



Increasing Innovation Performance in SMEs Trade: Organizational Forgetting, Knowledge Management, and Business Agility as Predictors

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Abstract

Purpose: Trade in small and medium businesses must improve innovation performance before and after the COVID-19 pandemic. The requirement for rapid innovation is being able to compete and survive post-pandemic. This research attempts to investigate the influence of organizational forgetting, knowledge management, and business agility in distributing innovation performance improvements to SMEs in Tasikmalaya, Indonesia. **Research design, data and methodology:** In this research, a structural equation modeling approach with SmartPLS was applied. This research used 221 Tasikmalaya SMEs as samples. The findings of this study show that SMEs are still underrepresented in technological advancement. **Results:** Organizational forgetfulness does not have a significant impact on innovation performance, nor does it have an indirect impact through knowledge management. Business agility, on the other hand, has a significant indirect effect on innovation performance. Knowledge management does not have a significant and direct impact on innovation performance, but business agility has a significant impact. **Conclusions:** Efforts to enhance SMEs' trade must be willing to challenge the status quo or abandon knowledge that is no longer relevant to current developments to improve business agility and innovation. Technology-oriented SMEs can quickly become agile by implementing organizational forgetting. SME owners must be willing to adapt to technological advances to adopt organizational forgetfulness.

Keywords : Innovation Performance, Agile, Knowledge Management, Organizational Forgetting, Trade

JEL Classification Code: M10, M20, O30

1. Introduction

Innovation performance has become a phenomenon for small and medium business owners to trade and be able to survive the impact of the pandemic and prepare to face the post-pandemic era. Innovation is a crucial feature that can make a business survive and excel. Innovation must be the goal of SMEs because innovative organizations can identify new opportunities, technologies, competencies, and

knowledge assets for the company (Bessant & Tidd, 2015). Small and medium-scale businesses must compete based on their innovation performance. The decline in trade among SMEs is the main victim of the COVID-19 pandemic. Unlike larger corporations, these enterprises generally lack sufficient resources, particularly in terms of finances and management, leaving them ill-equipped to handle prolonged disruptions, as highlighted (Prasad et al., 2015).

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SMEs are the most defenseless since they have lower capital reserves, fewer assets, and poorer productivity than large enterprises. More specifically, the existence of SMEs in West Java province. Most of the turnover of SMEs in West Jawa has decreased, and few have even experienced bankruptcy (going out of business). Aside from lower income, the COVID-19 epidemic has caused raw material prices to skyrocket and become scarce. Government regulations regarding restrictions on the logistics delivery of goods cause prices to skyrocket. Only a few SMEs that can adapt and innovate will be able to remain steady and thrive. SME owners in West Java reached 4.6 million businesses in 2021 (98% are micro and small businesses). Only about 12.5% of SMEs were not economically harmed by the pandemic, and only 27.6% of them could grow sales. Amid a pandemic, SMEs are one of the sectors concerned. The pandemic has made SMEs adapt to digital technology and engage in the digital market. However, because the culture of SMEs is accustomed to face-to-face sales, online marketing models are less successful, especially for SME owners who need help adapting to technology.

The conditions of the online digital era, which should encourage the businesses of SMEs, have yet to be able to help the businesses they run because there is no desire to adapt to technology. This issue leads to poor innovation performance, which has a negative impact on their survival and sales. The poor performance of SMEs in terms of innovation will result in their inability to grow and sales decline. Innovation performance can help businesses gain a competitive advantage to face existing competition (Chen et al., 2009). Innovation performance can be obtained if business owners are willing to be agile in business (Al-Qaralleh & Atan, 2022; ZareRavasan, 2023), implement knowledge management (Brand, 1998; Lundvall & Nielsen, 2007; Lai et al., 2014), vulnerable in the process of unlearning old knowledge, experience, and learning something new, also known as organizational forgetfulness (Benkard, 2000; Easterby-Smith & Lyles, 2011; Mieres et al., 2012; Aydug & Agaoglu, 2023). Post-pandemic, SME owners should relearn where the new knowledge structure replaces the old one. Organizational Forgetting serves as a strategy for enterprises to shed outdated knowledge and challenge previously entrenched convictions, allowing them to flexibly respond to diverse shifts in their environment (Anand et al., 1998). Organizational forgetting can foster creativity by enhancing sensitivity and adaptation to the environment (Holan et al., 2004). Organizational forgetting is abandoning outmoded routines, conventions, attitudes, processes, policies, values, and approaches while concurrently adopting and integrating new ones, as appropriate, to efficiently adapt to changing circumstances (Huang et al., 2018).

