or not before it spread to the respondent.

3.9 Data Collection Techniques

Collecting data uses questionnaires. The research team acted as enumerators in addition each has a different task.

3.10 Processing and Data Analysis

Processing data used structural equation modeling (SEM) with the help of software SmartPLS 3 then was analyzed to answer the research objectives.

IV. RESULTS

4.1 Description of Respondents

The number of respondents of male sex is less than female respondents, that is by 20% difference. Male respondents amounted to 40%, while female respondents amounted to 60% of a total of 111 respondents. The number of respondents by tribe, there are 36% of respondents came from Using tribe, 60,36% of respondents came from Java tribe, and 2,70% of mixed ethnic respondents. Number of respondents by age, there are 32.43% of respondents aged under 25 years, 27.03% of respondents aged 26-35 years, 27.93% of respondents aged 36-45 years, 9.01% of respondents aged 46 - 55 years old, and 3.60% of respondents aged over 55 years. The number of respondents based on marital status, there are 69.37% of married respondents and 30.63% of respondents who are unmarried.

The number of respondents based on the number of family dependents, 25.23% of the respondents do not have family dependents, 11.71% of respondents with the number of family dependents as much as 1 person, 20.72% of respondents with the number of family dependents 2 people, 17.12% Dependents of 3 families, 13.51% of respondents with 4 family dependents, 7.21% of

respondents with 5 family dependents, and 4.50% of respondents with 6 families. The number of respondents based on length of work, there are 78.38% of respondents have worked for less than 5 years, 17.12% of respondents have worked for 5 to 10 years, and 4.50% of respondents have worked for more than 10 years.

4.2 Data Analysis

a. Test of Validity and Reliability Realibility

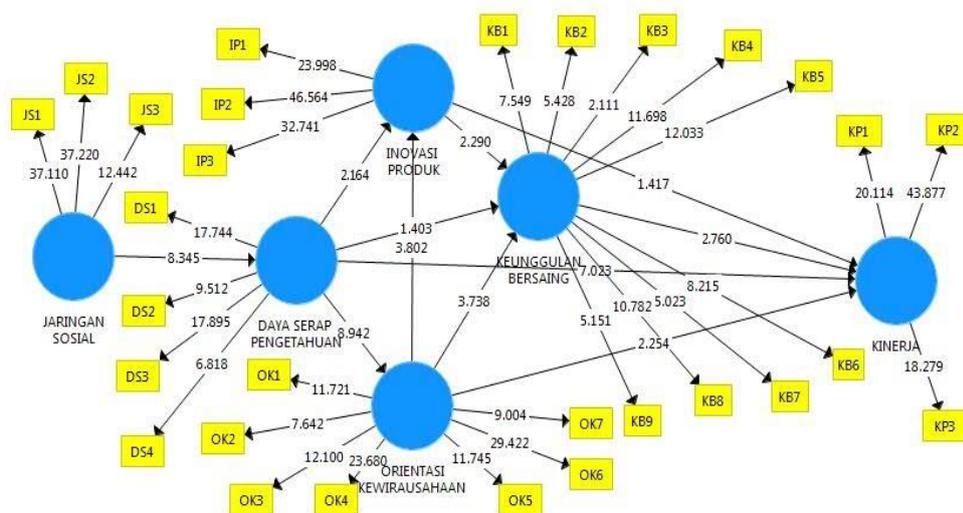
Before the questionnaire was distributed, the researcher did reliability test and questionnaire validity. Test of reliability and validity of research instrument conducted on 30 batik craftsmen outside the respondents. The test is conducted to get the certainty of the questionnaire can be understood or not before spread to the respondent. The result of reliability test item questionnaire indicates that all items have Corrected Item-Total Correlation > value (r table value, $n = 40$, $\alpha = 0,05$), so that all questionnaire items can be declared reliable (worth) to be distributed.

b. Hypothesis Testing Results

Testing of research hypothesis on Smart PLS 3 is done by applying structural model calculation with bootstrapping method, on two-sided test with significance level ($\alpha = 0.05$). In Figure it can be seen the value of outer loading latent variables to indicators indicating the suitability of formative and reflective models. The reported value is the value of t. The result, it is known that the entire value of the indicator variable in relation to the latent variable is significant.

