



## RESEARCH ARTICLE

## Innovation Capability as a Key Mediator in the Impact of Networking Capability on SME Business Performance

Riesta Devi Kumalasari<sup>1\*,2</sup>, Achmad Sudiro<sup>1</sup>, Rofiaty<sup>1</sup>, Djumahir<sup>1</sup><sup>1</sup>Management Department, Faculty of Economic and Business, Brawijaya University, Malang, East Java, Indonesia<sup>2</sup>Entrepreneurship Department, Bina Nusantara University, Jakarta 11480, Indonesia**ARTICLE INFO****ABSTRACT**

Received: Oct 18, 2024

Accepted: Dec 4, 2024

**Keywords**

Networking Capabilities

Innovation Capabilities

Innovation Management

Business Performance

Structural Equation Modeling

The goal of this investigation is to provide insight into the influence regarding network capabilities on the business performance, incorporating the resource-based view (RBV) approach and the importance of innovation ability an intermediary variable that has not been extensively studied in previous research. Data collection using questionnaires with Likert scale which were distributed to 250 Fashion and craft SMEs in Greater Malang, East Java, Indonesia. This investigation used methods for non-probability and purposive sampling. The data were examined using Structural Equation Modelling with AMOS software. The outcomes revealed that networking capabilities mediated by Innovation capabilities had a substantial and beneficial effect on performance of businesses and reinforce the concept of RBV philosophical terms, which focuses on network capabilities and innovation capabilities.

**\*Corresponding Author:**

riesta.devi@student.ub.ac.id

**INTRODUCTION**

As a supporter of the economy in Indonesia, the MSME sector has an important role where they are the main drivers in national economic growth and play a role in the absorption of labor. (Hutahayan, 2019). The growth of Micro, Small and Medium Enterprises (MSMEs) in Indonesia is increasing every year. Therefore, the small and medium business sector urgently needs special attention from the government, because it is the largest contributor to GDP and can be a mainstay in absorbing labor that replaces the production of consumer goods or semi-finished products (Faizi et al., 2022).

The field that is currently in the spotlight is the craft fashion business field. Fashion and crafts are related and become something that develops in business movements in Indonesia. So far in Indonesia, fashion is included in the number 2 largest creative economy sector after the culinary sector (EndahWahyuningsih & Murwatiningsih, 2017).

Related to the company's ability to network, RBV also has a role in the formation of this variable. Networking can handle dynamic environments and different entrepreneurial conditions. Networking has a significant impact on the start-up, growth and development stage of a company (Joseph F. Hair JR, William C. Black, Barry J. Babin, 2010). In fact, RBV states that companies from the same industry perform differently because they have their own resources and capabilities (Barney et al., 2001). In other words, networking is a specific capability that determines a company's performance. Effective

networking provides entrepreneurs with expertise and various forms of support to benefit the company's performance (Fatima & Bilal, 2020).

In line with RBV, collaborating with multiple partners, i.e., with more than one type of partner (i.e., heterogeneous collaborative networks) is a key strategy to increase company value through resource exchange and sharing (Ray et al., 2004). Collaborative networks are an important vehicle for developing the dynamic capabilities a company needs to gather and deploy internal and external resources in its changing environment to gain economic benefits (Teece et al., 2008). Network capabilities allow a company to connect its own resources with those of other companies by building relationships (Maghsoudi Ganjeh et al., 2019; Walter et al., 2006).

(Abdirahman et al., 2014) argue that networking is one of the effective strategies in creating innovation. This theory is then supported by the results of research (Hilmersson & Hilmersson, 2021) which shows that network capabilities are a means to accelerate innovation in an organization. The formation of a continuous relationship between suppliers and customers, dynamics, and interdependence can be characterized as a network structure in business (La Rocca & Snehota, 2014). In addition, it is also in accordance with several theories that explain that the development of a new solution can arise by combining existing source elements in an innovative business network (Dong et al., 2020; La Rocca & Snehota, 2014). Many studies and industries have examined the influence of network capabilities on innovation capabilities, namely (Hilmersson & Hilmersson, 2021; La Rocca & Snehota, 2014; Singh et al., 2022; Yu et al., 2016) and obtained the results that the majority of studies prove that there is a positive and significant relationship. This can be concluded by the high degree of ability in networking, which will increase the ability to innovate.

Innovation Ability is the ability of an effort to have a tendency or accept the adoption of ideas that deviate from the norm, in the sense that the company abandons old habits and tries ideas that have never been tried before (Turulja & Bajgoric, 2019). The concept is then seen as a review of the company to determine the right and correct attitude towards the development of new technologies, products and services, or production and other business processes with the aim of achieving competitive advantage. Many companies and industries have researched the influence of innovation ability on performance, namely (Agyapong et al., 2018; Al-Ansari et al., 2013; Al-Zoubi et al., 2020; Chege & Wang, 2020; Donbesuur et al., 2020; Kafetzopoulos et al., 2020; Kneipp et al., 2019; Mitrega et al., 2012) and obtained the results that the majority of studies prove that there is a positive and significant relationship. This can be concluded that the high ability of innovation produced by a business will improve business performance.

This research topic still attracts the attention of SMEs, notably when the component being evaluated is inside SMEs focused towards the craft fashion sector, while other research focuses on the manufacturing industry. Although investigators have previously recognized the affect network capabilities are presented as independent variables simultaneously conducted based on a small amount fashion crafts-based SMEs with the intermediary function of innovation ability is linked to the performance of SMEs. In addition, the above investigation project attempts to determine the role of network capabilities and innovation capabilities on the performance of craft fashion SMEs by incorporating an analytical approach by applying the Resource-Based Perspective (RBV).

## LITERATURE REVIEW

### Resource based view (RBV)

Hsu and Ziedonis (2013), argue that a resource-based view (RBV) reveals a company with scarce and valuable resources that is able to have an edge over the competition and can distinguish itself from other companies in the market. This can be said to be essential if they "allow themselves design and carry out initiatives that have the impact of decreasing the business's net expenses and/or increasing the company's net income (Barney & Arikan, 2005).

RBV defines four key criteria for sustainable profitability: valuable, rare, inimitable, and non-substitutable resources (Barney et al., 2001). Resources might be tangible or intangible. RBV views

intangible resources as a competency-like feature of human capital. RBV classifies Resources are classified into three types: physical assets, personnel, and organizational assets. Individual managers and employees' training, experience, assessment, intelligence, relationships, and insights are all examples of human resources. The core resources for organization include the enterprise's Reporting arrangement, planning procedures, and control mechanisms (J. Barney et al., 2001).

