Do the Organizational Learning and Innovation Increase Organizational Performance on SMES?

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ABSTRACT

The post-pandemic economic situation forces companies to have breakthroughs to compete with competitors. This is a big enough problem for most MSMEs in Indonesia, including UD Sumber Dwi Jaya Food, which is engaged in the snack food sector in Lampung. Weak market conditions coupled with high raw material prices have forced UD Sumber Dwi Jaya Food to learn and innovate regarding its products. This will boost organizational performance so MSMEs can compete and increase their profits. This study aims to analyze the effect of organizational learning on organizational performance through organizational innovation. The population in this study were 38 employees of UD Sumber Dwi Jaya Food, all of whom were used as research samples. The method used in this research is using PLS-SEM analysis. Organizational learning can drive organizational performance because the organization can become a medium for employee learning and development. On the other hand, organizational innovation cannot encourage organizational performance or strengthen the relationship between organizational learning and organizational performance. The culture of innovation in SMEs is not going well, because low results for the innovation culture indicator. Not many innovations occur in SMEs, so this affects employee perceptions at work. This is interesting, considering that, in theory, organizational Innovation can improve organizational performance.

Introduction

The effects of the Covid 19 pandemic are still being felt. This still has a very high impact on SMEs, including those in the snack sector. The Covid-19 pandemic has greatly affected organizational performance in both large-scale companies and MSMEs, both financial and non-financial performance (Nader et al., 2022). The problems that often occur are too many workers, lack of production due to lack of
interest, changing interests of consumers, or even difficulties and scarcity of raw materials. This problem forces MSMEs to reduce employee salaries, reduce the number of employees or even close their businesses (Nawaiseh, 2021). The decline in people's purchasing power for snacks makes MSME actors look for Innovation so that their products can still be accepted in the market, especially regarding product innovation and market penetration (Mutmainnah et al., 2016; Rodrigues et al., 2012). This is also true for UD Sumber Dwi Jaya Food SMEs in Lampung. UD Sumber Dwi Jaya Food must adjust to the situation after the Covid-19 pandemic. The decline in income experienced by UD Sumber Dwi Jaya Food has significantly impacted the existence of UD Sumber Dwi Jaya Food's MSMEs. This is interesting to study. However, UD Sumber Dwi Jaya Food can survive in an uncertain economic environment, even with a stable income. This phenomenon can occur because UD Sumber Dwi Jaya Food can innovate its products so that consumers can receive them well.

Based on the results of interviews with owner and management of UD Sumber Dwi Jaya Food, the problem of consumer purchasing power is quite influential. Most of UD Sumber Dwi Jaya Food's MSME consumers are students. With the Covid-19 pandemic, which forced schools also to be carried out online, MSMEs' income has drastically decreased. Even after the Covid-19 pandemic was announced to be over, it still could not improve organizational performance. Some consumers will spend more money on buying internet quota packages than snacks. Raw material prices and production costs also increased. The effect is that when these snacks have to be sold at a fixed retail price, for example, Rp. 500 per pcs, UMKM UD Sumber Dwi Jaya Food does not make a profit. MSME UD Sumber Dwi Jaya Food always makes innovations, including reducing the quality of their products by replacing packaging with cheaper ones, reducing the contents, or even reducing the taste quality. The results of this Innovation were not able to increase their income. Instead, they were considered counterfeit goods not original from UMKM UD Sumber Dwi Jaya.

Currently, the only surviving Innovation is changing the size of the packaging and the contents of the snack with a larger one, but the taste quality has not changed. The price has also changed from the original retail price of IDR 500 per pcs, and it has changed to IDR 2,000 per pcs. This is done to maintain product quality and also respond to market conditions. In addition, many competitors also use IDR 2,000 packaging. This Innovation had a good impact on UD Sumber Dwi Jaya SMEs. Slowly, the organizational performance began to increase. This practice is clear evidence of the validity of research conducted by García-Morales et al., (2012), which shows that organizational Innovation has a role in increasing organizational performance.

With such circumstances, it can be assumed that UD Sumber Dwi Jaya Food's MSMEs are also good organizational learners. Organizations receive and respond to information from the market very well. UMKM UD Sumber Dwi Jay Food is starting to be able to adapt to market conditions, according to research (Evenseth et al., 2022).
Kordab et al., 2020), which states that organizational learning is needed to adapt. By maximizing organizational learning, UMKM UD Sumber Dwi Jaya Food will be able to face competition because the competitive advantage is a function of the relationship between organizational learning and organizational performance. (Samoedra et al., 2019; Wijaya & Tarigan, 2015). Other research also states that organizational learning affects organizational performance, supported by organizational Innovation (Noruzy et al., 2013). The manager's role is needed, or in this case, the owner, who is also the manager. Owners have a very important role in decision-making so that employees can maximize their potential (Singh et al., 2020).