The significance of the indicator variable value based on outer loading does not automatically drive the value of the latent variable to the latent variable is also significant. This is due to the absence of normal distributed data assumptions as described above. In the picture shows that the latent variable of social network has t value equal to 8,345 to the absorption of knowledge. Meanwhile, the knowledge absorption has a t value of product innovation of 2,164; against the entrepreneurial orientation of 8.942, to the competitive advantage of 1.403; and to company performance of 7.023.

Structural model study is as follows



The table below is the result of research hypothesis testing using software smart PLUS 3.

Table 4.1 Hypothesis Test Results

Hypothesis	T Statistics	P Values	Evaluation
Social network affect the absorption of knowledge / H1	8.345	0.000	Positive significant
Knowledge absorption effect on product innovation/H2	2.164	0.023	Positive significant
Absorption of knowledge affect the competitive advantage /H3	1.403	0.161	Positive, non significant
Knowledge absorption effect on entrepreneurial orientation /H4	8.942	0.000	Positive significant
Knowledge absorption effect on performance /H5	7.023	0.000	Positive significant
Entrepreneurial orientation influence on product innovation / H6	3.802	0.000	Positive significant
Entrepreneurial orientation influence on competitive advantage /H7	3.738	0.000	Positive significant
Entrepreneurial orientation influence to performance/H8	2.254	0.024	Positive significant
Product innovation impact on competitive advantage / H9	2.290	0.022	Positive significant
Product innovation affect on the performance / H10	1.417	0.157	Positive, non significant
Competitive advantage effect on performance/H11	2.760	0.019	Positive significant

In the table above, it can be seen that the value of the latent variable t is almost entirely above the critical value ± 1.96 for two-sided hypothesis testing at $\alpha = 0.05$. This shows that almost all of the hypothesis is proven significantly positive, except for the hypothesis related to the latent variable of

absorption of knowledge on competitive advantage with 1.403 t-test and product innovation and company performance with value T count = 1.417. The second hypothesis is not significant at the 0.05 level of significance with significance value respectively 0.161 and 0.157, but has a positive direction.

Based on the results of testing the hypothesis, this section addressed or discussed the results of the test.

a. Influence of Social Networks on Knowledge Absorption

The ability to absorb knowledge or absorption of knowledge is a very important variable for individuals and organizations as a provision to exist and thrive. Therefore, many variables that can affect the ability of the absorption of knowledge, including social networks are owned by individuals or organizations.

To prove that, in this study, the social network with items such as the breadth of a network, utility networks for business development, and the fulfillment of the request over the network, turned out to have a very good influence (positive significant) on the ability to absorb knowledge (absorption of knowledge) with indicators acquisition, assimilation, transformation and exploitation of new knowledge. Indicators acquisition consists of the knowledge of batik business, knowledge mastery item, recognizing things that are new to the batik business competitors, to know all the new information, determine the work program government agencies on batik. Indicators assimilation of knowledge about batik consist of items conveniences combine new knowledge with old knowledge in producing, marketing, and retain customers. Indicators of transformation of knowledge about batik consist of items involve the new way to produce, market, retain customers, find new customers and retain new customers. Indicators of exploitation of the knowledge of batik consist of items namely improvement of product quality, new product, and their awards. Given these findings, the study means that the first hypothesis (H1) which stated that the social networking has effect on the absorption of knowledge can be received.

Theoretically, the study's findings strengthen theories that already exists which states there is a relationship of social networking to the absorption of knowledge (Evans et al., 2013). Empirically, this is a new findings because all the knowledge of researchers show no research findings like this before.

The study's findings make sense that the wider social network with the items mentioned above are owned by micro enterprises batik "Gajah Oling", the greater the chances of the batik micro enterprises to absorb new knowledge. But it will be otherwise, if a social network with the items above is owned by micro enterprises batik "Gajah Oling". It is therefore very important for micro batik "Gajah Oling" to have all the above items broadly in order to provide a significant contribution to the development of self and the organization or business.

b. Effect of Knowledge Absorption on Product Innovation

Many experts say that the management of product innovation is the heart of the organization. Without product innovation, organization will soon die because they can-not compete. The spirit of innovation of products is dependent on the ability to absorb knowledge by individuals or organizations that enable knowledge to continues growing.

