



Innovation ability in mediates on the relationship of entrepreneurship orientation, organizational culture and knowledge management on MSME performance

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Abstract

This study aims to examine the effect of organizational culture, knowledge management, and entrepreneurial orientation according to the performance of MSMEs; mediated by innovation capabilities. The sample in the study was 265 food and beverage MSMEs in Malang City, East Java Province. The analysis tool used in this study is Structural Equation Modeling (SEM). The results of the study explain entrepreneurial orientation, organizational culture, knowledge management that influence the innovation ability and the performance of food and beverage MSMEs. The ability of innovation affects the performance of MSMEs. The impact of entrepreneurial orientation, organisational culture, and knowledge management on MSME performance can be moderated by an organization's capacity for innovation. The implications of the results of this study for the development of the Resource Base View theory, that the performance of food and beverage MSMEs in Malang City will increase if MSME actors make maximum use of intangible resources through entrepreneurial orientation as shown by being proactive, carrying out an organizational culture such as consistency and using management. Good knowledge is shown by the ability of MSME actors to utilize knowledge, this condition increases innovation capabilities, especially product innovation and has an impact on improving MSME performance through product performance.

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1. Introduction

Micro, small, and medium-sized businesses (MSMEs) are crucial for both economic growth and rise in the living standard of people. According to information from the East Java Office of Cooperatives and SMEs, up to 414,000 MSMEs expand their annually and generate 57.52 percent of the region's gross domestic product (GDP). Only 6.62 percent of the MSMEs in East Java operate on a small and medium scale, or SMEs, while 93.37 percent operate on a micro scale, 5.92% operate on a small scale, and 0.70% operate on a medium scale.

The food and beverage industries are one of the suggestions for empowering MSMEs in the present economic conditions. One of the cities in East Java Province with a lot of culinary promise is Malang City. The hub for food and beverage souvenirs is one of the most well-known culinary delights. Additionally, MSMEs in the food and beverage industry continue to struggle with a variety of interconnected issues. Internal factors for food and beverage MSMEs, such as a lack of capital, constrained human resources (HR), a lack of expertise in science and technology, weak business networks, and weak market penetration abilities, are some of the issues encountered. In the meantime, external factors for MSMEs in the food and beverage industry include: a business environment that is not yet completely favorable.

In 2020, there were significant shifts in the environment that happened quickly. Due to the COVID 19 pandemic's effects, MSMEs' lives became challenging over a two-year span beginning in mid-March 2020.

The government's recommendations for social seclusion and staying in changed how MSMEs lived. (Soetjipto, 2020).

It is important to draw attention towards the study on the performance of food and beverage MSMEs because the issues that food and beverage MSMEs in Malang City experience result in poor competitiveness. The Resource-Based View (RBV) approach or Wernerfelt's resource-based view both can be used to improve the efficiency of MSMEs (Wernerfelt, 1984). RBV is the capacity and assets, both actual and intangible, that the company possesses. This collection of assets can be used to select and define strategies to improve productivity and effectiveness (Barney, 2010). According to Robbins and Coulter (2007) RBV places a strong emphasis on comprehending the organization's prospective resources and capabilities. RBV has an effect on enhancing organizational efficiency and productivity in innovation, according to Urbancova (2013). Combining tangible and intangible assets is reportedly a potential strategy to boost business success, Knowledge management, corporate culture, and a focus on entrepreneurship (Riahi-Belkaoui, 2003).

The development of a company requires a lot of entrepreneurial orientation. This is supported by Covin and Slevin (1993) finding that a company's capacity to market its goods in the direction of improved business performance can be increased by a greater entrepreneurial orientation. Results of previous empirical studies conducted by Mustikowati and Tysari (2014); Al Mamun and Fazal (2018); Chen, Li, and Evans (2012); Cho and Joo-Heon (2018); Hutahayan (2019); Davis, Greg, Tyge, and Kreiser (2010); Hoque (2018); Musthofa, Sugeng, and Farida (2017); Imran and Aldaas (2020); Mukson, Hamidah, and Prabuwo (2021); Rezaei and Ortt (2018) and Hossain and Al Asheq (2019) concludes that entrepreneurial orientation has a significant effect on business performance. According to studies by Musfiady (2013); Lee, Kim, Seo, and Hight (2015); Matsuno, Mentzer, and Ozsomer (2002); Frank, Kessler, and Fink (2010); Messersmith and Wales (2013) and Hasan and Almubarak (2016), having an entrepreneurial mindset has no bearing on a company's ability to perform.