### **Network capabilities**

The capacity to network refers to a company's strengths to leverage and create connections between organizations to obtain link to diverse assets controlled by other parties. Network capabilities are also characterized flexible features since they enable businesses to notice and respond swiftly to opportunities Knight and Liesch (2016). The ability to network is combined Multiple parameters that indicate distinct capabilities for managing connections with other companies and affiliates.

There are four stages or dimensions of Network Capability proposed by (Ritter & Gemünden, 2003) and (Walter et al., 2006) namely: Coordinating, Relationship abilities, Partner Understanding, and interpersonal conversation. Walter et al. (2006) characterize Coordinating as a commonly used foundation (long-term or a short-term) to unite various groups that are attempting a prevalent outcome. Relationship abilities include features for example, the capacity to interact, the capacity to handle conflict, extroversion, contemplation, empathy, awareness of equal rights, emotional stability and teamwork.

Partner understanding enables reduced transaction expenses and proactive management costs in conflict resolution. In addition, it can also describe controlled and categorized data about competitors, suppliers, and customers Walter et al. (2006). Then, Internal interaction comprises the dissemination and blending sharing partner intelligence with any division concerned (Acosta et al., 2018).

### **Innovation capabilities**

Innovation talents perform a key function in accomplishing a company's competitive advantage. The capabilities and skills that are part of an organization's innovation capabilities tend to use effective utilization of resources, which serve as drivers of ongoing revolution of information and understanding into new processes and products, as well as enhanced mechanisms that help achieve goals for organizations and satisfy interested parties (Lawson & Samson, 2001). (Romijn & Albaladejo, 2002) explain how the company's innovation skills exhibit the competences and competence is necessary effectively absorb, refine, and establish existing technology into new ones. A company's innovation might involve operational procedures, product development, and customer services, resulting in many distinct studies and subjects on marketing, organizational, and technical/administrative innovations.

### **Business performance**

The accomplishments of the business is a measurement of its success (Quantananda & Haryadi, 2015) stated that the organization's performance is the outcome of total success during the business process. (Sumiati, 2015) indicates that both entrepreneurship and companies success could have an important contribution on the corporation's performance achievements. Measuring business success according to (Suci, 2009), developed from (Lee & Tsang, 2001), represents business growth consisting of numerous sales and profit increases (Rismayadi & Maemunah, 2016) assess a the business's achievement depends on its capacity to increase human resource efficiency, time management, adaptability, and meeting targets.

As stated by Reswanda (2012), The corporation's reputation can be calculated using comparable market assessments, including the accomplishments of new goods, market and customer development and strategic performance Rokhman et al. (2023) Opinions on The firm's performance can be determined through sales turnover, both repeat sales, marketing reach, and sales growth. Furthermore, Quantananda and Haryadi (2015) measuring firm success includes Finance (earnings and resources), personnel (number of workers and staff efficiency), and marketing (revenue and product frequency modifications).

## Hypothesis development

### The consequence of network capabilities on innovation capabilities

Abdirahman et al. (2014) explained that networking is one of the effective strategies in creating an innovation. Hilmeresson & Hilmeresson (2021) shows that networking skills are a means to accelerate the course of innovation within an organization. Hilmeresson (2021) also added that companies that are just starting can also compensate for the delay in starting the venture and pursue the level of innovation by utilizing its network of resources.

There is a strong association among the company's position in the system and the innovation activities carried out (Bang Nguyen, Dilip, 2015). Even SMEs, in particular, must form networks and cooperate with others in regards to completing their powers and improving their skills. It can be estimated that companies that are active in sourcing resources in their networks are able to compensate for more time to innovate (Singh et al., 2022) concluded that networking capabilities have demonstrated to have a favorable affect innovation capabilities in multiple investigations were undertaken in various industry fields and nations.

**Hypothesis 1:** Network capabilities have a beneficial and important impact on innovation capabilities.

### The consequence of innovation capability on business performance

The connection between innovation ability and business performance in SMEs has been explained in various investigations. Håkansson and Olsen (2012) and Ali et al. (2020) explain that innovation ability The ability to respond appropriately and efficiently to market needs and business environments that are fluctuating. With the ability to innovate, business actors can have the best business strategy to obtain better profits as well.

The research was undertaken by (Maldonado-Guzmán et al., 2019) Shows the outcomes that innovations in goods, management, promotion, and processes have a good and substantial consequences on Business performance. (Turulja & Bajgoric, 2019) stated that innovation capabilities have been proven to positively affect business achievement in various investigations done in various Industry fields and nations consequences on Business.

**Hypothesis 2:** The capability to innovate has an significant and beneficial consequence on business performance.

### The consequences of network capabilities on business performance

The relationship between the business's capacity to handle a network can be important for the overall performance of the company. According to Mu (2013), Network capacity is the competency of companies to explore and utilize complementary social ties competently and systematically. In addition, networking capabilities are the process by which companies search, organize, and utilize connections, contacts, and social bonds over time to expand their social networks.

Based on network theory according to (Yang & Liu, 2012b), there are favorable correlations between network linkages and several areas of business performance. Furthermore, the conclusions reported in a research project by (Sefiani et al., 2018), It was discovered that the expansion of networks, both domestically and worldwide, had a good consequence on the firm's development. The situation is in conformity with the opinions of Yang and Liu (2012), where companies that have superior networks can obtain and multiply access to additional resources and information on reduction expenses, to strengthen company performance.

**Hypothesis 3:** Network capabilities make a beneficial and meaningful impact on business performance.

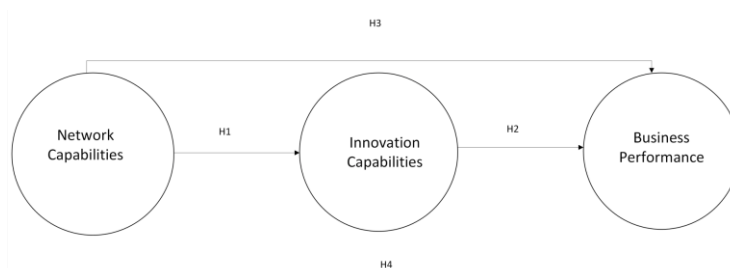
### The effect of network capabilities on business performance through innovation capabilities.