This study has shown that the product innovation was very influenced by the absorption of knowledge. Given the findings of this study, the second study hypothesis (H2) which stated the knowledge absorption has effect on product innovation proved acceptable. Theoretically, the study's findings reinforce the theory of Evans et al., (2013) which states that there is a relationship between the absorption of knowledge with product innovation. Empirically, the study's findings support the research findings of Poernomo et al (2014) that the product innovation is positively influenced significantly by the absorption of knowledge.

The findings of this study can be interpreted like this: the higher the absorption ability of micro-enterprise knowledge batik "Gajah Oling", the greater the chance of micro enterprises to produce new products. On the contrary, if the capacity of absorption of knowledge of micro enterprises batik "Gajah Oling" is lower, then the micro-business opportunities to create new products will be low as well.

Based on these statements, micro enterprises batik "Gajah Oling" need to realize that the ability to absorb new knowledge is essential in order to give birth to new products. The ability to absorb new knowledge will be easier and faster if micro enterprises batik "Gajah Oling" open up to the outside world, continue to learn in the external environment, and understand that eternal in this world is change in addition to the items absorption of knowledge which has been revealed previously.

c. Effect of Knowledge Absorption on Competitive Advantage

It is not easy to build a competitive advantage which many envisioned by companies large, medium, small or micro. Competitive advantage can be obtained in the uniqueness of the product, the uniqueness of the process, the uniqueness of the service, after-sales uniqueness, and uniqueness more. Competitive advantage is determined by many other factors.

The findings of this study showed that the absorption of knowledge does not affect the competitive advantage. The study's findings rejected the third research hypothesis (H3) which states that the absorption of knowledge effect on competitive advantage. Theoretically, many experts claim that the management strategy of knowledge absorption has positive effect on competitive advantage because with increasing knowledge it will be easier to build competitive advantage. But things are not as easy as it was; the increased knowledge of personnel in the organization does not necessarily create or strengthen competitive advantage. Competitive advantage can only be achieved if the organizational knowledge translated as resources and capabilities (resources and capabilities) is able to produce a product (or service) that are valuable, rare, inimitable, non-substitutable (Barney, 2007).

In other words, the increased knowledge of the organization through the absorption of knowledge will be a positive influence on the competitive advantage if the products meet the criteria of value, rare or unique, not easily imitated, and not easily replaced as introduced by Barney (Omerzel, DG & Gulev, RE , 2011). According to them, a source of competitive advantage is dependent on knowledge but knowledge alone is not sufficient. Therefore, they need to be explore through further study in the future of the relationship of different capabilities, specific knowledge, as well as measures differently to competitiveness.

The findings of this study can be interpreted that the absorption of knowledge with the items mentioned above on micro batik "Gajah Oling" have not been able to create a competitive advantage on micro batik. The ability to absorb knowledge or absorption of knowledge does not necessarily create a competitive advantage for the better because of logical thinking is still needed between the variables that can bridge or as a media connection between the absorption of knowledge with a competitive advantage. On the other hand, batik products "Gajah Oling" produced by micro-enterprises that have existed have not been able to create barriers to entry (entry barriers) for competitors who want to make

batik "Gajah Oling" (which had not previously been made of batik products "Gajah Oling "). The existing competitors or new entrants (new comers) of the batik products "Gajah Oling" by itself erode the competitive advantage of micro-entrepreneurs or leaders of the old (old comers). In other words, not the realization of valuable, rare, inimitable, non-substitutable (VRIN) on batik products "Gajah Oling" has been suspected to be other factors that cause third research hypothesis is rejected. In a thorough analysis of the research model to obtain clarity, the absorption of knowledge has indirect effect on competitive advantage through product innovation and entrepreneurial orientation.

d. Effect of Knowledge Absorption on Entrepreneurial Orientation

The success of a business is closely related to entrepreneurial orientation. Likewise, the failure of an attempt is because of the lack of entrepreneurial orientation. Entrepreneurial orientation is basically a way of thinking and acting that is worth the future strategic direction. Only people or organizations that are knowledgeable are capable of strategic thinking and behaving.

