

The Role of Traditional Knowledge Based-Dynamic Capabilities on Sustainable Performance in Digital Era

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Abstract

Purpose

Indonesian craft SMEs encountered several difficulties in sustaining their success in the digital era. The performance of the business is contingent upon its ability to generate a competitive advantage and respond to market changes through the management of indigenous knowledge. The purpose of this study is to examine the impact of traditional knowledge management capabilities on craft weaved SME's in Indonesia's creative industry.

Design/methodology/approach

This study included a quantitative approach and a survey strategy. The population consists of craft-woven SME's that rely on traditional knowledge management processes for competitive advantage and commercial sustainability. This study employed a purposive sample strategy and gathered data from 386 respondents. The sample was selected based on predetermined criteria, including operation for more than five years and entrepreneurial activity utilizing local resources to manage product innovation.

Findings

Structural Equation Modelling (SEM) apply to analyze the data and evaluate the hypotheses. The findings indicated that traditional knowledge management processes directly affected dynamic capacities and sustainable performance. While traditional knowledge-dynamic capabilities affect competitive advantage, they have no direct effect on long-term performance.

Originality/value

This study closes the knowledge-dynamic capability gap between traditional knowledge and competitive advantage. The research examines the role of traditional knowledge management processes in enhancing competitive advantage in the creative industry's craft subsector.

Keywords: Knowledge Management Process, Dynamic Capabilities, Competitive Advantage, Sustainable Performance, Creative Industry.

1. Introduction

In the digital age, the creative industry's competition is becoming more intense. On the other hand, globalization has driven SMEs to adapt to Industrial Revolution 4.0's (ASEAN 2018). SMEs in the creative industry must innovate and adapt to market and consumer demands and the business environment's constant changes. Ramadani & Gerguri (2011) define innovation in production as the process of developing or improving a specific product; innovation in services as the provision of new or improved services; innovation in the process as the discovery of new ways of organizing and combining inputs in the process of producing specific products or services; and innovation in management as the creation of new organizational structures for business resources. As a result, firms that are adaptable and innovative will be able to compete and grow.

According to Kaur (2019), as the business world becomes competitive, organizations face many opportunities and problems, both internal and external. An enterprise must understand what and how to manage the numerous resources they possess to compete and survive. The ability of SMEs to manage their resources effectively to build competitive advantage is critical to their long-term viability. According to Kaur & Mehta (2017), a business can achieve a competitive advantage by providing clients with more benefits than competitors. Numerous company actions, including product creation, manufacture, promotion, delivery, and maintenance, might result in a competitive

advantage. These actions will improve the firm's relative cost position and lay the groundwork for differentiation.

The bulk of creative enterprises in the knowledge economy, particularly those operating in the digital era, embrace and transform their operations through technology. Digital transformation is the process of managing a business's knowledge and resources to improve its operations (Kaur, 2019; Hapon, 2020). Creative enterprises seek to acquire and apply knowledge to enhance their operations. For example, in the Information Technology (IT Industry) subsector, an organization consciously and thoroughly obtains, organizes, shares, and evaluates its knowledge regarding resources, records, and human capabilities (Kaur & Mehta, 2017; Kaur, 2019). As a result, knowledge management has increased in developing strategic value. However, managing knowledge as strategic values is not easy. The situation of the IT sector is contradictory with the craft sector. Crafts SMEs in Indonesia are suffering the consequences of bringing knowledge towards competitive advantage. Craft SMEs manage their traditional knowledge to generate the product. Traditional knowledge in Indonesia is becoming an opportunity for local SMEs to develop values for their product innovations. According to Mayasari & Chandra (2020), information gained from social capital, such as social environment and community. The social environment and society (social capital) will give information essential for the creative industry's existence in developing innovative products that may symbolize the social context in which the creative sector occurs. Therefore, traditional knowledge management is critical for improving Creative SMEs', particularly craft businesses, to achieve competitive advantage.

Indonesia has a wide range of Traditional Knowledge with increasing options for business persons to commercialize Traditional Knowledge as a strategic value. In renewable resource-based industries, communities primarily run those enterprises to create jobs by exploiting intellectual property rights (Mayasari & Chandra, 2020). This research fills a gap left by Mayasari and Chandra's (2020) research on the function of social capital in knowledge management systems (KMS) in the creative industry. Knowledge gained from the social environment or community believes to be capable of fostering competitiveness and adapting swiftly to changes. However, to adapt to the evolving digital market, SMEs must provide clients with strategic options that lead to better products and competitive advantages (Vial, 2019). Additionally, as technological advancements continue, a SME's handmade items will become increasingly difficult to differentiate from one another. Thus, to win a competition or market a current product, producers must consider the product's quality and the company's strategy. As a result, businesses engaged in creative weaving must continue to be supported to maintain a strong competitive edge and adapt to environmental changes.