It is true that few researchers have highlighted the challenges that SMEs face regarding trade. In fact, to increase market participation, micro and small-medium enterprises require information extraction and distribution from both internal and external sources, drive innovation, and enhance performance (Morgan & Berthon, 2008). Based on the results of existing research as well as referring to the condition of SMEs in West Java, especially in Tasikmalaya (Indonesia), the researcher considers that there is still little research that reveals the problems of organizational forgetting, knowledge management, business agility, and performance innovation in SMEs so that research on the unit of analysis of SMEs with these variables has a very important urgency to be carried out.

2. Literature Review

2.1. Innovation Performance

Innovation is a crucial element that can make a business survive and excel. Innovation is done on products or services offered to consumers and processes (Schmidt-Tiedemann, 1982). Innovation in business processes involves various aspects, from production processes to the distribution of goods or services to consumers. Innovation related to enhancing product or service distribution has been carried out in various types of businesses (Vries, 2006; Rosca et al., 2017; Chen et al., 2009). Perlines and Montes (2019) discovered that innovation performance can contribute significantly to explaining 27.5% of the variability to corporate performance, particularly in terms of quality performance.

Businesses or organizations that can implement innovation are often known as organizational innovators. Excellent and innovative organizations will be able to create a high business performance, so a new term known as innovation performance emerges. In principle, innovation performance is developed based on the theory of organizational innovativeness (Prajogo & Ahmed, 2006). Small and medium business owners must be able to share their perceptions or views with all members to create the right communication, especially to facilitate the spread of knowledge and business agility. When all members within a business understand the significance of knowledge and how to implement it, it is expected to enhance innovation performance (Molina-Morales et al., 2011). New goods, new manufacturing methods, new supplier sources, new market exploitation, and new corporate structures are all examples of innovation performance (Inauen & Schenker-Wicki, 2011). Innovation performance is measured by three indicators: product, process, and organizational (Exposito & Sanchis-Llopis, 2018). Most research on innovation is

conducted on product/service innovation (Frishammar & Horte, 2005; Hanaysha et al., 2022; Visnjic et al., 2014). In principle, this research focuses on the products/services offered to consumers. This is due to changing consumer needs, which continuously push businesses towards innovation. However, in a business context, not only products are crucial for innovation, but it can also be seen through process factors and innovation within organizational distribution.

2.2. Organizational Forgetting

Organizational forgetting is a method for a corporation or organization to discard obsolete knowledge and reconsider previous ideas to adjust to environmental changes (Raisal et al., 2019). Organizational forgetting is an interesting phenomenon today because it still needs to be studied, especially in the scope of SMEs. Organizational forgetting is essential for SME owners. They must remain open to learning new things and let go of old experiences or information. SME owners who want to discard old information and learn new knowledge are more likely to be innovative in their businesses.

Various studies have shown that organizational forgetting can improve innovation performance (Huang et al., 2018; Bongso et al., 2020). Even though previous research focused on different units of analysis, the findings indicate that organizational forgetting can have a positive and significant impact on innovation performance. The first hypothesis (H1) of this study is that organizational forgetting has a favorable impact on innovation performance.

2.3. Knowledge Management

Knowledge management (KM) is defined as a process that tries to ensure the change and use of diverse knowledge acquired by an organization or corporation to solve challenges and improve firm performance (Acosta-Prado et al., 2020). This factor considers the internal and external conditions of the company in acquiring knowledge. Knowledge management will create effective resource utilization. Effective resource utilization will create performance improvement and process management, which will then create company innovation (Bresciani, 2010). Knowledge Distribution is one of the key factors for a company to have a competitive advantage. KM is a technique for systematically collecting, transferring, safeguarding, and managing information in an organization (Zahedi & Khanachah, 2020). KM is one of the organizational guidelines for action to improve performance. Much research has shown that knowledge management can affect the innovation performance of a business (Acosta-Prado et al., 2020; Di Vaio et al., 2021). The second

hypothesis (H2) of this study is that knowledge management has a positive impact on innovation performance.