Abdirahman et al. (2014) argues that a networking strategy is an effective strategy for MSMEs in achieving open innovation. How many researchers see networking skills as an organizational ability and also as a cutting-edge strategy in handling various relationships by facilitating, coordinating, maintaining, and complementing internal communication through partner knowledge in order to

sustain excellent performance (Parida et al., 2017). According to Parida et al. (2017), the existence of networking capabilities allows relationships between various different sources in a network, then has an impact on the results of a higher degree of innovation by effectively understanding consumer needs.

Some researchers see networking capabilities as organizational capabilities and as an innovative strategy in handling various relationships based on facilitating, collaborating, upholding, and supplementing interpersonal interaction with partner understanding maintain Excellent performance. Based on the findings made by (Parida et al., 2017), it was found that there was significant support from network capabilities that were strong predecessors of innovation which then led to high performance results of the company.

Hypothesis 4: Network capabilities positively and significantly affect business performance through innovation capabilities



**Figure 1: Research model**

Source: Secondary data examined, 2024

## METHODOLOGY

This study contains a descriptive Quantitative method using non-probability methods of sampling with purposive sampling methods conducted at Fashion and Craft SMEs in Greater Malang, Indonesia. Researchers using 250 Fashion Craft SMEs were chosen as a representative sample of the present investigation. Analysis of investigate data using SEM using AMOS programs. The measured constructs include Business Performance which consists of 3 indicators and 9 items adapting (Kneipp et al., 2019; Rofiaty, 2019). Network Capability consisting of 4 indicators and 11 items using (Maghsoudi Ganjeh et al., 2019; Mu, 2014; Ritter & Gemünden, 2003; Solano Acosta et al., 2018; Walter et al., 2006). Innovation Ability derived from 4 indicators and 11 items taken using (Gunday et al., 2011; Kafetzopoulos et al., 2020; Kafetzopoulos & Psomas, 2015; Turulja & Bajgoric, 2019) all use the Likert scale ranges from very agreeing to very disagreeing (1 to 5).

The investigator gathered information by giving questionnaires to the investigation's participants. The elements of the specimen utilized in this investigation are described in Table 1.

**Table 1: Respondents sample of the research**

| No | Characteristic         | Sum | Percent |
|----|------------------------|-----|---------|
|    | <b>Gender</b>          |     |         |
| 1  | Man                    | 37  | 14.8%   |
| 2  | Woman                  | 213 | 85.2%   |
|    | <b>Age</b>             |     |         |
| 1  | <30 years              | 26  | 10.4%   |
| 2  | 31-40 years old        | 50  | 20.0%   |
| 3  | 41-50 years old        | 91  | 36.4%   |
| 4  | 51-60 years old        | 71  | 28.4%   |
| 5  | >60 years              | 12  | 4.8%    |
|    | <b>Education Level</b> |     |         |
| 1  | Elementary School      | 2   | 0.8%    |

|   |   |            |             |
|---|---|------------|-------------|
| 2 | Junior High School                      | 16         | 6.4%        |
| 3 | Senior High School                      | 98         | 39.2%       |
| 4 | Diploma                                 | 22         | 8.8%        |
| 5 | Bachelor                                | 79         | 31.6%       |
| 6 | Magister                                | 20         | 8.0%        |
| 7 | Doctor                                  | 2          | 0.8%        |
| 8 | Others                                  | 11         | 4.4%        |
|   | <b>Length of Business Establishment</b> |            |             |
| 1 | <10 years                               | 173        | 69.2%       |
| 2 | 11-20 years                             | 64         | 25.6%       |
| 3 | 21-30 years old                         | 9          | 3.6%        |
| 4 | >30 years                               | 4          | 1.6%        |
|   | <b>Total</b>                            | <b>250</b> | <b>100%</b> |

## RESULT AND DISCUSSION

Table 2 below discusses descriptive, matrix correlation, standard deviation, and average values related to entrepreneurial orientation variables, network capabilities, innovation capabilities, and Performance of Fashion Craft SMEs. For the average value of all variables above 4 which implies that the respondents have a very high or excellent level of entrepreneurial orientation, networking capabilities, innovation ability, and performance.

**Table 2: Mean, standard deviation, and construction correlation**

| Construct                            | Mean  | Std. Dev. | EO      | NC      | IC      | SMEP  |
|--------------------------------------|-------|-----------|---------|---------|---------|-------|
| Networking Capability (NC)           | 4.171 | 0.720     | 0.620** | 1.000   |         |       |
| Innovation Capability (IC)           | 4.148 | 0.750     | 0.694** | 0.639** | 1.000   |       |
| SME Performance (SMEP)               | 4.126 | 0.730     | 0.592** | 0.679** | 0.691** | 1.000 |
| Note: * $p < 0.05$ , ** $p < 0.01$ . |       |           |         |         |         |       |

### Validity and reliability testing

The present investigation assesses the validity utilizing the confirmation factor test (CFA) which is an equivalent test to the measurement model test which is carried out unidimensionally (one latent variable) and multidimensionally (all latent variables), while the reliability test uses a construction reliability test by examining the Critical Ratio (CR) value. Additional investigations indicated the values of Discriminant Validity (DV), Average Variance Extract (AVE), and Construct Reliability (CR) on each exogenous variable and endogenous variable.

The convergence test for validity is conducted by contrasting the loading factor value of each indicator with a predetermined value limit of greater than 0.50. The outcomes of tests obtained a loading factor of more than 0.50 from each indicator so that it was stated that each indicator used in each variable had met the requirements of the convergence validity test. The outcomes of the construct reliability test obtained a build the reliability score is bigger than 0.70 so that it was stated that each variable had fulfilled the specifications of the construction reliability test. The outcome of the dispersion extracted test obtained a variance extracted value of above 0.50 so that it was stated that each variable had met the criteria of the construction validity test. Then, the validity test of discrimination using the Fornell-Larcker method was carried out by complement the rectangular shape fundamental value of AVE with the association value of latent variables. The findings of the examination on entrepreneurial orientation (X1), network capability (X2), innovation ability (X3), and performance of fashion craft SMEs (Y) obtained a the square root value of AVE exceeds the relationship between latent variables. so that it was stated that the variable had met the requirements of the discrimination validity test. All results could be observed in Table 3 below.