This study aims to determine the sustainability of traditional weaving craft businesses in the creative industry. The preservation of Indonesia's traditional weaving industry is critical, as weaving is a distinguishing feature of the country's regional products. The sustainability of the traditional craft woven business is contingent upon the company's capacity to leverage indigenous knowledge and resources. However, producers of traditional handicrafts face numerous obstacles that jeopardize their survival and expansion (Shafi et al., 2020). "The study of indigenous entrepreneurship is useful. Indigenous people have developed a knowledge base that ensured survival in particular environments for countless generations. Still, the indigineous enterprises have not been sustainable" (McGregor, 2004; Dana, 2007). The dynamic changes in the traditional weaving sector include increased industrial rivalry, rising raw material prices, and dwindling creative human resources. Therefore, this study examines how traditional woven crafts SME's manage their expertise to gain a competitive edge and improve their business sustainability. The findings of this study develop a traditional knowledge commercialization strategy as a value towards a competitive advantage for the local SMEs and the sustainability of indigenous knowledge.

This study organizes as follows after the introduction and the explanation of the research

background. Section 2 describes the literature review. We explore the definitions of variables and construct the relation between variables. Five hypotheses need to test in this study. In section 3, methodology, we explain research design and strategy to answer research questions—the data collection process due to the pandemic covid-19 situation. The hypothesis testing conducts using Structural Equation Modeling (SEM). The next section consists of data analysis and explanation about the finding and discussion related to reality context. Finally, in section five, we conclude and provide recommendations for future research.

2. Literature Review

2.1 Traditional Knowledge Management

Knowledge Management helps individuals and organizations to have better learning efficiency and manage their information to increase competitive advantages. Knowledge Management is systematically capturing, describing, organizing, and sharing knowledge—making it useful, usable, adaptable, and re-useable (Liebowitz & Yan, 2004). Businesses can use knowledge management to equip them with tools and methods to handle the enormous amount of information and turn it into competitive advantages (Kaur, 2019). Applying Knowledge Management creates many benefits, such as identifying skill gaps, developing better-informed decisions, improving collaboration, optimizing employee onboarding and training, and retaining business knowledge (Chien & Tsai (2012; Gao et al., 2017).

Traditional knowledge or indigenous knowledge is the scope of intellectual work that comes from the ideas or inventions of a group of people of a country. While, Berkes (1999) on Dana (2007) defined traditional ecological knowledge as “knowledge, practice and belief, evolving by adaptive processes and handed down through generations by cultural transmission, about the relationship of living things (including humans) with one another and with their environment”. Traditional knowledge from indigineous people is a crucial component in company’s management system.” Mayasari & Chandra (2020) stated “Knowledge Management System (KMS) in creative industry is an organizational process and tool for acquiring, converting, applying, and protecting existing knowledge from both internal and external organizations.” Protecting Traditional Knowledge is an urgent issue considering that most of the economic benefits of international trade are only for external parties such as companies or other countries (Siddiq, 2018). In the same time, “The impact of knowledge spillovers and innovative efforts on business performance” (Ramadani et al., 2017). Gómez (2021) also stated that knowledge generation and combination capabilities directly affect inventive performance, knowledge acquisition/absorption does not affect the innovative activity of the project team. Spending on knowledge acquisition will benefit both innovation and corporate performance. Therefore, dynamic capability partially mediates the effect of knowledge resources on competitive advantage.

Indigenous knowledge or traditional knowledge refers to knowledge systems, creation, innovation, and cultural expression that have generally passed from generation to generation. It considers related to a particular society or region, developed non-systematically and continuously in response to a changing environment (Dana, 2007; Siddiq, 2018). Knowledge management also helps businesses to come with faster business outcomes as it improves organizational learning and collaboration. This advantage will lead to a quicker decision-making process. Thus, traditional knowledge requires recognition of the discovery of ideas or ideas and their dissemination and use by other parties. Indigenous people often rely on immediately available resources, and work in indigenous communities is often irregular (Dana, 2007). Indigenous knowledge plays a key role in ensuring sustainability development (Gorjestani, 2001). According to Dana (2007) indigineous people “desired and achieved benefits of venturing can range from the narrow view of economic profit for a single individual to the broad view of multiple, social and economic advantages for entire communities”. Knowledge creation is the stage where the business figures out new or existing

knowledge it wants to distribute. Indigenous knowledge applied by indigenous entrepreneurs and the grassroots innovations that arise represent an underutilized unique source of growth with enormous potential for delivering sustainable development (Onwuegbuzie, 2010). Therefore, Woven Craft SMEs on creative industry need to embrace traditional knowledge management to gain dynamic capabilities, competitive advantage, and sustainable performance. Hypothesis 1-3 of this study constructs with the following statements:

H1. Traditional Knowledge Management Process has a significant effect on Dynamic Capabilities.

H2. Traditional Knowledge Management Process has a significant effect on Competitive Advantage.

H3. Traditional Knowledge Management Process has a significant effect on Sustainable Performance.

2.2 Dynamic Capabilities

In the dynamic changes, a company needs to respond fastly and efficiently to environmental change. This concept leads to the idea of Dynamic Capabilities. Dynamic capability refers to the "firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments." This theory also involves the strategy development for businesses to extreme changes while keeping the capability standards minimum to secure competitive survival (Teece et al., 1997). Chien & Tsai (2012) indicate that "dynamic capabilities increase store performance, and that both knowledge resources and learning mechanisms have a positive effect on dynamic capabilities." According to Teece et al. (2017), dynamic capability consists of three components: sensing (which entails recognizing and assessing opportunities outside your organization), seizing (which entails mobilizing your resources to capitalize on those chances), and changing (continuous renewal).