The findings of this study proved that the entrepreneurial orientation is strongly influenced by the ability of absorption of knowledge. Thus, the findings of this study support the research hypothesis fourth (H4) stating that the absorption of knowledge of significant has positive effect on entrepreneurial orientation. Theoretically, the study's findings reinforce the theory that implies more knowledge held by an individual or organization has enabled the establishment of entrepreneurial orientation (Zornoba & Julian, 2006). Empirically, the study's findings support the research findings of Poernomo et al (2014) which state that the absorption of knowledge significantly has the positive effect of entrepreneurial orientation.

The findings of this study can be interpreted as follow the higher ability to absorb knowledge or absorption of the knowledge possessed by micro enterprises batik "Gajah Oling", the greater the opportunity to create entrepreneurial orientation on micro batik. But it will be the contrary, the lower the absorption of knowledge owned by micro enterprises batik "Gajah Oling", the lower the presence of entrepreneurial orientation on micro batik.

e. Effect of Knowledge Absorption on Performance

Performance can be interpreted as the end of activities of people or organizations that can be measured within a certain time period, such as one semester or one year. Performance can also be interpreted as an achievement. Performance can be bad or good. Therefore, the performance is very much determined by other variables.

The research findings prove that the performance by items such as the presence or absence of an increase in income, whether there is an increase in the number of customers, and the presence or absence of gain market territory, is greatly influenced by the ability to absorb knowledge or absorption of knowledge with the items as mentioned earlier. Thus, the findings of this study support the research hypothesis fifth (H5), stating knowledge absorption effect on performance.

Theoretically, the study's findings reinforce the theory of Evans et al., (2013) which states there is a relationship between the absorption of knowledge and performance effort. Empirically, the study's findings are a new finding because there have been no research findings like this before.

The findings of this study can be interpreted like this: the higher the ability to absorb knowledge or absorption of the knowledge possessed by micro enterprises batik "Gajah Oling", the greater the opportunity to create a good performance. On the contrary, the lower the absorption of knowledge possessed by micro enterprises batik "Gajah Oling", the lower the chances of micro enterprises batik "Gajah Oling" to create a good performance. Based on the description, micro enterprises batik "Gajah Oling" must continue to learn from the external environment in order to increase their knowledge. This is what theoretically, it is named as a learning organization (learning organization). Without it, it will not create a good performance.

f. Effect of Entrepreneurial Orientation on Product Innovation

The findings of this study proved that the entrepreneurial orientation has a significant positive effect on product innovation. Thus, the findings of this study support the hypothesis of a sixth study (H6) which states that the entrepreneurial orientation effect on product innovation. Theoretically, the study's findings reinforce the theory that there is a close relationship between entrepreneurial orientation with product innovation (Morales et al., (2006), Harper (2003), Griffin et al., (2004), Certo et al., (2005), Lumpkin & Dess (1996). Empirically, the study's findings support previous research findings Poernomo

et al (2014) which states that the product innovation is positively influenced significantly by the entrepreneurship orientation.

The findings of this study can be interpreted that the higher the entrepreneurial orientation of micro enterprises batik "Gajah Oling" the higher the creation of new products. On the contrary, the lower the entrepreneurial orientation contained on micro batik "Gajah Oling" the lower the yield of new products.

Phenomenon in the field is seen that all micro-enterprises batik "Gajah Oling" is an innovative in generating products. This was proven when batik "Gajah Oling" production of all micro enterprises batik are gathered together, each of the micro enterprises can know and indicate correctly their own production. But that is quite difficult is when consumers or customers are asked to indicate the origin of one batik fabric production. This is the challenge being faced by micro enterprises batik "Gajah Oling" because the consumer or the customer can not recognize correctly batik cloth producers when there are many new products batik cloth in the "Gallery of Batik" except if they go directly to the production location.

g. Effect of Entrepreneurial orientation on Competitive Advantage

Competitive advantage can be interpreted as ability of products to win the competition with competitors' products. If this happens constantly then it is called superior prominence or continuous (sustainable competitive advantage). Entrepreneurial orientation may very well be the source of a competitive advantage.