Organizational culture is another element that affects business performance. A system of common meaning or a perception that all employees share makes up an organization's culture. A shared meaning system is a collection of key traits that a business has embraced Robbins (2006). Organizational culture has a substantial impact on business performance, according to Asif and Sajjad (2018); Aboramadan, Albashiti, Alharazin, and Zaidoune (2020); Susmianto, Hermanto, and Nurmayanti (2018); Hoque (2018); Jardiou, Garengo, and El Alami (2020) and Polychroniou and Trivellas (2018). The findings of a research by Mazur and Zaborek (2016) demonstrate that organizational culture, specifically innovative culture, does not directly affect business success, particularly on indicators of new and modified products, which are frequently used as innovation metrics.

Good knowledge management also affects business success. Knowledge management, according to Davidson and Philip (2002) is a method that enables businesses to utilize the expertise, knowledge, and creativity of their staff members for business advancement. Knowledge management has a significant impact on company performance, according to Saqib and Zarine (2018); Muthuveloo, Shanmugam, and Teoh (2017); Daud, Yusoff, and Fadzilah (2010); Cardoni, Zanin, Corazza, and Paradisi (2020) and Gharakhani and Mousakhani (2012). The findings of a research by Valdez-Juárez, García-Pérez De Lema, and Maldonado-Guzmán (2016) and Byukusenge, Munene, and Orobia (2016) indicate that knowledge management has no direct impact on business performance.

There are still differences between some of the findings from earlier studies on the effects of organisational culture, entrepreneurial orientation, and knowledge management on business performance. This study fills this research gap by including innovation capacity as a mediating variable.

The capacity to innovate plays a significant role in improving organizational success, performance, and survival. Innovation is not just relevant to big corporations; it is also relevant to the MSME sector (Byukusenge et al., 2016). The MSME sector will become innovative if MSMEs can develop innovation aptitude, one of the essential elements of an innovative organisation. To succeed in the future when the MSME sector works in an uncertain environment, innovation capabilities must be developed (Saunila, Ukko, & Rantanen, 2014). According to Usman and Mat (2017); Sarsah, Tian, Dogbe, Bamfo, and Pomegbe (2020); Musawa and Ahmad (2019) and Seo (2020) a company's entrepreneurial orientation is viewed as a strategic resource to enhance innovation performance.

Innovation can be boosted by the organizational culture that MSMEs have created. The organizational culture has an impact on the effectiveness of management within the company. The development of an innovative, adaptable, and competitive advantage that is crucial for corporate success can be encouraged by organizational culture. The findings of studies by Mazur and Zaborek (2016); Abdul-Halim, Ahmad, Geare, and Thurasamy (2019); Harel, Schwartz, and Kaufmann (2021) and Erastova (2016) support the idea that innovative cultures are important for corporate innovation.

Knowledge management can affect innovation by effective information management, created by MSMEs. According to research by Hussain, Qurashi, Mujtaba, Waseem, and Iqbal (2019); Hassan and Raziq (2019); Harris, McAdam, McCausland, and Reid (2013); Byukusenge and Munene (2017) and Rahimi, Rostami, Shad, and Vafaei (2017) innovation has a direct connection with knowledge management and MSMEs business success. To boost company performance, MSMEs business owners use innovation as a knowledge management channel.

MSMEs' innovations have the potential to boost economic success. Hussain et al. (2018); Ndubisi and Iftikhar (2012) have all discussed how innovation and company performance are related. The conclusion reached by Ratnawati, Soetjipto, Murwani, and Wahyono (2018) and Hilman and Kaliappen (2015) was that the success of MSMEs is influenced by their capacity for innovation.

The performance of the food and beverage MSMEs in Malang City is being improved by using a Resource-Based View (RBV) approach that focuses on internal factors in describing business strategy through the role of entrepreneurial orientation, organizational culture, and knowledge management. According to this justification, the novelty or uniqueness of this study lies in the way it uses innovation ability as a variable to mediate the effects of entrepreneurial orientation, organizational culture, and knowledge management on the performance of MSMEs. This model was developed using Resource-Based View (RBV) as its primary theory.