Regardless of the industry or type of change, investing in dynamic capabilities creates long-term benefits for a business. Not only big company, SMEs can also use dynamic capabilities to adapt and achieve strategic goals by reorganizing internal and external resources to take advantage of developing technology, adjust to changing customer behaviors, and, ultimately, surpass competitors. Kaur & Mehta (2017) stated that dynamic capabilities have an impact on a company's competitiveness. Kaur (2019) analyze dynamic capabilities consist of adaptation, absorptive and innovation, those three elements has become the must-have skills for business nowadays. Pundziene et al. (2021) demonstrate that open innovation plays a role in mediating the relationship between dynamic capability and competitive business performance. Jiao et al. (2021) found that "innovation strategy is positive and significant for dynamic capabilities. In contrast, dynamic capabilities call for alteration of a resource base through integration, development, and reconfiguration of competencies. Integration correlates positively with dynamic capability (Hung et al., 2010; Gonzales, 2021). However, it also finds that the interaction term between innovation strategy and environmental dynamism is insignificant in predicting dynamic capabilities. Therefore, Woven Craft SMEs on creative industry can build and upgrade dynamic capabilities towards competitive advantage in rapidly changing environments. Hypothesis 4 of this study constructs with the following statement:

H4. Dynamic Capabilities has a significant effect on Competitive Advantage

2.3 Competitive Advantage

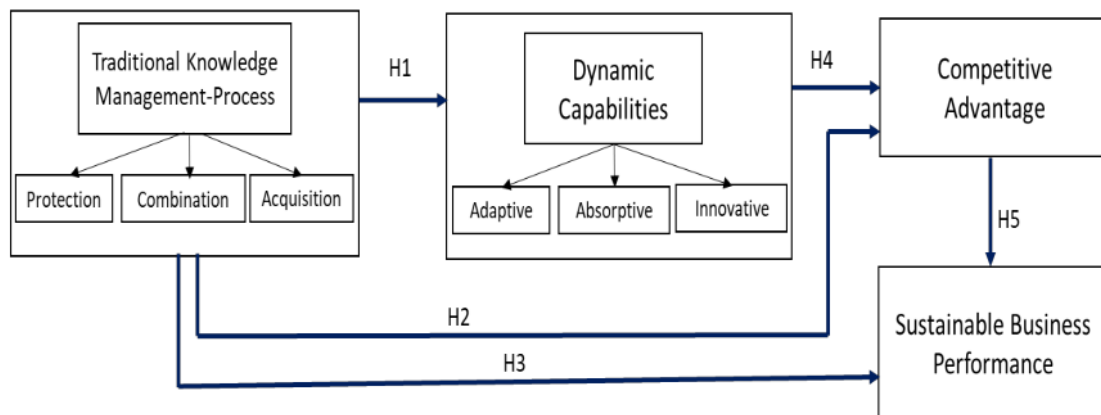
Competitive advantage achieves by the adoption of strategies that make effective use of the company's diverse resources. Unmatched skills and resources view as a source of competitive advantage (Bharadwaj et al., 1993). According to Zainol & Mamum (2018), "competitive advantages have a significant positive effect on the performance of microenterprises owned." Competitive advantage is the firm capability to add more value to its products than competitors, with the added value being the values trades benefits to customers (Kaur & Mehta, 2017). Porter (1990) had a similar view, stating that the competitive advantage is at the heart of marketing performance relative to the competition. Competitive advantage describes as a

strategy that benefits from companies' collaboration to achieve a more effective competitive edge in their marketplaces. This strategy should develop to sustain a competitive edge throughout time, allowing the organization to dominate existing and future markets.

H5. Competitive Advantage has a significant effect on Sustainable Performance.

2.4 Sustainable Performance

Business sustainability refers to the organization managing process considering economic, social, and environmental aspects. It also can be defined as the effort to “meet the needs of present generations without compromising the needs of future generations.” Sustainable business analyzes through economic, social, and environmental aspects, also known as the triple bottom line. According to Ramadani & Gerguri (2011), business innovation on businesses aspects such as sustainable growth and development and great profit. In the future, the more successful a business, the more sustainable it will be. The main objective of sustainable performance is to create a positive sign of the business effect on minimally one of these categories: the environment or the society. Environmental commitment is a significant predictor of environmental sustainability practices (Sendawula et al., 2020). It monitors the business operation impact so the profit it makes would not lead to long-term liabilities. Sendawula et al. (2020) “provide new insights on the relationship between environmental commitment and the dimensions of environmental sustainability practices, including eco-friendly packaging, energy efficiency, waste management, and water conservation.” The failure of the business sustainability implementation will lead to environmental degradation issues, social injustice, and inequality.