The findings of this study proved that the entrepreneurial orientation to have a very good influence (positive significant) on competitive advantage. Thus, the findings of this study support the hypothesis of the study (H7) which states that the entrepreneurial orientation has effect on competitive advantage. Theoretically, the study's findings reinforce the theory that entrepreneurial orientation is closely connected with the competitive advantage (Valencia et al., 2010. Covin et al., 1999). Empirically, the research findings is a new finding because so far there has been no previous studies like this.

The findings of this study can be interpreted that the larger the entrepreneurial orientation of micro enterprises owned by batik "Gajah Oling", the greater the competitive advantage of micro

enterprises batik. On the contrary, the lower the entrepreneurial orientation of micro enterprises batik "Gajah Oling" the lower the competitive advantage of micro enterprises batik.

h. Effect of Entrepreneurial Orientation on Performance

The findings of this study proved that the entrepreneurial orientation has significant positive direct impact on business performance. Thus, research findings support or accept the research hypothesis eighth (H8) stating that the entrepreneurial orientation has effect on business performance. Theoretically, the study's findings reinforce the theory that there is a relationship between entrepreneurial orientation with business performance (Harper, 2003), Griffin et al., (2004), and Lumpkin & Dess (1996). Empirically, the study's findings support the research findings of Poernomo et al (2014) which states that the entrepreneurial orientation has significant positive effect on business performance.

The findings of this study can be interpreted as follow: the higher entrepreneurial orientation on micro batik "Gajah Oling" will be the better operating performance on micro batik will be. But it will be the contrary, the lower the entrepreneurial orientation on micro batik "Gajah Oling" will be, the better operating performance on micro batik will be.

i. Effect of Product Innovation on the Competitive Advantage

Every company including micro enterprises will always strive to create competitive advantage and keep it constantly in order to maintain their existence in the market. Therefore, many variables are related and affect the competitive advantage. One of the variables related and can affect the competitive advantage is product innovation.

The findings of this study proved that the product innovation with the items as previously disclosed have significant positive effect on competitive advantage with the items described in the next section. Thus, the findings of this study support or accept the research hypothesis ninth (H9) which states that the product innovation has effect on competitive advantage.

Theoretically, the study's findings reinforce the theory that explains that there is a positive relationship between innovation products with competitive advantage even as a source of competitive advantage (Changhanti & Changhanti, 1983; Figenbaum & Karnani, 1991; Meredit, 1987, in Wright et al., 2005); Cooper & Kleinschmidt, 1987; Damanpour & Evans, 1984; Damanpour & Gopalakrishman,

2001; Damanpour et al., 1989; Hitt et al., 1997; Kleinschmidt & Cooper, 1991; Rogers, 1983; Subramanian & Nilakanta, 1996; in Valencia et al., 2010). Empirically, the study's findings support the research findings Camison et al., (2010) which states that the product innovation is a source of competitive advantage.

The findings of this study can be interpreted as follow the better innovative products with items that have been previously mentioned by micro enterprises batik "Gajah Oling", the stronger competitive advantage on micro batik. But it will be the contrary, the lower or little product innovation by micro enterprises batik "Gajah Oling" will be, the lower the strength of the competitive advantage on micro batik will be.

j. Effect of Product Innovation on Performance

The findings of this study shows that product innovation does not affect the performance of the business. The findings of this study do not support or reject the research hypothesis tenth (H10) which states that the product innovation has effect on performance.

The findings of this study support the research findings Cillo et al., (2012) which conducted research on 143 companies of fashion in Italy, stating that product innovation has no effect on the company's performance objective. The study's findings also support the findings of Wright et al., (2005), which conducted research on 178 companies in Indianapolis United States. Their findings showed that the innovation of products and services did not affect the company's performance in the external friendly environment situation or when level of competition is very low.