2. Literature Review

2.1. Business Performance

According to Moehariono (2009) the notion of performance refers to the extent, an activity, program, or policy has been successfully implemented in order to achieve goals, objectives, and the organizational purpose as stated through an organization's strategic planning. Performance (Business performance) refers to the level of attainment or achievement of the company within a certain period of time (Suci, 2009). Munizu (2010) have proposed a number of markers to gauge an MSME's performance, such indicators being: 1) An rise in sales 2) An increase in capital 3) Every year, new employees are hired. 4) Market expansion and advertising are improving 5) Profit expansion The operational profit is improving.

2.2. Innovation

According to Jiménez-Jiménez and Sanz-Valle (2011) innovation is a more general term that refers to the use of novel concepts, items, or procedures. A basic skill for maintaining competitive advantage is innovation. Innovation, according to Calantone, Cavusgil, and Zhao (2002) is a mechanism for an organization's capacity to create new concepts, items, methods, and systems required for adjusting to changes and market rivalry. The importance of MSMEs innovation (process and product innovation), which empirically affects MSMEs' success, was highlighted by Rosli and Sidek (2013).

2.3. Entrepreneurship

Suryana (2013) a person's values, skills, and behavior in dealing with the challenges of life and how to seize opportunities while assuming various risks are the subject of the scientific field of entrepreneurship. An organization with an entrepreneurial orientation will use its guiding principles to seek out and seize chances (Witjaksono, 2014). Entrepreneurial competence is a person's basic nature and is related to the effectiveness of a person in work. A person's ability based on this understanding is unique which can be used to estimate the level its performance (Apriliani, 2016).

2.4. Organizational Culture

Culture within the organization or abbreviated as organizational culture is of course more specific, namely the culture within the organization (Mohyi, 1999). According to Schein (2004) organizational culture is a collection of fundamental presumptions, norms, and values that are shared by all members of an organization. It is then created and passed down to address issues with external adaptation and internal integration (Tika, 2006).

2.5. Knowledge Management

Khan (2012) defined knowledge management as the formalisation of experience, knowledge, and skill access that produces new capabilities that allow superior performance, stimulate innovation, and boost customer value. According to Wulantika (2012) knowledge management is the activity of managing knowledge as an asset, in which different strategies are used to distribute the right knowledge to the right people at the right time so that they can collaborate, share knowledge, and use it to improve company performance.

3. Method

In this study, a quantitative methodology was utilised to examine the impact of hypotheses based on the theory and notion of the interaction between variables. Tests between direct and indirect variables in this study are the influences of entrepreneurial orientation, organizational culture, *knowledge management*, innovation capability and performance of MSMEs. The research sample was 265 food and beverage MSMEs in Malang City. Data collection techniques in this study used questionnaires that were distributed online and in person. Structural Equation Modelling (SEM) is used in this research to test the proposed research hypothesis. Using the Likert scale test, the instrument is evaluated by assigning a score of 1 to 5 to each respondent's response. The following is the operational variable Table 1 that forms the research instrument grid.

Table 1. Operational definitions of variables.