Literature Review

Relationship between organizational learning and organizational performance

Organizational learning can be defined as a continuous organizational learning process that increases the capacity of the organization to create the desired results (Senge, 1990). The organization is the right place for employees to continue to grow and develop, as well as a place for education for its members (Vnoučková, 2013). When an employee feels cared for, he will expend all his efforts to improve performance individually and in the organization. The ability to accommodate learning is good because it will improve organizational performance (Alegre & Chiva, 2008; Naranjo-Valencia et al., 2012; Tripathi & Kalia, 2022). Organizational learning is also essential to increasing competitive advantage (Ramírez et al., 2011). Employees will try to find new ways or something unique to create a competitive advantage. Based on this description, the hypothesis of this study:

H1: Organizational learning has a positive and significant effect on organizational performance.

Relationship between organizational learning and organizational innovation

The ever-evolving business environment forces organizations to keep looking for new ideas to stay ahead of the competition. Organizations need to adapt to the business environment in the future, and employee training and development need to be done to improve organizational performance (Hussain et al., 2023). Creative employees also contribute to the creation of Innovation (Chasanah, 2018). Organizational learning influences the innovation process that exists in organizations (Gomes et al., 2022; Naranjo-Valencia et al., 2012). Other literacies (Alegre & Chiva, 2008; Gomes et al., 2022) also mention that there is a boost from organizational learning to organizational innovation performance. This is based on learning from future potential as a sustainable innovation source (Peschl, 2022). Based on this description, the hypothesis of this study:
H2: Organizational learning has a positive and significant effect on Organizational Innovation

Relationship between organizational innovation and organizational performance

Organizational Innovation is a process of collecting new ideas effectively and profitably. The implementation is in the form of new products, processes, and administrative systems to deliver better customer value than competitors (Knox, 2002). Innovation may be defined as successfully implementing creative ideas within the organization (Greenberg & Baroon, 2000). Innovation success can start from organizational Learning (Domínguez-Escrig et al., 2022). This means that the organization has a significant role in creating Innovation within the organization. Innovation is seen as something new for consumers as well as for employees. Innovation results can be seen from product improvements, be it quality, size, or new variants. It can be concluded that organizational innovation affects organizational performance (Purnomo & Kameswara, 2019). Based on this description, the hypothesis of this study:

H 3: Organizational innovation positively and significantly affects organizational performance.

Relationship between organizational learning and organizational performance mediating organizational innovation

Indirectly, organizational learning can affect organizational performance mediated by Innovation (Migdadi, 2021). Organizational learning is critical in bringing about Innovation that will increase organizational performance (Khan et al., 2021; Uddin et al., 2022). Other literature also states that there is an influence between organizational Innovation on organizational performance (Mai et al., 2022). This shows that Innovation has a vital role in improving organizational performance. Based on this description, the hypothesis of this study:

H4: Organizational learning positively and significantly affects organizational performance-mediated Organizational Innovation.

Method

The method used in this research is quantitative. This research was conducted at UD Sumber Dwijaya Food in Lampung Regency. Methods of data collection using primary data, questionnaires distributed to all employees totaling 38 people as a population and all used as research samples. The questionnaire uses the Likert scale with an assessment of 1-5. Furthermore, the data obtained were processed and analyzed descriptively and inferentially. The data analysis method in this study used...
SEM (Structural Equation Modeling) based on Partial Least Squares (PLS), using SmartPls 3.2.9 software.

Result and Discussion

Results

The results of this study consisted of 38 respondents. All respondents are employees of UD Sumber Dwi Jaya Food. The data is presented to provide an overview of the state of the organization at UD Sumber Dwi Jaya Food.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>N</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>10</td>
<td>26.3%</td>
</tr>
<tr>
<td>Female</td>
<td>28</td>
<td>73.4%</td>
</tr>
<tr>
<td>age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17-22 years old</td>
<td>3</td>
<td>7.9%</td>
</tr>
<tr>
<td>23 - 27 years old</td>
<td>5</td>
<td>13%</td>
</tr>
<tr>
<td>28 - 32 years old</td>
<td>7</td>
<td>18.4%</td>
</tr>
<tr>
<td>33 - 37 years old</td>
<td>4</td>
<td>10.5%</td>
</tr>
<tr>
<td>&gt;37 years old</td>
<td>19</td>
<td>50%</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior High School</td>
<td>8</td>
<td>21%</td>
</tr>
<tr>
<td>Senior High School</td>
<td>29</td>
<td>76%</td>
</tr>
<tr>
<td>Bachelor Degree</td>
<td>1</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