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Figure 1. Research Framework

3. Research Method

3.1. Research Design

This study used a quantitative approach with a survey strategy. The aim is to measure causal relationships (cause and effect). Quantitative research uses natural science methods to generate numerical data and hard truths. It uses statistical approaches to establish a causal relationship between two variables (Saunders et al., 2012). Quantitative research can create raw data graphs and tables, making the outcome easier to analyze (Ong & Puteh, 2017). We classify, rank, or measure the data collected. This research is about understanding

¹ the role of traditional knowledge based-capabilities through competitive advantage to improve sustainable performance.

3.2. Sampling Design and Research Instrument

The population of this study is Indonesian woven crafters who carry out their trading activities through social media. Purposive sampling was used for a nonprobability piece in this study. Nonprobability is arbitrary and subjective. We targeted a minimum of 300 respondents to have a good sampling design (Comrey & Lee, 1992). This study used a questionnaire. The questionnaire has three parts. The first part was an introduction. It included screening questions and the respondent's profile. There were also 12 questions on traditional management, dynamic capabilities, competitive advantage, and sustainability. The exogenous variable in this study is the traditional knowledge management process. While the endogenous variables are dynamic capabilities, competitive advantage, and sustainable performance.

3.3. Data Collection and Data Analysis

This study used a questionnaire as an instrument to collect data from respondents. Due to pandemic covid-19, data collection was conducted by online survey using Facebook Advertising (FBAds). Questionnaire distributed to the traditional woven crafter who registered in social media (Facebook) to market their business. Three hundred eighty-six (386) respondents participated. After the respondent fills out the questionnaire compiled to excel form and ready to process for data analysis.

Data analysis was carried out on various instruments related to descriptive statistics and the Structural Equation Model (SEM) to see the model's suitability. Descriptive statistics analysis helps explain, demonstrate, or summarize data points to develop patterns that meet all data requirements. An important part of descriptive analysis is determining the central tendency or response. Describing descriptive analysis comprised of six Likert scales. SEM is a multivariate technique for testing and assessing multivariate causal relationships (Hair et al., 2014). SEM is currently commonly employed in research. As advanced analysis methods become common, so does the complexity of empirical models and theoretical breakthroughs in published research (Hair et al., 2014). The Goodness of Fit test, hypothesis testing, and R-squared analysis are discussed briefly in the next section.

4. Results and Findings

4.1. Respondent Profiles

The respondent profiles show 312 SMEs start their business from equity between less than 35 Million, while 65 of respondents start from the equity of 35-100 Million. Three hundred twelve (312) respondents have revenue per year < 300 Million, 55 of them have revenue per year between 300 Million and 2.5 Billion. However, there are two if respondents have revenue per year of more than 2.5 Billion. The largest number of respondents are independent; they were not doing partnerships with government or business institutions. Hence, 61 have business partners, 39 of them cooperate with the Local Government, and 23 of respondent's partner with Central Government. The other is doing partnerships with multi-stakeholders. For the business location, the data show that most of the respondents come from Java Island of Indonesia. Most respondents come from East Java Province, followed by West Java and Central Java province.

Table 1. Respondent's Profile

Demographic Characteristics	Categorize	Frequency	Percent
Firm Age	<5 years	276	71,69%
	5-10 years	58	15,06%
	10-15 years	21	5,45%
	15-20 years	10	2,60%
	>20 Years	20	5,19%
Starting Equity	<35 Million	312	81,04%
	35-100 Million	65	16,88%
	>100 Million	8	2,08%
Revenue per Year	< 300 Million	328	85,19%
	300 Million - 2.5 Billion	55	14,29%
	>2.5 Billion	2	0,52%
Stakeholder Involvement (Business/Government)	Business Partner	61	15,84%
	Local Government	39	10,13%
	Central Government	23	5,97%
	Local Government & Business Partner	17	4,42%
	Central Government & Local Government	4	1,04%
	Central Government, Local Government, Business Partner	6	1,56%
	Independent	235	61,04%

4.2 Validity and Reliability Test

The validity test determines/analyzes the accuracy and precision with which a measuring device performs its measurement function—the Standardized Loading Factors (SLF) to test the requirements. A valid indicator has a significance value of 0.5. In comparison, a reliability test applies to ascertain how the measurement result is trusted. The AVE and CR tests analyze to determine the reliability of the study variables. If the AVE value is greater than 0.5 and the CR value is greater than 0.7, the study variables are reliable. The findings of the validity and reliability tests on each variable are present in Table 2.

Table 2. Validity Test

No	Construct/Variable	Indicator	Measurement	Standardized	Validity Test
				Loading Factors SLF > 0.5 (Hair et al., 2010)	
1	Traditional Knowledge- Management Process	Protection	TKM1	0,865	Valid
		Combination	TKM2	0,826	Valid
		Acquisition	TKM3	0,885	Valid
2	Dynamic Capability	Adaptive	DC1	0,913	Valid
		Absorptive	DC2	0,915	Valid
		Innovative	DC3	0,923	Valid
3	Competitive Advantage	Product Quality	CA1	0,840	Valid
		Number of Customer	CA2	0,932	Valid
		Sales Revenue	CA3	0,922	Valid
4	Sustainable Business Performance	Economic	SBP1	0,670	Valid
		Social	SBP2	0,867	Valid
		Environmental	SBP3	0,847	Valid

According to Table 2, the validity test results utilizing SLF on the study variables indicate that each variable has a significant value greater than 0.5. The result demonstrates that the variables selected are the appropriate indicators for each research variable. According to Table 3, the reliability test results utilizing AVE and CR on the research variables indicated that the AVE value was greater than 0.5, and the CR value was greater than 0.7. As a result, it is possible to conclude that the research variables' measurement results are reliable.