Organizational forgetting can also affect knowledge management. Several previous studies related to organizational forgetting and knowledge management showed a relationship between variables. (Nafei, 2017; Bongso et al., 2020; Ershadi & Eskandari, 2019; Holan & Phillips, 2004; Fernandez & Sune, 2009). Organizational forgetting is often known as organizational unlearning. In dynamic knowledge management, organizational unlearning and relearning are needed (Zhao et al., 2013). The third hypothesis (H3) of this research is that organizational forgetting has a favorable impact on knowledge management. The fourth hypothesis (H4) states that organizational forgetting has an indirect impact on innovation performance via knowledge management.

2.4. Business Agility

Business agility is a concern for all businesses, from small to large. Previous research has found that business agility is a factor that supports innovation (Brand et al., 2021). One of the keys to improving the innovation performance in a company is making the business more agile. Business agility requires rapid adaptation and a growth mindset in the owner. Research by Shuradze et al., (2018) aims to increase innovation from an exploratory and exploitative perspective. Both types of innovation have a function. This research shows that an agile organization can positively increase innovation. The fifth hypothesis (H5) of this study is that business agility has a positive impact on innovation performance.

Organizational forgetting is also suspected to be an important factor that can increase business agility in SMEs. Previous studies on organizational forgetting and business agility show a relationship between variables (Chenari et al., 2015; Kavosi et al., 2021). Hypothesis 6 (H6) of this study states that organizational forgetting has a positive impact on business agility. The seventh hypothesis (H7) states that organizational forgetting has a positive impact on innovation performance via business agility. The following is the framework of this research (Figure 1).

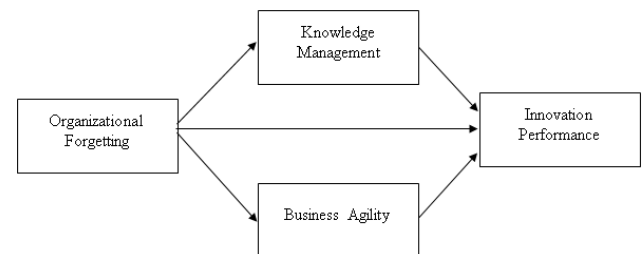


Figure 1: Research Framework

In figure 1, this research was developed based on relevant studies (Huang et al., 2018; Nafei, 2017; Bongso et al., 2020; Chenari et al., 2015; Brand et al., 2021). Based on Figure 1, to increase innovation performance, it is suspected that it can be affected by organizational forgetting directly and indirectly through knowledge management and business agility. Knowledge management and business agility are also suspected of directly influencing innovation performance. The following are the hypotheses in this research:

1. Hypothesis 1: Organizational forgetting has a direct positive and significant effect on innovation performance.
2. Hypothesis 2: Knowledge management has a positive and significant direct effect on innovation performance.
3. Hypothesis 3: Organizational forgetting has a direct positive and significant effect on knowledge management.
4. Hypothesis 4: Organizational forgetting has a positive and significant indirect effect on innovation performance through knowledge management.
5. Hypothesis 5: Business agility has a direct positive and significant effect on innovation performance.
6. Hypothesis 6: Organizational forgetting has a direct positive and significant effect on business agility.
7. Hypothesis 7: Organizational forgetting has a positive and significant indirect effect on innovation performance through business agility.

3. Research Methods and Materials

This is a quantitative study employing a survey (questionnaire). A survey was carried out in this study on small and medium-sized business owners in Tasikmalaya. The SEM-PLS method was employed in this study. During the SEM-PLS test, measurement tests are conducted on the outer model and inner model.