(source: primary data)

Two models can form Structural Equation Modelling: the measurement model (outer model) and the structural model (inner model). The measurement model can explain the formation of latent variables through each indicator in the measurement model. Furthermore, the effect of each exogenous latent variable on the endogenous latent variable can be analyzed. In this study, there is one exogenous variable, namely organizational learning, as measured by four indicators, one endogenous variable, namely organizational performance, as measured by two indicators; and one mediating variable, namely organizational Innovation, as measured by three indicators.

Outer model analysis

In testing, the measurement model (outer model) used to analyze the relationship between latent variables and their manifest variables or indicators includes convergent validity, discriminant validity, and reliability. The structural model in this study is:
Based on the value of the loading factor, there are indicators that have a value <0.7 or are invalid, so these indicators must be removed. These indicators are x2, z1, and y1.

After the invalid indicators were removed and retested, it was found that all indicators had a value > 0.7, so it can be concluded that the indicators are valid.
**Discriminant testing validity.** Discriminant validity assesses based on cross-loading measurements with constructs. An indicator meets discriminant validity if the Cross-Loading value of an indicator on the variable is the largest compared to other variables. The results of cross-loading are as follows.

<table>
<thead>
<tr>
<th>Table 2 Discriminant Validity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>x11</td>
</tr>
<tr>
<td>x13</td>
</tr>
<tr>
<td>x14</td>
</tr>
<tr>
<td>x22</td>
</tr>
<tr>
<td>x23</td>
</tr>
<tr>
<td>y2</td>
</tr>
</tbody>
</table>

Source: processed data, (2023)

Based on Table 2, it can be concluded that all indicators have a more excellent value on the variables compared to other variables, so this meets the requirements of discriminant validity.

Furthermore, reliability testing was carried out. A reliability test is used to measure the consistency of answers by respondents. The reliability test uses two methods: composite reliability and Cronbach's Alpha. The rule of thumb is that the alpha or composite reliability value must be greater than 0.7, even though a value of 0.6 is still acceptable. Cronbach's Alpha measures the lower limit of the reliability value of a construct, while composite reliability measures the actual value of the reliability of a construct (Chin & Gopal, 1995).

<table>
<thead>
<tr>
<th>Table 3 Composite Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Organizational Learning</td>
</tr>
<tr>
<td>Organizational Innovation</td>
</tr>
<tr>
<td>Organizational Performance</td>
</tr>
</tbody>
</table>

Source: processed data, (2023)
Based on the table, it can be concluded that the composite reliability and AVE values of all variables above are 0.7. Cronbach’s alpha value for Organizational Learning is above 0.7, but for Organizational Innovation, it is 0.629. Based on Chin & Gopal's (1995) Rule of thumb, an alpha or composite reliability value of 0.6 is still acceptable.

**Inner Model Analysis**

Evaluation of the structure of the inner model is carried out in two stages, namely the coefficient (R^2) determination and Goodness of Fit (GoF) assessment.

**Coefficient of Determination**

Based on the results of the tests carried out, the _R square value was obtained_ as follows:

<table>
<thead>
<tr>
<th></th>
<th>R Square</th>
<th>R Square Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational Innovation</td>
<td>0.231</td>
<td>0.210</td>
</tr>
<tr>
<td>Organizational Performance</td>
<td>0.382</td>
<td>0.347</td>
</tr>
</tbody>
</table>

*Source: processed data, (2023)*

Based on the table, it can be concluded that the _R Square value_ of the organizational innovation variable is 0.231 or 23.1%. This means that the organizational learning variable influences organizational Innovation by 23.1%, while other variables influence the rest. The value of the _R Square_ organizational performance variable is 0.382 or 38.2%. This shows that organizational learning and organizational innovation variables affect organizational performance variables by 38.2%, while other variables influence the rest.

**Assessment of Goodness of Fit (GoF)**

The Goodness of Fit (GoF) assessment can be seen from the NFI score. The NFI value ≥ 0.662 is declared fit and suitable for testing the research hypothesis. Based on the results of the assessment obtained:

<table>
<thead>
<tr>
<th></th>
<th>Saturated Model</th>
<th>Estimated Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRMR</td>
<td>0.089</td>
<td>0.089</td>
</tr>
<tr>
<td>d_ULS</td>
<td>0.166</td>
<td>0.166</td>
</tr>
<tr>
<td>d_G</td>
<td>0.126</td>
<td>0.126</td>
</tr>
</tbody>
</table>
Based on the table, the NFI value is 0.712. This shows that the model in this study has high goodness of fit and is feasible to use to test the model hypothesis.