Table 3. Reliability Test

No	Construct/Variable	Indicator	Measurement	AVE	CR	Reliability Test
				AVE > 0.5 (Hair et al., 2010)	CR > 0.7 (Hair et al., 2010)	
1	Traditional Knowledge- Management Process	Protection	TKM1	0,738	0,849	Reliable
		Combination	TKM2			
		Acquisition	TKM3			
2	Dynamic Capability	Adaptive	DC1	0,841	0,941	Reliable
		Absorptive	DC2			
		Innovative	DC3			
3	Competitive Advantage	Product Quality	CA1	0,749	0,857	Reliable
		Number of Customer	CA2			
		Sales Revenue	CA3			
4	Sustainable Business Performance	Economic	SBP1	0,639	0,840	Reliable
		Social	SBP2			
		Environmental	SBP3			

4.3. Descriptive Statistics

The index value was determined using descriptive analysis. This index value is useful for gaining a general sense of respondents' attitudes toward the issues posed. The rules use to determine the index numbers for the traditional knowledge management process variables, dynamic capabilities, competitive advantage, and business sustainability (Table 5). Three indicators use to quantify the standard knowledge management process variable. The following table summarizes the index values for the

indicators, indicating that the traditional knowledge management approach falls into the medium group, with an index value of 4.65. The combination indicator (TKM.2) has the highest index value of the three indicators studied. Three indicators use to quantify the dynamic capacities variable. The index calculation results indicate that dynamic capabilities classify as the medium, with an index value of 4.88. The DC.1 (adaptive) indicator has the highest index value among the four indicators studied. Three indicators use to quantify the competitive advantage variable. The index value calculation results indicate that the competitive advantage is in the middle range, with a value of 4.65. The CA.3 indication has the lowest index value of the three indicators studied. Three metrics apply to quantify the variable of sustainable performance. The index value computation indicates that sustainable performance is moderate, with an index value of 4.56. The BSP.1 indicator has the lowest index value of the three indicators studied.

Table 5. Descriptive Statistics

Items	N	Minimum	Maximum	Mean	Avg. Dimension Score	Std. Deviation
TKM1	385	1	6	4,90		1,194
TKM2	385	2	6	5,18	4,98	.921
TKM3	385	1	6	4,85		1,185
DC1	385	1	6	4,92		1,181
DC2	385	1	6	4,81	4,88	1,195
DC3	385	1	6	4,89		1,144
CA1	385	1	6	4,82		1,172
CA2	385	1	6	4,57	4,65	1,279
CA3	385	1	6	4,56		1,253
BSP1	385	1	6	4,24		1,474
BSP2	385	1	6	4,70	4,56	1,296
BSP3	385	1	6	4,75		1,267

4.3. SEM Analysis

4.3.1. Goodness of Fit

After analyzing the uni-dimensionality level of the dimensions/indicators forming latent variables to test with confirmatory factor analysis, the analysis continued with the full model SEM. The results of data processing for the complete analysis of the SEM model describes in Figure 2.