3.1. Data Source and Sample Frame

The sample in this questionnaire is small and medium-sized business owners/administrators in Tasikmalaya. The survey was conducted by distributing questionnaires with a purposive sampling approach. The expected sample criteria are businesses with the capital of no more than 1 billion Indonesian Rupiah. Thus, in the questionnaire, the obtained sample is 221 business owners of SMEs in Tasikmalaya.

3.2. Measures

This study uses four latent variables (organizational forgetting, knowledge management, business agility and

innovation performance). Exogenous latent variables in this study are organizational forgetting, while endogenous latent variables are knowledge management, business agility, and innovation performance. The manifest variables used as variable indicators as may be seen in the following table:

Table 1: Measurement Scales

Variables	Code	Indicator Items	Supporting Research
Organizational Forgetting (OF)	OF01	My business will introduce new knowledge as opposed to previous experience and skills	Bongso et al., (2020); Huang, et al., (2018)
	OF02	My business can adapt to new product development according to changing external environment	
	OF03	My business can continue to optimize its team's decision-making process	
	OF04	My business can change their internal information sharing mechanism	
	OF05	My business is willing to acquire new technology from multiple sources	
Knowledge Management (KM)	KM01	Our business strategy is formulated and updated based on company knowledge and competences	Cabrilho and Dahms (2018)
	KM02	Our business strategy focuses on the advancement of information and skills.	
	KM03	Our business systematically compares its strategic knowledge and competence to that of its competitors	
	KM04	Our knowledge and competence management plan is clearly and fully presented to staff.	
	KM05	The role for strategic knowledge management has been clearly assigned to a certain individual in our business.	
Business Agility (BA)	BA01	Opinions on Agile Values	Kocu (2018)
	BA02	Opinions on Technology	
	BA03	Opinions on Workforce	
	BA04	Opinions Regarding Change Management	
	BA05	Opinions on Collob	

		ration & Coordination	
	BA06	Opinions on Flexible Infrastructure	
Innovation Performance (IP)	IP01	In the recent three years, has the company developed any new or considerably improved product/service innovation?	Exposito and Sanchis-Llopis (2018); Prajogo and Ahmed (2006)
	IP02	In the recent three years, has the company introduced any new or considerably improved process innovation?	
	IP03	Whether the company has implemented new or considerably improved managerial innovation in the recent three years.	
	IP04	Level of novelty (newness)	
	IP05	Utilization of cutting-edge technology	
	IP06	Product development speed	
	IP07	Amount of new items	
	IP08	Early entrants into the market	
	IP09	Technological Competence	
	IP10	Adoption of new technologies at a rapid pace	

	IP11	The technology used is novel.	
	IP12	Technology's rate of change	

4. Results and Discussion

4.1. Measurement model

The value cut on factor loading in the measurement model must be above 0.7 (Hair et al., 2017). Suppose the factor loading value is below 0.7. In that case, the manifest variable must be eliminated so that the model is tested again with a new model (without including the manifest variable that is included). Furthermore, Cronbach's alpha and composite reliability must both be higher than 0.7 (Hair et al., 2017).

Based on Table 2, in the first model, IP03-IP09, and IP12 have a value below the cut-off value, namely 0.7. This also impacts the AVE value of the IP variable of $0.463 < 0.500$. So that the manifest variable is eliminated. Meanwhile, Cronbach's alpha and composite reliability are both higher than 0.7, as a result, the data can be considered reliable. After improving the model (final model) by eliminating invalid manifest variables, all manifest variables have factor loading above 0.7. Meanwhile, the AVE on the IF variable has also met the cut-off value of $0.774 > 0.500$.