**Table 3: Scale items for measurement**

| Construct                  | Item  | Standardized factor loading | CR    | AVE   | DV    |
|----------------------------|-------|-----------------------------|-------|-------|-------|
| Networking Capability (NC) | NC1   | 0.759                       | 0.817 | 0.528 | 0.722 |
|                            | NC2   | 0.692                       |       |       |       |
|                            | NC3   | 0.738                       |       |       |       |
|                            | NC4   | 0.716                       |       |       |       |
| Innovation Capability (IC) | IC1   | 0.668                       | 0.827 | 0.547 | 0.739 |
|                            | IC2   | 0.780                       |       |       |       |
|                            | IC3   | 0.818                       |       |       |       |
|                            | IC4   | 0.680                       |       |       |       |
| SME Performance (SMEP)     | SMEP1 | 0.732                       | 0.784 | 0.547 | 0.746 |
|                            | SMEP2 | 0.722                       |       |       |       |
|                            | SMEP3 | 0.765                       |       |       |       |
|                            |       |                             |       |       |       |

### Hypotheses test

Table 4 presents a CMIN/DF value of 1.592 and a Root Mean Square Error of Approximation (RMSEA) of 0.049, indicating that the model is a good fit and can be applied. The *Goodness of Fit Index* (GFI) test value was 0.912 and the Tucker-Lewis Index (TLI) test was 0.945. The Incremental Fit Index (NFI) test score of 0.957, and the *Comparative Fit Index* (CFI) test of 0.956 showed that the model met the requirements so it was declared a fit model. With these results, it is stated that the model can be used because it meets several criteria of CMIN/DF, RMSEA, GFI, TLI, CFI, and NFI.

**Table 4: Model fit test**

|                    | CMIN/DF | GFI   | TLI   | NFI   | CFI   | RMSEA |
|--------------------|---------|-------|-------|-------|-------|-------|
| Structure model    | 1.592   | 0.912 | 0.945 | 0.957 | 0.956 | 0.049 |
| Recommended values | <2      | >0.9  | >0.9  | >0.9  | >0.9  | <0.08 |

**Table 5: Testing hypothesis models**

| Interaction variables   | Proposed effects | Path Coefficient | T value | Importance | Result      |
|---|------------------|------------------|---------|------------|-------------|
| Networking capabilities – Performance of Fashion Craft SMEs                           | Positive         | 0.290            | 2.046   | 0.041      | Significant |
| Innovation Ability – Performance of Fashion Craft SMEs                                | Positive         | 0.371            | 2.420   | 0.016      | Significant |
| Network capabilities – innovation capabilities  | Positive         | 0.760            | 7.728   | 0.000      | Significant |
| Networking capabilities – Innovation Capabilities – Performance of Fashion Craft SMEs | Positive         | 0.282            | 2.112   | 0.036      | Significant |
| Note: Significant at $p \leq 0.10$ ; if $(t) \geq 1.96$ .                             |                  |                  |         |            |             |

Table 5 above explains that all hypothesis of the relationship between variables produces significant and positive results and Figure 1 below is presented the research model development.

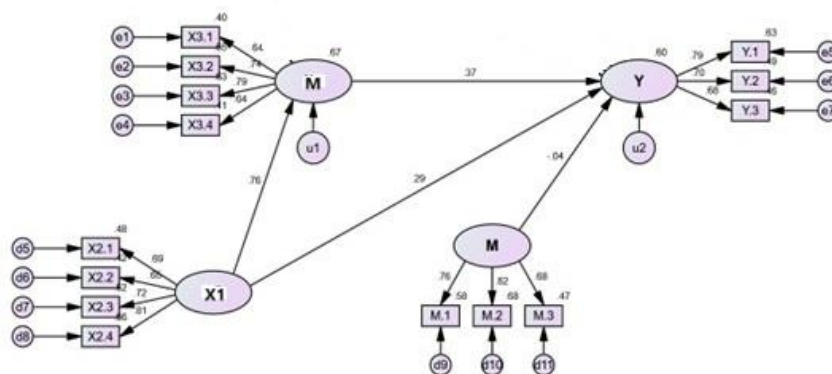
1. The significance test of the influence between network abilities on the performance of fashion craft SMEs generated a pathway result of 0.290 using statistical analysis t-value of 2.046 and a significant value of 0.041. The outcomes reveal that the statistical t-value is greater than t table ( $t > 1.960$ ). Furthermore, the significance of the amount shown is less than 0.05 ( $p < 0.05$ ) so that it is mentioned that network capabilities have a positive and meaningful affect on the performance of fashion craft SMEs, meaning that the higher/better the network capability will have an immense affect on the higher/better performance of fashion craft SMEs.
2. The significance test of the influence between network capabilities on innovation capabilities produced a pathway component of 0.760 using statistical analysis t-value of 7.728 and a significant value of 0.000. The outcomes showed that the statistical t value was above and



beyond t table ( $t > 1.960$ ) and the significance value was fewer than 0.05 ( $p < 0.05$ ) so that it was mentioned that network capability had a positive and significant influence on innovation ability, this means that the higher/better network capability would have an enormous impact on the higher/better innovation capability.

3. The significance test of the influence between innovation ability on the performance of fashion craft SMEs was obtained with the pathway component of 0.371 using statistical analysis t-value of 2.421 and a significance value of 0.015. The outcomes showed that the statistical t-value was above and beyond the t-table ( $t > 1.960$ ) and the significance value was fewer than 0.05 ( $p < 0.05$ ) so that it was mentioned that the capability to invent had a positive and important influence on business performance (Y), this indicates that the higher/greater the ability to innovate would have an enormous affect on the higher/better performance of fashion craft SMEs.
4. The significance test of the influence between network capabilities and the mediation of innovation ability on business performance generated a pathway value of 0.282 with a statistical t-value of 2.291 and a significance value of 0.023. The findings reveal that the statistical t value is more than the t table ( $t > 1.960$ ) and the significance value is fewer than 0.05 ( $p < 0.05$ ) so that it is mentioned that the network capability (X2) with the mediation of innovation ability has a positive and essential implications on the performance of fashion craft SMEs, meaning that the greater/better the network capability will have an enormous impact on the higher/better innovation ability, and will indirectly have an tremendous affect on the higher/better performance of fashion craft SMEs.