No	Variable	Indicator	Items	Source
1	Entrepreneurial orientation (X1)	Risk taking	1. Ready to face the existing business competition 2. Spending funds to develop the business for the better	Frishammar and Ake (2007) and Lee and Tsang (2001)
		Proactive	3. Quick response to opportunities and market response 4. Marketing new products into new markets	
		Confidence	5. It can overcome difficulties according to the ability possessed 6. Able to solve problems on their own without waiting for help from others	
		Openness	7. Open yourself up to work with other MSMEs/ partners 8. Open business owners accept criticism from customers	
2	Organizational culture (X2)	Involvement	9. Ability to create in how work is done 10. It finishes tasks assigned to organizations or teams	Denison and Mishra (1995) and Lam, Nguyen, Le, and Tran (2021)
		Consistency	11. A clear set of principles and values are necessary for carrying out job. 12. Capable of reaching the same comprehension while addressing issues at work	
		Adaptation (Adaptation)	13. Keep up with changes and be able to track advancements in science and technology 14. Capable of focusing on client satisfaction	
		Mission (Mission)	15. Clearly define your company development objectives. 16. There is a distinct mission that provides work purpose and direction.	
3	Knowledge management (X3)	Knowledge acquisition	17. After getting training, educate your coworkers. 18. Actively share knowledge with co-workers whether requested or not	Supyuenyong, Islam, and Kulkarni (2009) and Mills and Smith (2011).
		Knowledge creation	19. Utilize existing knowledge for the creation of new products 20. Utilizing existing knowledge to create new ideas to support work	
		Dissemination of knowledge	21. Sharing information and knowledge that is necessary to carry out work assignments 22. Exchange ideas with employees to obtain new innovations	
		Utilization of knowledge	23. Using existing knowledge to produce products that have selling value 24. Apply available knowledge to improve performance.	
3	Innovation capability (Y1)	Product innovation	25. Able to create products to be something new for consumers 26. Able to create products with a variety of new flavors	Jiménez-Jiménez and Sanz-Valle (2005); Lin, Zhang, Liu, Wang, and Gong (2010); Baregheh, Rowley, Sambrook, and Davies (2012) and Toma, Grigore, and Marinescu (2014)
		Technological innovation	27. Utilizing technology in creating products 28. Able to adapt ideas to create exciting new products through technology	
		Marketing innovation	29. Providing a choice of new products that suit consumer needs through online media 30. Expanding marketing reach through online media	
4	MSME performance (Y2)	Financial performance	31. Profit achievement has increased in the last 3 years 32. Increase in business capital in the last 3 years	Hafeez, Shariff, and Bin Mad Lazim (2012); Abiodun (2014); Li, Ragu-Nathan, Ragu-Nathan, and Rao (2006); Nybakk (2012); Chong (2008); Aragón-Sánchez and Sánchez-Marín (2005) and Shahbaz, Khraief, Uddin, and Ozturk (2014)
		Product performance	33. Production of products has increased in the last 3 years 34. Product request increased in the last 3 years	
		Marketing performance	35. Sales growth has increased in the last 3 years 36. Customers are increased in the last 3 years	

4. Results

4.1. Confirmatory Factor Analysis Results

The factor loading value of each indicator is used to determine the knowledge management variable indicators. The results of the *Confirmatory Factor Analysis Results* test on the indicators that make up the knowledge management variable are shown in [Table 2](#).

Table 2. Confirmatory factor analysis.

Indicators and variables	Factor loading
Entrepreneurial orientation --> Risk taking	0.708
Entrepreneurial orientation --> Proactive	0.763
Entrepreneurial orientation --> Confidence	0.738
Entrepreneurial orientation --> Openness	0.752
Entrepreneurial orientation --> Risk taking	0.708
Organizational culture --> Involvement	0.633
Organizational culture --> Consistency	0.673
Organizational culture --> Adapt	0.653
Organizational culture --> Mission	0.524
Knowledge management --> Knowledge acquisition	0.763
Knowledge management --> Knowledge creation	0.608
Knowledge management --> Dissemination of knowledge	0.641
Knowledge management --> Utilization of knowledge	0.795
Innovation capability --> Product innovation	0.773
Innovation capability --> Technological innovation	0.725
Innovation capability --> Marketing innovation	0.740

According to Table 2, the variables of entrepreneurial orientation, corporate culture, knowledge management, and innovation ability all have indicators with factor loading (FL) values above 0.5. As a result, each of the evaluated indicators is crucial information for forming variables. Additionally, proactive has a loading factor value of 0.736, which is considered the largest or strongest contribution to forming the entrepreneurial orientation variable when viewed from the perspective of each indicator's value. Consistency, with a loading factor value of 0.673, is the indicator that is referred as the greatest or strongest influence on forming corporate culture variables. The use of knowledge, with a loading factor value of 0.795, has the highest or strongest impact on the formation of the knowledge management variable.

4.2. Confirmatory Factor Analysis Results

The findings of the overall model goodness of fit test in agreement with those of the SEM analysis are displayed in order to determine if the hypothetical model is supported by empirical data. Figure 1.