Table 2: Measurement Models

Code Indicator	First iteration				Final iteration			
	Factor Loading	Cronbach's Alpha	Composite Reliability (CR)	Average Variance Extracted (AVE)	Factor Loading	Cronbach's Alpha	Composite Reliability (CR)	Average Variance Extracted (AVE)
OF01	0.793	0.887	0.917	0.656	0.812	0.887	0.917	0.689
OF02	0.815				0.870			
OF03	0.874				0.865			
OF04	0.869				0.804			
OF05	0.798				0.796			
KM01	0.795	0.842	0.888	0.612	0.794	0.842	0.887	0.612
KM02	0.796				0.796			
KM03	0.770				0.765			
KM04	0.811				0.810			
KM05	0.738				0.744			
BA01	0.817	0.895	0.920	0.656	0.818	0.895	0.920	0.656
BA02	0.802				0.802			
BA03	0.775				0.772			

BA04	0.830				0.830			
BA05	0.821				0.821			
BA06	0.815				0.816			
IP01	0.728	0.895	0.911	0.463	0.854	0.832	0.887	0.664
IP02	0.729				0.847			
IP03	0.656				Omitted			
IP04	0.517				Omitted			
IP05	0.669				Omitted			
IP06	0.649				Omitted			
IP07	0.694				Omitted			
IP08	0.637				Omitted			
IP09	0.633				Omitted			
IP10	0.781				0.776			
IP11	0.772				0.778			
IP12	0.655				Omitted			

4.2. Discriminant Validity

In the discriminant validity test, each manifest variable must be bigger than the other variables when measuring its latent variable. If the visible variable's value in assessing the latent variable is high in comparison to other variables, it can be valid. Table 3 is the result of discriminant validity testing.

Table 3: Discriminant Validity (Cross-loading)

Code	Business Agility	Innovation Performance	Knowledge Management	Organizational Forgetting
BA01	0.818	0.627	0.591	0.432
BA02	0.802	0.596	0.515	0.409
BA03	0.772	0.496	0.579	0.480
BA04	0.830	0.591	0.497	0.422
BA05	0.821	0.631	0.529	0.491
BA06	0.816	0.706	0.516	0.415
IP01	0.701	0.854	0.495	0.431
IP02	0.681	0.847	0.458	0.385
IP10	0.516	0.776	0.490	0.407
IP11	0.532	0.778	0.481	0.415
KM01	0.404	0.360	0.794	0.647
KM02	0.478	0.429	0.796	0.501
KM03	0.470	0.385	0.765	0.524
KM04	0.456	0.426	0.810	0.558

KM05	0.738	0.655	0.744	0.534
OF02	0.409	0.401	0.588	0.870
OF03	0.374	0.329	0.621	0.865
OF04	0.531	0.495	0.562	0.804
OF05	0.494	0.394	0.603	0.796
OF01	0.434	0.443	0.567	0.812

Each manifest variable in measuring its latent variable must be bigger than other variables in the discriminant validity test. As a result, if the value of the factor / manifest variable in measuring the latent variable is higher than other variables, it is valid.

4.3. Hypotheses Results of The Structural Model

The structural model evaluation will discuss hypothesis testing and path analysis (direct, indirect, and total effect). Figure 2 is a structural model of research with SmartPLS tools. The table in Figure 2 depicts the link between latent variables. So, to test the hypothesis and see the effect in detail is summarized in Table 4. Based on Table 4, hypothesis testing is based on the results of questionnaires distributed to 221 SME entrepreneurs in Tasikmalaya. Based on the results of the path analysis test in Table 4. The p-values must be below 0.05 or the T-Statistics above 1.96, so it can be concluded that it has a significant influence (the hypothesis is accepted). Meanwhile, the magnitude of the positive or negative influence can be seen in the original sample.

This study shows that innovation performance can only

be caused by business agility (H1). Hypotheses 2 (H4) and Hypothesis 4 (H4) are rejected, indicating that knowledge management and organizational forgetting have no direct influence on innovation performance. However, this study shows that organizational forgetting can indirectly affect innovation performance through business agility (H6). Organizational forgetting can significantly affect business agility (H3) and knowledge management (H5). However, organizational forgetting does not indirectly affect innovation performance through knowledge management (H7).