## Research model development



**Figure 2: Research model development**

Source: Primary data analyzed, 2024.

## DISCUSSION

The findings of this study highlight the pivotal role of network capabilities in enhancing the innovation capabilities of fashion craft SMEs in Indonesia. Network capabilities, which include the ability to coordinate, establish relationships, and share information with partners, significantly improve SMEs' capacity for organizational, technological, and product innovation. Cooperative networks among business actors facilitate the exchange of information and complementary skills, accelerating the innovation process. For instance, effective networking enables businesses to access skilled employees, quality raw materials, and streamlined production processes, thereby fostering mutual benefits and innovation. This aligns with previous research emphasizing the positive correlation between network capabilities and innovation capabilities (Singh et al., 2022). However, it is imperative for these SMEs to first establish effective internal communication within teams to align their vision, mission, and strategies with those of their partners.

Innovation capability, in turn, directly enhances the business performance of fashion craft SMEs. The ability to innovate enables businesses to respond efficiently to market demands, even amidst market fluctuations, thereby driving profitability and resource optimization. This supports prior studies, which found a favorable association between innovation capability and business performance



(Kafetzopoulos et al., 2020; Maldonado-Guzmán et al., 2019; Turulja & Bajgoric, 2019). For Indonesian fashion craft SMEs, innovation across products, processes, marketing, and organizational strategies contributes to producing high-quality products that meet customer expectations and build satisfaction.

Furthermore, network capabilities directly improve the business performance of these SMEs. Effective internal communication, as the strongest dimension of networking capability, ensures regular and efficient interactions among employees and fosters flexible negotiations and problem-solving with external partners. These findings align with previous research that underscores the significant impact of networking capabilities on business performance. (Maghsoudi Ganjeh et al., 2019; Sefiani et al., 2018; Yang & Liu, 2012) Yang additionally note that strong networking capabilities provide access to external resources, reduce costs, and ultimately enhance company performance.

Importantly, the study confirms that network capabilities positively and significantly influence business performance through innovation capabilities. SMEs with robust networking capabilities are better positioned to innovate in product development, marketing strategies, production processes, and organizational coordination, leading to improved financial performance. Innovation becomes an integral part of business culture, optimizing operational processes and fostering competitiveness. The synergistic effect of networking and innovation capabilities not only strengthens the company's market position but also opens new business opportunities and enhances overall performance. These findings resonate with earlier studies, which identified innovation capabilities as a critical mediator between networking and performance (Singh et al., 2022; Parida et al., 2017)), highlighting the transformative potential of integrating these capabilities in business strategies.

## **CONCLUSION**

Resource Based View (RBV) is a concept that explains how companies compete in adaptation between internal company resources and external opportunities. According to the evaluation that was successfully accomplished, this study resulted in the conclusion that the network capabilities and innovation capabilities has a good and strong contribute to affect on business performance. The influence of innovation capability also has a good consequence on corporate performance. networking capabilities mediated by innovation capabilities also have a major affect on business performance.

According to the evaluation that was successfully accomplished, this study resulted in the conclusion that the network capabilities has a good and strong contribute to affect innovation capabilities. The influence of innovation capability also has a good impact on corporate performance. Networking capabilities mediated by innovation capabilities also have a major effect on business performance.

The network capabilities owned by Greater Malang fashion Craft SMEs can produce increased innovation capabilities, both in terms of organizational, technological, and product innovation. A network of cooperation between business actors can help obtain information and complete skills, so this certainly makes it easier to accelerate innovation. In terms of small-scale companies, it is very important for business actors to continue to innovate for business continuity and anticipate threats from other larger companies. Through the skill of establishing relationships with other businesses, of course, it can facilitate the mutually beneficial innovation process such as getting competent employees in their fields, quality raw material information, improving the production process to become more efficient.

Good innovation ability can produce high business performance directly, considering that with the ability to innovate, a business responds to market needs effectively and efficiently even in the midst of fluctuations. In addition, innovation capabilities also make it easier for businesses to obtain better profits through the use and maximization of resources. This is related to the ability to find innovative new ideas, meaning that the Greater Malang Fashion Craft SME is able to present new ideas that help business growth.

Greater Malang craft fashion SMEs are able to establish relationships with other businesses, be flexible in negotiating, and be able to find solutions to problems with business partners. Business

actors in Malang Raya craft fashion SMEs also have good knowledge related to business partners where they know the target market, production process, and strengths and weaknesses of their business partners.

Greater Malang fashion craft SMEs need good network capabilities to improve their business performance both in terms of increasing profits, consumer satisfaction, market share acquisition, through good innovation capabilities. The results of the study show that the ability of businesses to innovate products that are market fit, marketing that attracts consumers to convert purchases, effective production processes, organizational innovation and coordination are proven to improve the performance of Greater Malang craft fashion SMEs.

## LIMITATIONS AND RECOMMENDATIONS

Limitation of this investigation are connected to the questionnaires approach which have limitations in capturing the complexity of the phenomenon being studied. Questionnaires are often unable to capture the nuances or more in-depth context that may be obtained through qualitative strategies such as comprehensive interviews or case research. Further research can expand the scope, for example, several regions in East Java, Indonesia so that the range of respondents is more representative and can consider adding qualitative research methods in order to get broader and more comprehensive answers from informants.

### Author's contribution

R.D. Kumalasari – statement of the problem, development of the concept of the article, critical analysis of literature, collection of statistical data, formation of tables and figure, and description of the results and the formation of conclusions of the study.

A. Sudiro – guiding and directing in statement of the problem, development of the concept of the article, critical analysis of literature, collection of statistical data, formation of tables and figure, and description of the results and the formation of conclusions of the study.

Rofiaty - guiding and directing in statement of the problem, development of the concept of the article, critical analysis of literature, collection of statistical data, formation of tables and figure, and description of the results and the formation of conclusions of the study.

Djumahir - guiding and directing in statement of the problem, development of the concept of the article, critical analysis of literature, collection of statistical data, formation of tables and figure, and description of the results and the formation of conclusions of the study.

### Acknowledgement

Thank you to all parties who supported this research, especially my promoters and co-promoters at the Doctoral Program in Management Department, Faculty of Economics and Business, University of Brawijaya, Malang, East Java, Indonesia.