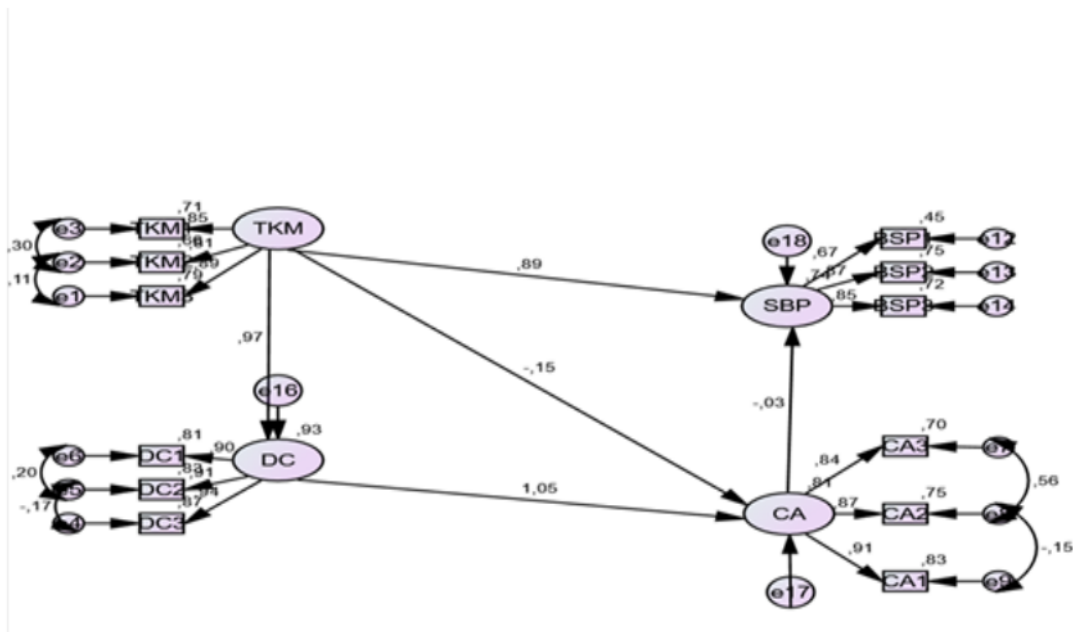


Figure 2: SEM Model Testing

According to Table 6, the goodness of fit test criteria are generally good or meet the required standards. The Chi-square test indicates that the model is valid if the Chi-square value is less than the table Chi-square value. The greater the difference between the Chi-square count and the Chi-square table value, the more accurate the model is in indicating no difference in population estimates between the samples studied. The determined chi-square value for this study model is 159.375, while the Chi-square table with DF = 43. Our model is consistent with the population estimate because the Chi-square value determined in this study is less than the crucial value/table (acceptable).

Table 6. Goodness of Fit Measure

Goodness of fit measure	Cut off value	Scoring	Result
Chi square – Degrees of Freedom ratio (CMIN/DF)	Ideally <3.0 but x not >5.0	3,706	Acceptable
Comparative Fitness Index (CFI)	>0.90	0,975	Good
Normed Fit Index (NFI)	>0.90	0,966	Good
Goodness of Fit Index (GFI)	>0.80	0,937	Good
Adjusted Goodness of Fit (AGFI)	>0.80	0,887	Good
Tucker Lewis Index (TLI)	>0.90	0,961	Good
Incremental Index of Fit (IFI)	>0.90	0,975	Good
Root Mean Square Error Approximation (RMSEA)	Ideally <0.05 but not >0.08	0,08	Acceptable

4.3.2 Hypothesis Testing

Following an assessment of the assumptions in SEM analysis, hypothesis testing conducts. This study test five hypotheses by calculating the Critical Ratio (CR) and calculating the probability of a causal relationship (Table 7). The procedure for testing hypotheses is as follows: Hypothesis 1 illustrates parameter estimation to examine the effect of traditional knowledge management processes on dynamic capacities, resulting in a CR value of 25.714 and a P-value of 0.00. The significance of P 0.05 shows that traditional knowledge management processes have a considerable beneficial effect on dynamic capacities. It means that the weaving industry's traditional expertise will expand in search of dynamic capabilities. In traditional knowledge management, the combination indicator will have the most impact on dynamic capacities.

Hypothesis 2 illustrates parameter estimation to examine the effect of traditional knowledge management processes on competitive advantage, resulting in a CR value of -0.53 and a P-value of 0.598. Since $P > 0.05$, it inferred that traditional knowledge management processes have no discernible positive influence on competitive advantage. It means that the traditional knowledge management processes used in the weaving business are not always enhanced to maintain a competitive edge.

Hypothesis 3 illustrates the parameter estimation used to assess the traditional knowledge management process's sustainability, with a CR value of 7.876 and a P-value of 0.00. The significance of P 0.05 shows that traditional knowledge management processes have a considerable beneficial effect on long-term performance. It means that traditional weaving expertise expands to achieve sustainable performance. Aggressive indication of combining in traditional knowledge management processes will have the greatest impact on environmental sustainability.

Parameter estimation for Hypothesis 4 reveals a CR value of 3.631 with a P-value of 0.00 for the effect of dynamic capabilities on competitive advantage. Due to the significance of P 0.05, it shows that dynamic capabilities contribute significantly to competitive advantage. It means that dynamic capability is enhanced to achieve sustainable performance. The most significant contribution to competitive advantage will come from adaptive indicators embedded in dynamic capabilities.

Hypothesis 5 illustrates parameter estimation to examine the effect of competitive advantage on long-term performance, with a CR of -0.314 and a P-value of 0.754. As a result, with a P-value of 0.05, it may be argued that competitive advantage has no discernible effect on long-term performance. A competitive edge. It means that the weaving industry's competitive edge not be enhanced in the pursuit of sustainable performance.

Table 7. Hypothesis Testing

	Hypothesis Testing		Estimate	S.E.	C.R.	P
H1	Traditional Knowledge Management	---> Dynamic Capabilities	980	0,038	25,714	***
H2	Traditional Knowledge Management	---> Competitive Advantage	-0,149	0,282	-0,53	0,596
H3	Traditional Knowledge Management	---> Sustainable Performance	0,832	0,106	7,876	***
H4	Dynamic Capabilities	---> Competitive Advantage	1,024	0,282	3,631	***
H5	Competitive Advantage	---> Sustainable Performance	-0,029	0,093	-0,314	0,754

4.3.3 R-Square Test

The structural model evaluates using R2 testing, which is present in Figure 1, namely the dynamic capabilities, competitive advantage, and marketing performance variables. The R2 value for dynamic

capability is 0.934, which means that traditional knowledge management process variables influence 93.4% of the variance of dynamic capability. Other factors explain 6.6% of the variable variance, then R² in competitive advantage is 0.811, which means 81.1% of competitive advantage effect by dynamic capability variable, and 18.9% of the dependent variable explained by other factors not measured in this study. R² on sustainable performance is 0.741, which means that the dynamic capability variable influences 74.1% of the variance of competitive advantage, and 25.9% of the dependent variable explained by other factors not measured in this study. R² Based on Table 8 above, the higher the R-square value, it can be concluded that the greater the ability of the independent variable to explain the dependent variable so that the better the structural equation.