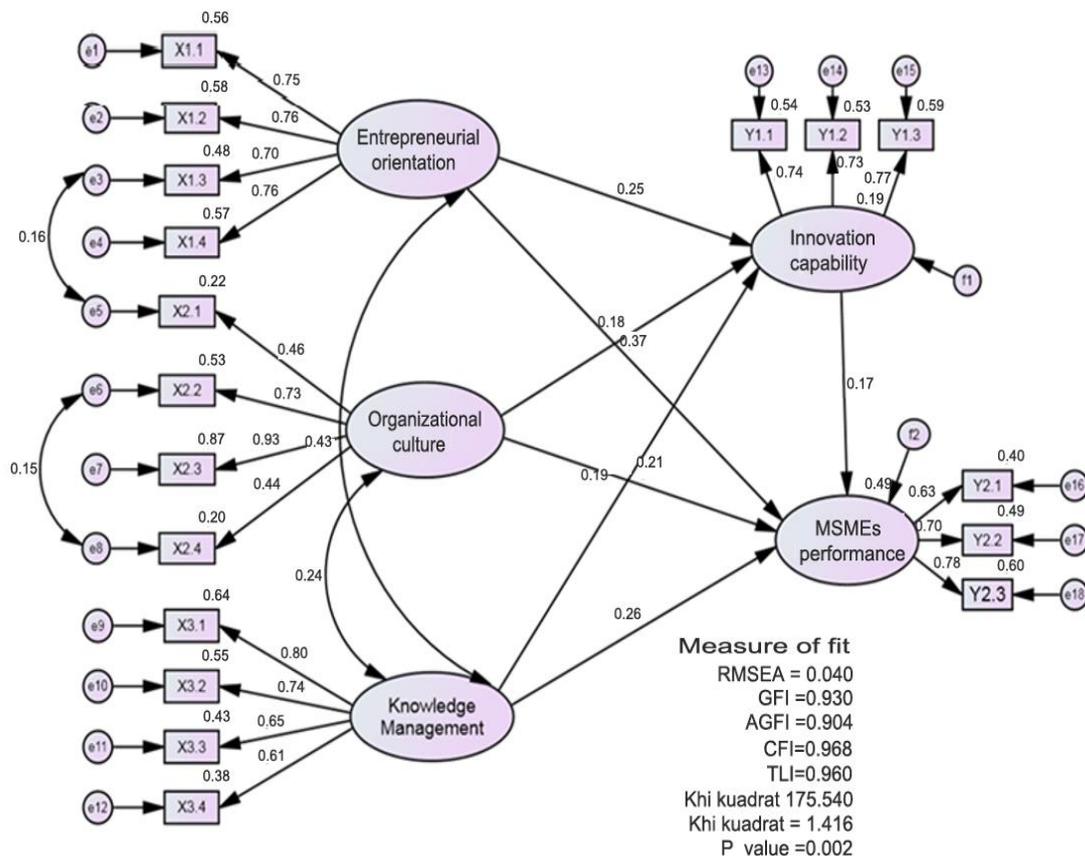


Figure 1. Research model.

The results of the Goodness of Fit Overall test based on Figure 1, explain that not all criteria indicate a good model, so therefore the hypothetical model is supported by empirical data so that it is suitable and feasible to use.

4.3. Hypothesis Testing Results

The direct effect of entrepreneurial orientation, organizational culture, knowledge management on the performance of SMEs is tested using the critical ratio (CR) which is derived from the results of the output regression weights. If the p-value is less than 5%, the research hypothesis is accepted and shown in Table 3.

Table 3 explains that entrepreneurial orientation, organizational culture and knowledge management that directly influence the innovation capabilities and performance of MSMEs that contribute in the improvement of MSME performance. While the test results are indirect/mediation, it can be explained that the ability to innovate is able to mediate the influence of entrepreneurial orientation, organizational culture and knowledge management on the performance of MSMEs as evidenced in Table 4.

5. Discussions

5.1. The Influence of Entrepreneurial Orientation on the Performance of MSMEs

Entrepreneurial orientation has the ability to improve the performance of food and beverage MSMEs in Malang City, this result can mean that food and beverage MSMEs in Malang City will have good performance as indicated by increased product performance such as an increase in the number of products produced and product demand in the last 3 years because MSME actors have an entrepreneurial orientation as shown by a proactive attitude that is manifested by being responsive to market opportunities and responses as well as marketing new products to new markets. According to Covin and Slevin (1993), a stronger entrepreneurial orientation might raise a company's capacity to sell its products in order to improve commercial success. The study's findings corroborate this claim. The findings of this study support previous empirical research by Chen et al. (2012); Cho and Joo-Heon (2018); Hutahayan (2019); Davis et al. (2010); Hoque (2018); Musthofa et al. (2017) and Hossain and Al Asheq (2019) who found a significant relationship between entrepreneurial orientation and business performance.