## REFERENCES

- Abdirahman, Z. Z., Suavée, L., & Shiri, G. (2014). Analyzing network effects of Corporate Social Responsibility implementation in food small and medium enterprises. *Journal on Chain and Network Science*, 14(2), 103–115. <https://doi.org/10.3920/JCNS2014.x005>
- Agyapong, A., Mensah, H. K., & Ayuuni, A. M. (2018). The moderating role of social network on the relationship between innovative capability and performance in the hotel industry. *International Journal of Emerging Markets*, 13(5), 801–823. <https://doi.org/10.1108/IJoEM-11-2016-0293>
- Al-Ansari, Y., Pervan, S., & Xu, J. (2013). Innovation and business performance of SMEs: The case of Dubai. *Education, Business and Society: Contemporary Middle Eastern Issues*, 6(3), 162–180. <https://doi.org/10.1108/EBS-04-2013-0012>
- Al-Hakimi, M. A., Saleh, M. H., & Borade, D. B. (2021). Entrepreneurial orientation and supply chain resilience of manufacturing SMEs in Yemen: the mediating effects of absorptive capacity and innovation. *Heliyon*, 7(10), e08145. <https://doi.org/10.1016/j.heliyon.2021.e08145>
- Al Mamun, A., Fazal, S. A., & Muniady, R. (2019). Entrepreneurial knowledge, skills, competencies and performance. *Asia Pacific Journal of Innovation and Entrepreneurship*, 13(1), 29–48.

- <https://doi.org/10.1108/apjie-11-2018-0067>
- Ali, G. A., Hilman, H., & Gorondutse, A. H. (2020). Effect of entrepreneurial orientation, market orientation and total quality management on performance. *Benchmarking: An International Journal*, 27(4), 1503–1531. <https://doi.org/10.1108/BIJ-08-2019-0391>
- Alvarez-Torres, F. J., Lopez-Torres, G. C., & Schiuma, G. (2019). Linking entrepreneurial orientation to SMEs' performance: Implications for entrepreneurship universities. *Management Decision*, 57(12), 3364–3386. <https://doi.org/10.1108/MD-11-2018-1234>
- Bang Nguyen, Dilip, S. M. (2015). 기사 (Article) 와 안내문 (Information) [. *The Eletronic Library*, 34(1), 1–5.
- Barney, J. B., & Arikan, A. M. (2005). The Resource-based View. In *The Blackwell Handbook of Strategic Management* (pp. 123–182). Wiley. <https://doi.org/10.1111/b.9780631218616.2006.00006.x>
- Barney, J., Wright, M., & Ketchen, D. J. (2001). The resource-based view of the firm: Ten years after 1991. *Journal of Management*, 27(6), 625–641. <https://doi.org/10.1177/014920630102700601>
- Boso, N., Story, V. M., & Cadogan, J. W. (2013). Entrepreneurial orientation, market orientation, network ties, and performance: Study of entrepreneurial firms in a developing economy. *Journal of Business Venturing*, 28(6), 708–727. <https://doi.org/10.1016/j.jbusvent.2013.04.001>
- Calantone, R. J., Cavusgil, S. T., & Zhao, Y. (2002). Learning orientation, firm innovation capability, and firm performance. *Industrial Marketing Management*, 31(6), 515–524. [https://doi.org/10.1016/S0019-8501\(01\)00203-6](https://doi.org/10.1016/S0019-8501(01)00203-6)
- Covin, J. G., & Slevin, D. P. (1989). Strategic management of small firms in hostile and benign environments. *Strategic Management Journal*, 10(1), 75–87. <https://doi.org/10.1002/smj.4250100107>
- Covin, J. G., & Wales, W. J. (2019). Crafting High-Impact Entrepreneurial Orientation Research: Some Suggested Guidelines. *Entrepreneurship Theory and Practice*, 43(1), 3–18. <https://doi.org/10.1177/1042258718773181>
- Eggers, F., Niemand, T., Filser, M., Kraus, S., & Berchtold, J. (2020). To network or not to network – Is that really the question? The impact of networking intensity and strategic orientations on innovation success. *Technological Forecasting and Social Change*, 155(September), 0–1. <https://doi.org/10.1016/j.techfore.2018.09.003>
- EndahWahyuningsih, S., & Murwatiningsih. (2017). Membangun jejaring kewirausahaan melalui keunggulan usaha konveksi untuk meningkatkan kinerja pemasaran. *Teknobugae*, 4(1), 76–94. <https://journal.unnes.ac.id/nju/index.php/teknobuga/article/view/13853%0Ahttps://journal.unnes.ac.id/nju/index.php/JKT/article/view/12186>
- Faizi, F., Wulandana, N. P., Alya, A., & Lombu, A. A. (2022). Dampak Pandemi Covid-19 Terhadap Umkm Di Indonesia. *Jurnal Lentera Bisnis*, 11(2), 137. <https://doi.org/10.34127/jrlab.v11i2.510>
- Ferreras-Méndez, J. L., Olmos-Peñuela, J., Salas-Vallina, A., & Alegre, J. (2021a). Entrepreneurial orientation and new product development performance in SMEs: The mediating role of business model innovation. *Technovation*, 108(June). <https://doi.org/10.1016/j.technovation.2021.102325>
- Ferreras-Méndez, J. L., Olmos-Peñuela, J., Salas-Vallina, A., & Alegre, J. (2021b). Entrepreneurial orientation and new product development performance in SMEs: The mediating role of business model innovation. *Technovation*, 108, 102325. <https://doi.org/10.1016/j.technovation.2021.102325>
- Gunday, G., Ulusoy, G., Kilic, K., & Alpkan, L. (2011). Effects of innovation types on firm performance. *International Journal of Production Economics*, 133(2), 662–676. <https://doi.org/10.1016/j.ijpe.2011.05.014>
- Håkansson, H., & Olsen, P. (2012). Innovation management in networked economies. *Journal of Business Market Management*, 5(2), 79–105. <http://jbm-online.net/index.php/jbm/article/view/15>
- Hilmersson, F. P., & Hilmersson, M. (2021). Networking to accelerate the pace of SME innovations.