Only business agility has a direct impact on trade and the innovation performance of SMEs in Tasikmalaya. Business agility has the greatest influence on innovation performance. The importance of business agility is that during the COVID-19 pandemic, entrepreneurs in Tasikmalaya continue to innovate and adapt for the survival of themselves and their businesses. Kohtamaki et al., (2020) state that businesses that have a strategy to be agile will be able to increase innovation. In practice, every business must be agile to change dynamically. Of course, this statement aligns with this research so that not only large companies but also SMEs must be agile to increase innovation. Organizational forgetting in this study can only create innovation performance indirectly. Organizational forgetting has no direct influence on innovation performance in Tasikmalaya SMEs. Of course, this finding can also be caused by respondents who are SMEs that have yet to use many systems or technology in their business. Organizational forgetting can improve innovation performance through

business agility but not through knowledge management. KM does not affect innovation performance in Tasikmalaya SMEs. Of course, this is due to the lack of business systems implemented and distributed. Knowledge management has become increasingly important not been a special concern for SMEs entrepreneurs in Tasikmalaya. Not only SMEs, based on research by Lee et al., (2013), it is stated that gaining knowledge from competitors or carrying out the knowledge management process does not necessarily mean the company will have high innovation performance. The importance of technological factors in the study of a new manufacturing company will help knowledge management that can increase technology-based innovation. Organizational forgetting in this study can only create innovation performance indirectly. Organizational forgetting has no substantial direct impact on innovation performance in Tasikmalaya SMEs. This finding can also be caused by respondents who are SMEs that have yet to use many systems or technology in their business. Organizational forgetting can improve innovation performance through business agility but not through knowledge management. KM does not affect innovation performance in Tasikmalaya SMEs. Of course, this is due to the need for more business systems to be implemented. The importance of distributing knowledge has not yet become a specific concern for SME entrepreneurs in Tasikmalaya.

SMEs in Tasikmalaya require consistency and a focus on business agility to improve innovation performance. High business agility will elevate innovation performance significantly, ultimately supporting the distribution of new knowledge and business sustainability.

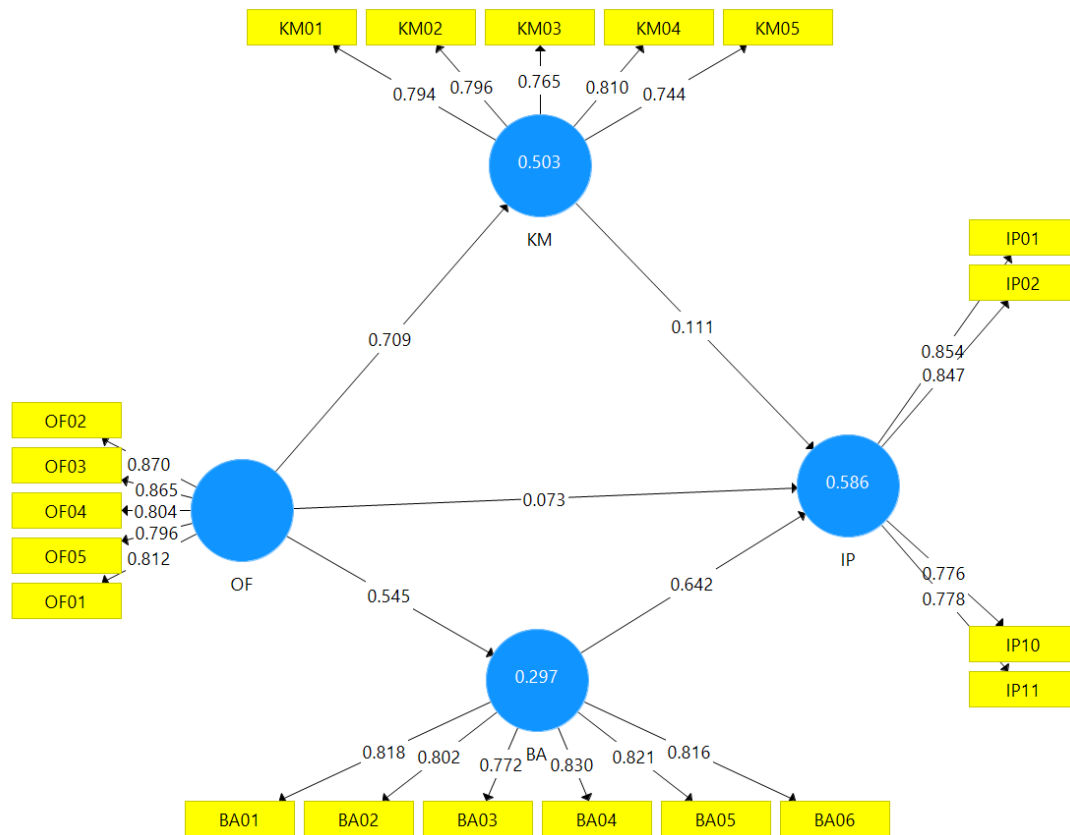


Figure 2: Research Results using SmartPLS (Final iteration)