Table 3. Direct influence between variables.

Connection	Path coefficient	Cr	P-values	Information
Entrepreneurial orientation -> Innovation capability	0.254	2.902	0.004	Sig
Organizational culture -> Innovation capability	0.177	2.272	0.023	Sig
Knowledge management -> Innovation capability	0.186	2.096	0.036	Sig
Entrepreneurial orientation -> MSME performance	0.372	4.223	0.000	Sig
Organizational culture -> MSME performance	0.211	2.866	0.004	Sig
Knowledge management -> MSME performance	0.265	3.016	0.003	Sig
Innovation capability -> MSME performance	0.172	2.208	0.027	Sig

Table 4. Effect of entrepreneurial orientation, organizational culture and knowledge management on MSME performance through innovation capabilities.

Influence between variables	Direct influence	Indirect influence through innovation capability	Total impact
Entrepreneurial orientation -> Innovation capability	0.254	-	-
Organizational culture -> Innovation capability	0.177	-	-
Knowledge management -> Innovation capability	0.186	-	-
Entrepreneurial orientation -> MSME performance	0.372	0.254 x 0.172 = 0.044	0.416
Organizational culture -> MSME performance	0.211	0.177 x 0.172 = 0.030	0.241
Knowledge management -> MSME performance	0.265	0.186 x 0.172 = 0.032	0.297
Innovation capability -> MSME performance	0.172	-	-

5.2. The Influence of Organizational Culture on the Performance of MSMEs

In order to distinguish one organization from another, [Denison, Nieminen, and Kotrba \(2012\)](#) define organizational culture as the values, beliefs, and principles that form the foundation of the management system of the company. The performance of MSMEs with organizational culture has a fairly close relationship. If MSMEs have a good organizational culture it can create high performance for MSMEs. Based on the results of hypothesis testing, it was concluded that organizational culture influences the performance of food and beverage MSME in Malang City. This means that the culture that is run by food and beverage MSME in Malang City is shown in an attitude of consistency such as carrying out work carried out with clear values and rules and understanding in solving work problems, contributing to improving MSME performance. This performance is indicated by an increase in product performance such as an increase in the number of products produced and product demand in the last 3 years. The results of this study are corroborating previous empirical studies conducted [Asif and Sajjad \(2018\)](#); [Aboramadan et al. \(2020\)](#); [Susmianto et al. \(2018\)](#); [Hoque \(2018\)](#); [Jardioui et al. \(2020\)](#) and [Polychroniou and Trivellas \(2018\)](#) concludes that organizational culture has a significant effect on business performance.

5.3. The Influence of Knowledge Management on MSME Performance

The goal of the management function and discipline of knowledge management is to create, put into action, and assess plans that guarantee the flow of information to the appropriate person at the appropriate moment ([Kianto, Shujahat, Hussain, Nawaz, & Ali, 2019](#)). The results of hypothesis testing show that knowledge management has an impact on the performance of MSMEs in the food and beverage sector in Malang City. Because MSME actors are able to use knowledge management properly as indicated by their capacity to utilise knowledge such as using existing knowledge, food and beverage MSMEs in Malang City will perform well as evidenced by an increase in product performance such as an increase in the number of products produced and product demand in the last three years. exist to create goods with a marketable value and use the knowledge at hand to enhance performance. The results of this study are corroborating previous empirical studies conducted by [Saqib and Zarine \(2018\)](#); [Muthuveloo et al. \(2017\)](#); [Daud et al. \(2010\)](#); [Cardoni et al. \(2020\)](#); [Gharakhani and Mousakhani \(2012\)](#) concludes that knowledge management has a significant effect on business performance.