- Journal of Innovation and Knowledge*, 6(1), 43–49. <https://doi.org/10.1016/j.jik.2020.10.001>
- Hsu, D. H., & Ziedonis, R. H. (2013). Resources as dual sources of advantage: Implications for valuing entrepreneurial-firm patents. *Strategic Management Journal*, 34(7), 761–781. <https://doi.org/10.1002/smj.2037>
- Huang, S. K., & Wang, Y.-L. (2011). Entrepreneurial orientation, learning orientation, and innovation in small and medium enterprises. *Procedia - Social and Behavioral Sciences*, 24, 563–570. <https://doi.org/10.1016/j.sbspro.2011.09.004>
- Hutahayan, B. (2019). Factors affecting the performance of Indonesian special food SMEs in entrepreneurial orientation in East Java. *Asia Pacific Journal of Innovation and Entrepreneurship*, 13(2), 231–246. <https://doi.org/10.1108/apjie-09-2018-0053>
- Kafetzopoulos, D., & Psomas, E. (2015). The impact of innovation capability on the performance of manufacturing companies the Greek case. In *Journal of Manufacturing Technology Management* (Vol. 26, Issue 1). <https://doi.org/10.1108/JMTM-12-2012-0117>
- Kafetzopoulos, D., Psomas, E., & Skalkos, D. (2020). Innovation dimensions and business performance under environmental uncertainty. *European Journal of Innovation Management*, 23(5), 856–876. <https://doi.org/10.1108/EJIM-07-2019-0197>
- Kneipp, J. M., Gomes, C. M., Bichueti, R. S., Frizzo, K., & Perlin, A. P. (2019). Sustainable innovation practices and their relationship with the performance of industrial companies. *Revista de Gestao*, 26(2), 94–111. <https://doi.org/10.1108/REGE-01-2018-0005>
- Knight, G. A., & Liesch, P. W. (2016). Internationalization: From incremental to born global. *Journal of World Business*, 51(1), 93–102. <https://doi.org/10.1016/j.jwb.2015.08.011>
- LAWSON, B., & SAMSON, D. (2001). DEVELOPING INNOVATION CAPABILITY IN ORGANISATIONS: A DYNAMIC CAPABILITIES APPROACH. *International Journal of Innovation Management*, 05(03), 377–400. <https://doi.org/10.1142/S1363919601000427>
- Lee, D. Y., & Tsang, E. W. K. (2001). The effects of entrepreneurial personality, background and network activities on venture growth\*. *Journal of Management Studies*, 38(4), 583–602. <https://doi.org/10.1111/1467-6486.00250>
- Lee, S. M., & Peterson, S. J. (2000). Culture, entrepreneurial orientation, and global competitiveness. *Journal of World Business*, 35(4), 401–416. [https://doi.org/10.1016/S1090-9516\(00\)00045-6](https://doi.org/10.1016/S1090-9516(00)00045-6)
- Lumpkin, G. ., & Dess, G. G. (2001). Linking two dimensions of entrepreneurial orientation to firm performance. *Journal of Business Venturing*, 16(5), 429–451. [https://doi.org/10.1016/S0883-9026\(00\)00048-3](https://doi.org/10.1016/S0883-9026(00)00048-3)
- Lyon, D. W., Lumpkin, G. T., & Dess, G. G. (2000). Enhancing Entrepreneurial Orientation Research: Operationalizing and Measuring a Key Strategic Decision Making Process. *Journal of Management*, 26(5), 1055–1085. <https://doi.org/10.1177/014920630002600503>
- Maghsoudi Ganjeh, Y., Khani, N., & Alem Tabriz, A. (2019). Social media usage and commercialization performance: role of networking capability. *Journal of Science and Technology Policy Management*, 10(5), 1174–1195. <https://doi.org/10.1108/JSTPM-10-2018-0102>
- Maldonado-Guzmán, G., Garza-Reyes, J. A., Pinzón-Castro, S. Y., & Kumar, V. (2019). Innovation capabilities and performance: are they truly linked in SMEs? *International Journal of Innovation Science*, 11(1), 48–62. <https://doi.org/10.1108/IJIS-12-2017-0139>
- Miftakhuljanah, O., Priatna, W. B., & Suharno, S. (2016). Peran Wanita pada Industri Kecil Kerupuk Kemplang Di Kabupaten Ogan Ilir. *Jurnal Manajemen Dan Agribisnis*, 13(2), 122–131. <https://doi.org/10.17358/JMA.13.2.122>
- Mu, J. (2013). Networking capability, new venture performance and entrepreneurial rent. *Journal of Research in Marketing and Entrepreneurship*, 15(2), 101–123. <https://doi.org/10.1108/JRME-06-2012-0011>
- Mu, J. (2014). Networking Capability, Network Structure, and New. *IEEE Transactions on Engineering Management*, 61(4), 599–609.
- Mustikowati, R. I., & Tysari, I. (2015). Orientasi Kewirausahaan, Inovasi, Dan Strategi Bisnis Untuk Meningkatkan Kinerja Perusahaan (Studi Pada Ukm Sentra Kabupaten Malang). *Jurnal Ekonomi MODERNISASI*, 10(1), 23. <https://doi.org/10.21067/jem.v10i1.771>
- Parida, V., Pesämaa, O., Wincent, J., & Westerberg, M. (2017). Network capability, innovativeness, and performance: a multidimensional extension for entrepreneurship. *Entrepreneurship and Regional Development*, 29(1–2), 94–115. <https://doi.org/10.1080/08985626.2016.1255434>