The findings of this study can be interpreted that the innovation of products that had been carried out by micro-enterprises batik "Gajah Oling" has not quite been able to boost the performance of micro-businesses batik better. In district of Banyuwangi as the study area, there are quite a number of micro enterprises batik, for example, Pringgo Kusumo, Heroine, Gondoarum, Salsa, Nuzzah, Tropical, Dewi Sinta, Virdes, Tatsaka, Sekar Hyacinths, Gondo Arum, Seblang, Sayu Wiwit, Mustika. The local government is always reminding them to work together when received orders to make batik, both orders from the government and from other parties. Dividing the work of making batik in fabric seems to have become a phenomenon that is quite thick between the micro business batik. Competition is not there at all, remain there, but the level of competition is not high. Micro business market of batik

in the study site is strongly colored by "market kinship or partnership". Thus, all micro-enterprises batik in the area of research can exist and thrive. This phenomenon made researchers conclude that the micro business environment in the study area batik friends so normal that for a while this product innovation has not been able to affect business performance. Innovation does not mean the product is not carried out by micro-enterprises of batik, product innovation is done, but have not been able to boost business performance better.

On the other hand, one of the research findings by Junge M., Severgninni B., Sorensen A., (2012) in companies in Denmark shows that product innovation is not able to increase the productivity of companies (business performance - the author) if it is not followed by their marketing innovation. Based on their research findings, it is very important to explore the marketing innovation of micro-enterprises batik "Gajah Oling" in district of Banyuwangi, even though they were quite friendly competitive environment through further research. Advanced research (future research) is intended to get more detailed answers about specific types of product innovation and marketing of micro-enterprises in the competitive environment batik "Gajah Oling".

Based on a total analysis study, it can be concluded that the model of product innovation has significant positive effect on performance indirectly through competitive advantage. Thus, product innovation by micro enterprises batik "Gajah Oling" is not necessarily a direct effect on business performance, but through the creation of competitive advantage. However, micro-enterprises batik "Gajah Oling" needs to consider ways to create new products that have a direct impact on business performance in addition to marketing innovation.

k. Effect of Competitive Advantage on Performance

The findings of this study show that competitive advantage has the significant positive effect on business performance. Thus, the findings of this study support the hypothesis eleventh (H11) of the study which states that the competitive advantage has effect on business performance. Theoretically, the study's findings reinforce the theory that there is a relationship between a competitive advantage with business performance (Evans et al., 2013). Empirically, the study's findings support the research findings of Poernomo et al (2013) which concluded that the competitive advantage has significant positive effect on business performance.

The findings of this study can be interpreted that the stronger the competitive advantages possessed by micro enterprises batik "Gajah Oling" the better the performance of micro-enterprises batik. On the contrary, the lower the competitive advantages possessed by micro enterprises batik "Gajah Oling" increasingly the better the performance of micro-enterprises batik.

V. CONCLUSIONS AND IMPLICATION

5.1 Conclusion

a. Performance of micro enterprises batik "Gajah Oling" in district of Banyuwangi is directly affected by variables of competitive advantage, entrepreneurial orientation, and the ability to absorb knowledge or absorption of knowledge. Variable of product innovation has no direct effect on the performance of micro enterprises batik "Gajah Oling" as well as absorption of knowledge does not directly affect the competitive advantage of micro enterprises batik "Gajah Oling". This does not mean that they do not have innovative products or do not have the ability to absorb new knowledge, but the two variables are not stable enough to make improvement of business performance or the competitive advantage to be better.

b. Product innovation has indirect influence on the performance of micro-enterprises batik "Gajah Oling" through competitive advantage. Similarly, absorption of knowledge has indirect effect on the performance of micro-enterprises batik "Gajah Oling" through entrepreneurial orientation.

c. Social networks indirect effect on the performance of micro enterprises batik "Gajah Oling" is through absorption of knowledge.

d. This research model framework is acceptable. Best hiking research model lays on the path of social networking - the absorption of knowledge - entrepreneurial orientation - product innovation - a competitive advantage - business performance.

5.2 Implications

a. Micro-businesses batik "Gajah Oling" needs to continue to maintain the best path in the framework of this research model.

b. Micro-businesses batik "Gajah Oling" seriously needs to improve the product innovation and ways to absorb new knowledge in order to become significantly better and were able to influence the other variables that ultimately affect the performance of the business.

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