5.4. The Influence of Entrepreneurial Orientation on the Ability to Innovate

Micro, small and medium-sized enterprises (MSMEs) with a strong entrepreneurial mindset will frequently make decisions based on innovation, dare to take business risks, and frequently act pro-actively to foresee business competition and seize opportunities. Based on the findings of the experiment testing the premise, it was determined that entrepreneurial orientation had an impact on MSME food and beverage MSMEs in Malang City's capacity for invention. Malang City in running a business have an entrepreneurial orientation which is shown by a proactive attitude manifested in being responsive to market opportunities and responses and marketing new products to new markets contributing to the ability to innovate through product innovations that are carried out by creating products to be something new for consumers and create products with a variety of new flavors. The results of this study are corroborating previous empirical studies conducted [Usman and Mat \(2017\)](#); [Sarsah et al. \(2020\)](#); [Musawa and Ahmad \(2019\)](#) and [Seo \(2020\)](#) that having an entrepreneurial mindset is seen as a strategic resource for businesses looking to boost innovation, and that having an entrepreneurial mindset encourages businesses to invest more in their innovation-related activities such new product development and technology acquisition.

5.5. The Influence of Organizational Culture on the Ability to Innovate

According to the findings of hypothesis testing, organizational culture has an impact on the innovation capacity of Micro, Small and Medium Enterprises (MSMEs) in the food and beverage industry in Malang City, meaning that MSMEs will have the ability to innovate as shown by product innovation which is carried out by creating products so that they become something new for consumers. creating products with a wide selection of new flavors. MSME actors are also able to apply organizational culture properly as shown in human attitudes and behavior involving themselves in an organizational activity such as consistency in carrying out work with a clear set of values and rules and the same understanding in solving work problems. The study's conclusions are consistent with what workers or employees have said, and organisational culture affects how people perceive innovation as a corporate value and how involved they are with its activities. [Martins and Terblanche \(2003\)](#) assume that organizational culture is one of the factors that can stimulate or trigger innovative behavior among employees in an organization. The results of this study are corroborating with previous empirical studies conducted [Mazur and Zaborek \(2016\)](#); [Abdul-Halim et al. \(2019\)](#); [Harel et al. \(2021\)](#) and [Erastova \(2016\)](#) argues that culture is influential and beneficial to the ability of innovation.

5.6. The Influence of Knowledge Management on Innovation Ability

Based on the results of testing the hypothesis, it was concluded that knowledge management has an influence on the ability of MSME food and beverage innovation in Malang City, meaning that MSME actors are able to use knowledge management properly as indicated by the ability to utilize knowledge. Utilizing

knowledge to produce products that have sales value and applying available knowledge to improve performance can improve the ability of MSMEs to innovate, especially product innovation. Innovation is carried out by creating products so that they become something new for consumers and creating products with a variety of new flavors.

The results of this study are in accordance with the opinion expressed by [Gao, Li, and Clarke \(2008\)](#) that human resources are the basic capital, fundamental economic investment for companies to progress. The results of this study are corroborating with previous empirical studies conducted by [Byukusenge and Munene \(2017\)](#); [Hassan and Raziq \(2019\)](#); [Hussain et al. \(2019\)](#); [Rahimi et al. \(2017\)](#) and [Harris et al. \(2013\)](#) showed that knowledge management has an influence on innovation ability.

5.7. The Influence of Innovation Ability Affects the Performance of MSMEs

One of the most crucial traits of innovators, according to [Larsen and Lewis \(2007\)](#) is their capacity for innovation. The business won't survive for long without invention. This is a result of customers' shifting requirements, wants, and demands. Based on the results of hypothesis testing it was concluded that the ability to innovate has an influence on the performance of food and beverage MSMEs in Malang City. MSMEs will have a good performance indicated by an increase in product performance. This is because MSME actors have the ability to innovate as shown by the ability to innovate products such as creating products with new flavors.

The findings of this research support the assertion made by [Lewrick, Omar, Raeside, and Sailer \(2011\)](#) that entrepreneurs who have operated their businesses require innovation as a crucial tool in enhancing a company's performance. According to [Chaston and Scott \(2012\)](#), companies will perform better if they incorporate innovation and learning into their operations because creative enterprises may extend the life cycle of their products.