- Quantananda, E., & Haryadi, B. (2015). Makanan Dan Minuman Di Surabaya. *Agora*, 3(1), 706–715.
- Rahayu Puji Suci. (2009). Peningkatan Kinerja Melalui Orientasi Kewirausahaan, Kemampuan Manajemen, dan Strategi Bisnis (Studi pada Industri Kecil Menengah Bordir di Jawa Timur). *Jurnal Manajemen Dan Kewirausahaan*, 11(1), pp.46-58. <http://puslit2.petra.ac.id/ejournal/index.php/man/article/view/17745>
- Rehman, F. ur, Bin Md Yusoff, R., Bin Mohamed Zabri, S., & Binti Ismail, F. (2017). Determinants of personal factors in influencing the buying behavior of consumers in sales promotion: a case of fashion industry. *Young Consumers*, 18(4), 408–424. <https://doi.org/10.1108/YC-06-2017-00705>
- Reswanda. (2012). *Reswanda, Pengaruh Orientasi Kewirausahaan ... ISSN: 1412-5366 ... ISSN: 1412-5366*. XI(2), 65–91.
- Rigtering, J. P. C., Eggers, F., Kraus, S., & Chang, M. L. (2017). Entrepreneurial orientation, strategic planning and firm performance: the impact of national cultures. *European J. of International Management*, 11(3), 301. <https://doi.org/10.1504/EJIM.2017.083872>
- Rismayadi, B., & Maemunah, M. (2016). Pengaruh Motivasi Kerja, Kepemimpinan dan Budaya Organisasi Terhadap Kepuasan Kerja Karyawan serta Dampaknya pada Kinerja Perusahaan (Studi kasus pada PT. Concord Indonesia). *Jurnal Manajemen & Bisnis Kreatif*, 2(1), 124–135. <https://doi.org/10.36805/manajemen.v2i1.181>
- Ritter, T., & Gemünden, H. G. (2003). Interorganizational relationships and networks. *Journal of Business Research*, 56(9), 691–697. [https://doi.org/10.1016/S0148-2963\(01\)00254-5](https://doi.org/10.1016/S0148-2963(01)00254-5)
- Rofiaty, R. (2019). The relational model of entrepreneurship and knowledge management toward innovation, strategy implementation and improving Islamic boarding school performance. *Journal of Modelling in Management*, 14(3), 662–685. <https://doi.org/10.1108/JM2-05-2018-0068>
- Rokhman, M. T. N., Armanu, Setiawan, M., & Rofiaty. (2023). The implementation of resource-based theory in the relationship between intellectual capital and entrepreneurship orientation and performance-mediated innovation ability in MSMEs. *International Journal of Management and Sustainability*, 12(1), 44–58. <https://doi.org/10.18488/11.v12i1.3270>
- Romijn, H., & Albaladejo, M. (2002). Determinants of innovation capability in small electronics and software firms in southeast England. *Research Policy*, 31(7), 1053–1067. [https://doi.org/10.1016/S0048-7333\(01\)00176-7](https://doi.org/10.1016/S0048-7333(01)00176-7)
- Sefiani, Y., Davies, B. J., Bown, R., & Kite, N. (2018). Performance of SMEs in Tangier: the interface of networking and wasta. *EuroMed Journal of Business*, 13(1), 20–43. <https://doi.org/10.1108/EMJB-06-2016-0016>
- Sellappan, P., & Shanmugam, K. (2020). Delineating entrepreneurial orientation efficacy on retailer's business performance. *Management Decision*, 59(4), 858–876. <https://doi.org/10.1108/MD-01-2019-0062>
- Singh, R., Chandrashekar, D., Subrahmanya Mungila Hillemane, B., Sukumar, A., & Jafari-Sadeghi, V. (2022). Network cooperation and economic performance of SMEs: Direct and mediating impacts of innovation and internationalisation. *Journal of Business Research*, 148(April), 116–130. <https://doi.org/10.1016/j.jbusres.2022.04.032>
- Solano Acosta, A., Herrero Crespo, Á., & Collado Agudo, J. (2018). Effect of market orientation, network capability and entrepreneurial orientation on international performance of small and medium enterprises (SMEs). *International Business Review*, 27(6), 1128–1140. <https://doi.org/10.1016/j.ibusrev.2018.04.004>
- Sumiati, S. (2015). Pengaruh Strategi Orientasi Wirausaha dan Orientasi Pasar Pengaruhnya Terhadap Kinerja Perusahaan UMKM di Kota Surabaya. *Jmm17*, 2(01). <https://doi.org/10.30996/jmm17.v2i01.421>
- Talke, K., Salomo, S., & Kock, A. (2011). Top Management Team Diversity and Strategic Innovation Orientation: The Relationship and Consequences for Innovativeness and Performance. *Journal of Product Innovation Management*, 28(6), 819–832. <https://doi.org/10.1111/j.1540-5885.2011.00851.x>
- TEECE, D. J., PISANO, G., & SHUEN, A. (2008). DYNAMIC CAPABILITIES AND STRATEGIC MANAGEMENT. In *Technological Know-How, Organizational Capabilities, and Strategic Management* (pp. 27–51). WORLD SCIENTIFIC. [https://doi.org/10.1142/9789812834478\\_0002](https://doi.org/10.1142/9789812834478_0002)

- Theriou, G. (2013). Exploring the entrepreneurship- performance relationship: evidence from Greek SMEs. *Journal of Small Business and Enterprise Development*.
- Turulja, L., & Bajgoric, N. (2019). Innovation, firms' performance and environmental turbulence: is there a moderator or mediator? *European Journal of Innovation Management*, 22(1), 213–232. <https://doi.org/10.1108/EJIM-03-2018-0064>
- Walter, A., Auer, M., & Ritter, T. (2006). The impact of network capabilities and entrepreneurial orientation on university spin-off performance. *Journal of Business Venturing*, 21(4), 541–567. <https://doi.org/10.1016/j.jbusvent.2005.02.005>
- Wang, C. L. (2008). Entrepreneurial Orientation, Learning Orientation, and Firm Performance. *Entrepreneurship Theory and Practice*, 32(4), 635–657. <https://doi.org/10.1111/j.1540-6520.2008.00246.x>
- Wiklund, J., & Shepherd, D. (2003). Knowledge-based resources, entrepreneurial orientation, and the performance of small and medium-sized businesses. *Strategic Management Journal*, 24(13), 1307–1314. <https://doi.org/10.1002/smj.360>
- Wiklund, J., & Shepherd, D. (2005). Entrepreneurial orientation and small business performance: A configurational approach. *Journal of Business Venturing*, 20(1), 71–91. <https://doi.org/10.1016/j.jbusvent.2004.01.001>
- Yang, C., & Liu, H. (2012a). Boosting firm performance via enterprise agility and network structure. *Management Decision*, 50(6), 1022–1044. <https://doi.org/10.1108/00251741211238319>
- Yang, C., & Liu, H. M. (2012b). Boosting firm performance via enterprise agility and network structure. *Management Decision*, 50(6), 1022–1044. <https://doi.org/10.1108/00251741211238319>
- Zehir, C., Can, E., & Karaboga, T. (2015). Linking Entrepreneurial Orientation to Firm Performance: The Role of Differentiation Strategy and Innovation Performance. *Procedia - Social and Behavioral Sciences*, 210, 358–367. <https://doi.org/10.1016/j.sbspro.2015.11.381>