Table 8. R Squared Test

Variable	R-Squared
Dynamic Capability	0,934
Competitive Advantage	0,811
Sustainable Business Performance	0,741

4.4 Discussion

The Traditional Knowledge Management Process's Contribution to Dynamic Capabilities and Sustainable Performance

Sustainable performance has been challenging due to SME's in the creative industry. The current pandemic makes the implementation even more difficult with the abrupt changes in business operations, customer behavior, and digitalization. Despite the pandemic challenging condition, sustainable performance has become widely discussed currently. Applying knowledge management and dynamic capabilities holds a significant role in the business shift to sustainable practices. In terms of the economic and environmental aspects, the integration of knowledge management has supported the craft SME's organization's revival strategy through knowledge integration and dissemination. According to Dana (2007) "Indigenous entrepreneurship is usually environmentally sustainable. Capel (2014) stated mindfulness fosters an awareness of alternative knowledge and behaviors, promoting indigenous innovation and entrepreneurship (or indigenous new entry or new business venture). The literature shows that firms can use dynamic capabilities for corporate sustainability to keep track of emerging sustainability needs from various stakeholders. Therefore, managing traditional or indigenous knowledge help businesses gain sustainable performance (Gorjestani, 2001). Shafi et al. (2020) "notably, government intervention is necessary to revive the traditional handicraft industry. It also helps businesses to seize sustainable development opportunities and reconfigure existing functional capabilities for business sustainability.

The research proves that knowledge management process capabilities are crucial for organizations to pursue competitiveness (Kaur & Mehta, 2019). A study by Gloet (2006) shows that effective knowledge management related to human resources helps the leadership and management ability development in supporting the sustainability of the three bottom lines, which are business, environment, and social impact. Corporate agility will also become a great advantage for businesses in facing the ever-changing world. The process of dynamic capabilities (adaptive, collaborating, and innovation) can create the foundation of a company's competitive advantage (Kaur, 2019). The high level of dynamic capabilities strongly impacts stakeholders', community, social, and environment. It also supports the business to mobilize the company's

internal resources to develop strategic changes toward sustainability. However, Dana (2007) argue that “indigenous people often rely on immediately available resources, and work in indigenous communities is often irregular. Much entrepreneurial activity among indigenous people involves internal economic activity with no transaction, while transactions often take place in the bazaar and in the informal sector, where enterprises often have limited inventory.”

Knowledge Management aims to help individuals and organizations increase their learning efficiency and information management to achieve better competitive advantages. Dynamic Capabilities, as defined by Kaur (2019), is “the “firm’s ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments.” These two processes, **knowledge management process and dynamic capabilities, are** utilized to implement business sustainability and positively impact economic, social, and environmental aspects. However, several studies also find out that Knowledge Management significantly affects business revival strategy and improves leadership and management capabilities (Iqbal & Ahmad, 2021). According to Gonzales (2021), “adopting mechanical structures with formal and centralize is causes harm to knowledge-based dynamic capability processes.”

On the other hand, Dynamic Capabilities hold a role in innovation and seizing sustainable development opportunities and reconfiguring existing functional capabilities while mobilizing the business’s internal resources towards sustainability. This one-of-a-kind ability is the ability of the business to make its personnel an integral part of obtaining a competitive advantage. Pundziene et al. (2021) said that a firm's dynamic capabilities have a major impact on its open innovation performance and, consequently, on its competitive performance. The genuine assets or unique resources that a business requires to execute its competitive strategy are average assets or special resources. Both resources should be devoted to developing a low-cost competitive advantage that differentiates the company from competitors.

This study also found implementing Knowledge Management in terms of combination and Dynamic Capabilities in terms of adaptive will help Craft SMEs achieve their sustainability goals while ensuring profit for the business. However, dynamic capability in terms of innovation view as a means through which a business adapts to its environment dynamic changes. The shifting business environment has compelled firms to generate new concepts and products. Ziyae et al. (2021) identified infrastructures necessary for service innovation, including the adoption of cutting-edge technology in various areas, human infrastructure, capital, and proper space and location. Therefore, innovation is becoming increasingly crucial to ensure the Craft SMEs sustainability and enable it to flourish in the marketplace.