Table 4: Path analysis & P Values

Hypothesis	Path analysis	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
H1	Organizational Forgetting (OF) -> Innovation Performance (IP)	0.073	0.069	1.053	0.293
H2	Knowledge Management (KM) -> Innovation Performance (IP)	0.111	0.090	1.226	0.221
H3	Organizational Forgetting (OF) -> Knowledge Management (KM)	0.709	0.045	15.614	0.000
H4	Organizational Forgetting (OF) -> Knowledge Management (KM) -> Innovation Performance (IP)	0.079	0.065	1.205	0.229
H5	Business Agility (BA) -> Innovation Performance (IP)	0.642	0.060	10.692	0.000
H6	Organizational Forgetting (OF) -> Business Agility (BA)	0.545	0.065	8.366	0.000
H7	Organizational Forgetting (OF) -> Business Agility (BA) -> Innovation Performance (IP)	0.349	0.055	6.300	0.000

5. Conclusions

Organizational forgetting and knowledge management have little direct bearing on innovation performance,

whereas business agility does. SME owners in Tasikmalaya have transformed due to technical advances in the trade sector and the impact of the COVID-19 epidemic. This shift is what motivates business owners to think creatively about

how to run their business in the new normal era. Organizational forgetting has no significant direct influence on innovation performance. Trade in SMEs in Tasikmalaya still needs to use an adequate system. During the pandemic COVID-19, one of the shifts was a shift in transactions to online food delivery (OFD) and payments via e-wallet, particularly QRIS. OFD is one of the latest logistics systems for distributing products to consumers that SMEs must pay attention to. The unlearning process occurs while they manage their business, which was first centered on traditional and face-to-face methods before transitioning to a digital system.

However, organizational forgetting indirectly affects innovation performance through business agility. This role is needed so that even though the system owned is yet to be technology-based, SMEs are expected to use traditional trading methods that are as simple as possible but still prioritize change and knowledge distribution. Business owners who want to do organizational forgetting in their business will easily face changes during the COVID-19 pandemic. They will try to change the old system and be adaptive to survive.

The major variable driving strong innovation performance in Tasikmalaya SMEs is business agility. This study demonstrates that business agility is an intervening variable requiring driving forces, one of which is organizational forgetfulness. Organizational forgetfulness has an indirect impact on this study, thus SMEs in Tasikmalaya must abandon the status quo and primitive thinking. This primitive mindset hinders them from directly affecting innovation performance. One of them is that they must adapt to technological advances, such as the use of online food delivery (OFD) services. Of course, with internet distribution, innovation performance will improve. Innovation performance in SMEs in Tasikmalaya will be high if business owners are willing to be adaptive to change, especially doing business agility. This research proves that business agility can have an impact on improving innovation performance. One of the findings of this study is that KM is yet to be needed and is a significant factor in efforts to increase innovation performance. KM has little influence because they have not considered the long-term use of the system. Trade in Tasikmalaya SMEs still tends to use books or paper to record recipes, purchases, and even notes for customers. This kind of thinking is what prevents knowledge management from influencing innovation performance.

This research has limitations, namely that it was only conducted in the Tasikmalaya area, West Java. Although this research was only conducted in Tasikmalaya. Tasikmalaya is one of the areas with the most SMEs in Indonesia. This research may not necessarily be generalized to SMEs in various regions. So, for further research, it is hoped that it

can be carried out on SMEs in urban areas. This is because urban areas will experience technological changes more quickly, allowing organizational forgetting and knowledge management in SMEs.

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