5.8. The Ability to Innovate Mediates the Effect of Entrepreneurial Orientation on the Performance of MSMEs

Innovation capacity can mediate the effect of entrepreneurial orientation on MSME performance. These findings indicate that food and beverage MSME actors in Malang City who have a proactive attitude are manifested in being responsive to market opportunities and responses and marketing new products into new markets contributing to innovation capabilities and the higher MSME actors innovate, the impact on increasing MSME performance. The results of this study develop a study conducted by [Usman and Mat \(2017\)](#); [Sarsah et al. \(2020\)](#); [Musawa and Ahmad \(2019\)](#) and [Seo \(2020\)](#) suggest that prior empirical investigations have shown that an organization's strategic resource for fostering innovation is entrepreneurial orientation. Further, a study conducted by [Hussain et al. \(2018\)](#); [Rajapathirana and Hui \(2018\)](#); [Ndubisi and Iftikhar \(2012\)](#); [Al-Ansari, Pervan, and Xu \(2013\)](#) and [Hilman and Kaliappen \(2015\)](#) concluded that innovation has an influence on the performance of MSMEs.

5.9. The Ability to Innovate Mediates the Influence of Organizational Culture on MSME Performance

The findings of the hypothesis testing demonstrate that organizational culture's ability to affect MSME performance can be mediated by innovation ability. This finding indicates that the culture adopted by MSME actors, such as a consistent attitude applied in carrying out work with a clear set of values and rules and the presence of a common understanding in solving work problems, is capable of enhancing innovation capabilities through product innovation, which is carried out by creating products so that they become something new. For consumers and create products with a variety of new flavors. The ability to innovate due to the role of organizational culture has an impact on improving MSME performance through product performance such as increasing the number of products produced and product demand in the last 3 years.

The results of this study develop a study conducted by [Mazur and Zaborek \(2016\)](#); [Abdul-Halim et al. \(2019\)](#); [Harel et al. \(2021\)](#) and [Erastova \(2016\)](#) suggests that culture influences and is beneficial to innovation ability and previous empirical studies conducted by [Hussain et al. \(2018\)](#); [Rajapathirana and Hui \(2018\)](#); [Ndubisi and Iftikhar \(2012\)](#); [Al-Ansari et al. \(2013\)](#) and [Hilman and Kaliappen \(2015\)](#) concluded that innovation has an influence on the performance of MSMEs.

5.10. The Ability to Innovate Mediates the Effect of Knowledge Management on MSME Performance

The results of hypothesis testing prove that innovation ability is able to mediate the effect of knowledge management on MSME performance. This result means that MSME actors who are able to use knowledge management properly as indicated by the ability to utilize knowledge such as using existing knowledge to produce products that have selling points and applying available knowledge to improve performance are able to improve MSME's ability to innovate, especially product innovation which is carried out by creating products to be something new for consumers and create products with a variety of new flavors. The ability to innovate due to the role of knowledge management has an impact on improving MSME performance through product performance such as increasing the number of products produced and product demand in the last 3 years.

The results of this study develop a study conducted by [Byukusenge and Munene \(2017\)](#); [Hassan and Raziq \(2019\)](#); [Hussain et al. \(2019\)](#); [Rahimi et al. \(2017\)](#) and [Harris et al. \(2013\)](#) showed that knowledge management

has an influence on the ability to innovate and the previous empirical study conducted by Hussain et al. (2018); Rajapathirana and Hui (2018); Ndubisi and Iftikhar (2012); Al-Ansari et al. (2013) and Hilman and Kaliappen (2015) concluded that innovation has an influence on the performance of MSMEs.

6. Conclusion

Food and beverage MSMEs in Malang City will have good performance as indicated by increased product performance with a proactive attitude. The culture created by MSME actors is shown in shuman attitudes and behavior involved in an organizational activity. Food and beverage MSMEs in Malang City will have a good performance as indicated by an increase in product performance. An active approach to support the capacity to innovate through product innovation is a sign of entrepreneurial orientation. Because MSME actors are adept at applying organizational culture, they will be able to innovate, as seen by product innovation. Being able to use knowledge management properly as indicated by the ability to utilize knowledge can improve the ability of MSMEs to innovate, especially product innovation.

Food and beverage MSMEs in Malang City who have a proactive attitude contribute to innovation capabilities through product innovation. The culture created by MSME actors is shown in shuman attitudes and behavior that involve themselves in an organizational activity such as attitude consistency is able to increase the ability of innovation through product innovation. MSME actors who are able to use knowledge management properly as indicated by their ability to utilize knowledge can improve MSME's ability to innovate, especially product innovation.

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