Traditional Knowledge Management process contribution towards Competitive Advantage and Sustainable Performance

In digital era, company's ability to innovate on its products will ensure that the product continues to meet the wishes and demands of customers. Gaining a competitive advantage is meeting client desires (Bharadwaj et al., 1993; Hung et al., 2010). Competitive advantage is derived mostly from the values or advantages generated by a business for its customers. Customers often prefer to purchase things that exceed their expectations or desires. However, protecting traditional knowledge on woven craft SMEs are critical for product differentiation towards competitive advantage. The value compares to the given price. Purchases will occur if the customers believes the product's price is reasonable compared to the value it provides. But in traditional craft woven SMEs, the high values that provide in woven caused premium price (high value-high price). Therefore, the findings indicated that traditional knowledge management processes have insignificant direct effect on competitive advantage. This study contradictionary with the concept of **Knowledge based- Dynamic Capabilities can serve as** additional competitive advantages of a business (Hung et al., 2010; Kaur, 2019). The finding contrast with Emami et al. (2021) stated when an entrepreneur's

learning strategy their initial view of the opportunity sync, performance improves. However, Dana (2007) argue indigenous people perception of opportunity is culturally influenced, however, culturally determined opportunities for entrepreneurship are often disrupted by entities external to indigenous people.

This study also found it still become a challenged for traditional woven craft SMEs build their socially responsible operations and innovations. We know that dynamic capabilities in terms of innovation can provide businesses with a competitive advantage. Dröge et al. (1994) discovered that product innovation need to leverage to gain a competitive advantage. However, in traditional woven craft sector developing product innovation based on customer needs caused risks. Dana (2007) also argue "social organisation among indigenous peoples is often based on kinship ties, not necessarily created in response to market needs." In Indonesia, indigineous/ traditional knowledge owned by local community. External parties who have the expertise and high technology manage Traditional Knowledge and then modify, specify, and mix it to become a new invention that meets customer needs. The traditional knowledge protected by Intellectual Property Rights (IPR), especially patents, the economic benefits will be owned and enjoyed by the external parties (Siddiq, 2018). The traditional knowledge owner or local community often gets nothing from the IPR. Therefore, in traditional craft woven business, the concept of innovation not only encompasses new products and the implementation of novel ideas or procedures but also involved community benefits. Product innovation in craft's sector must add value to community benefits to gain an advantage over its competitors. However, product innovation might fail for various reasons, including a lack of innovative design or a misperception of customer wants and needs. It has demonstrated that the direct relationship between competitive advantage and sustainable performance does not substantially affect the other. According to Shafi et al. (2020), the "handicraft industry in a country needs to revitalize. Otherwise, centuries-old traditional culture and patrimonial expertise will perish." Additionally, there is a need to attract foreign investment to overcome resource constraints and strengthen the entrepreneurial community's competitive capability". The connection between competitive advantage and sustainable performance is a culture of creativity inside the organization when it comes to developing goods that address three aspects of sustainability (profit, people, and planet). The severe competition in the Traditional Woven industry encourages reducing domestic market share, which requires SME weaving to adapt its strategies to changing business and environmental situations. As a result, SME's sustainability can ensure. Naidu et al. (2014) investigate "eight factors that influence the level of innovation in the handicraft industry, including value addition, design uniqueness, new product development, cultural uniqueness, advanced technology, owner experience, owner ability to adapt to market trends, and raw material quality." Businesses that continue to monitor their performance and attempt to improve it have a chance to attain company sustainability. With a strong competitive position, a business has sufficient money to compete against other companies (Dröge et al., 1994; Kaur & Mehta, 2017). Therefore, Woven craft SMEs that can develop their products around customer desires will endure in the face of competition because their products will continue to be in demand.

5. Conclusion

To summarize, the purpose of this research is to examine the role of traditional knowledge-dynamic capabilities on the sustainability of creative SME's in the woven craft sector. The study results concluded that traditional knowledge management processes positively affect dynamic capabilities and sustainable performance but do not directly affect competitive advantage. Meanwhile, dynamic capabilities significantly affect competitive advantage in managing traditional knowledge. Traditional weaving SMEs need to display a combination of traditional knowledge and the latest knowledge. For example, develop new motifs by combining modern-traditional motifs. The uniqueness of new motifs can build differentiation. Therefore, the competitive advantage gains if dynamic capabilities mediate the traditional knowledge management process with market needs.

Additionally, this study shows that while the traditional knowledge management processes employed by traditional weaving SMEs do not directly affect competitive advantage, they do have a direct effect on long-term performance. The theoretical implication shows that traditional knowledge in crafts SMEs will encourage SME business performance sustainability. It means that traditional knowledge that is combined and continuously updated will be in line with the sustainable performance of SMEs. Thus, improving sustainable performance can be done through traditional knowledge management, such as preserving by combining traditional knowledge with new (modern) knowledge.

This study concludes that SMEs' competitive advantage has little effect on their long-term performance. The consequences of these findings include the following: Traditional Weaving SMEs expect to continue improving product quality to compete with other areas or countries, stressing product uniqueness while keeping committed to sustainability (profit, social, and environment). In the study results, there are still shortcomings related to indicators as a measuring tool for variables. Therefore, further research that discusses sustainable performance problems is measured by adding several variables such as entrepreneurial orientation and environmental orientation in business development. The variables studied should be further expanded according to the development of marketing theories that discuss marketing performance problems. The author realizes that the use of samples through social media in this study still does not meet the population criteria. Therefore, further research related to similar problems to expand sample selection and distribution.

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