**Hypothesis test**

Hypothesis testing in this study was carried out by reviewing the *T-Statistic values* and *P-Values*. The hypothesis can be accepted if it fulfills the *T-Statistic* > 1.96 and *P-Values* < 0.05. Based on the test results, the following results were obtained:

**Table 6 path coefficient (direct effect)**

|                          | Original Sample (O) | Sample Means (M) | T Statistics (|O/STDEV|) | P Values |
|--------------------------|---------------------|------------------|-------------------|----------|
| Organizational Learning  |                      |                  |                   |          |
| Organizational Innovation| -> 0.481            | 0.449            | 0.252             | 1,905    | 0.057    |
| Organizational Learning  | -> 0.691            | 0.568            | 0.316             | 2,186    | 0.029    |
| Organizational Performance| -> -0.208          | -0.238           | 0.184             | 1.128    | 0.260    |

Source: processed data, (2023)

The table shows that of the three hypotheses that have a direct effect, only 1 hypothesis is accepted, namely H1 with a *T-Statistic* value of 2.186 and *P-Values* of 0.029. The other two hypotheses cannot be accepted because the *T-Statistic value* is < 1.96 and the *P-Values* > 0.05.

**Table 7 path coefficient (indirect effect)**

|                          | Original Sample (O) | Sample Means (M) | T Statistics (|O/STDEV|) | P Values |
|--------------------------|---------------------|------------------|-------------------|----------|
| Organizational Learning  | -> -0.100           | -0.090           | 0.096             | 1,044    | 0.297    |
| Organizational Innovation| ->                 |                  |                   |          |

Source: processed data, (2023)
The table shows that the significant \( T\)-statistic indirect effect of organizational learning on organizational performance is 0.297, which means greater than 0.05. This shows that organizational Innovation cannot strengthen the effect of organizational learning on organizational performance.

**Discussion**

Based on the research results, it can be explained that organizations that provide opportunities for employees related to work, such as training to increase skills and work experience, positively impact achieving organizational goals. This provides evidence that organizational performance is influenced from within the organization itself. Employees feel cared for in their careers and will make maximum efforts to achieve organizational goals. In training and development programs, employees will gain an understanding of solving problems, increasing their knowledge and skills about new technologies (Kaur & Preet, 2021; Rodriguez & Walters, 2017). In addition, training and development are important for sustainable organizational performance (Aina & Atan, 2020). This is very important, considering that the object of this research is SMEs, where SMEs still really need development. This study's results align with research conducted by Soomro et al., (2020); Uljanati et al., (2021), which state a positive relationship between organizational learning and organizational performance. The data shows the ability to interpret the information obtained by employees. Employees receive information and then translate it into the form of performance. Employee orientation on learning gives the view that organizational performance can be improved. Research Sawaean & Ali, (2021) states that learning orientation significantly impacts SME organizations' performance in Kuwait.

The results also show that organizational learning does not affect organizational innovation. This research does not align with Gomes et al., (2022); Naranjo-Valencia et al., (2012). This can happen due to a lack of encouragement from the organization to seek and get new ideas or ideas. Based on the results of the interviews, it was found that innovation only occurs among management and MSME owners. In innovation, organizations can be realized by empowering employees to generate creative ideas and participate in their development and implementation by managers and owners (Echebiri et al., 2020; Saray et al., 2017). This naturally happens because, for the MSME scale, the owner is in full control of the company. MSME owners dominate decision-making and yield management, which can increase negative risks (Franco & Matos, 2015; Rasheed & Siddiqui, 2019). The owner must allocate resources appropriately to the market and organizational innovation to increase performance (Veidal & Korneliussen, 2013).

On the other hand, the innovations carried out by MSMEs cannot encourage better organizational performance. The culture of innovation in SMEs is not going well; this is evidenced by the questionnaire results, which showed low results for the innovation
culture indicator. Not too many innovations occur in SMEs, so this affects employee perceptions at work. Perception and understanding at work help to create appropriate strategies and training programs for MSME development (Muenjohn et al., 2021). The domino effect is that a culture of innovation cannot drive organizational performance. This does not align with research (Domínguez-Escrig et al., 2022), which states that organizational innovation affects organizational performance. Creating organizational innovation requires encouragement from various sources, from a homogeneity perspective, for example, transformational leadership, business collaboration, employee competency, leader competency, absorptive capacity and business size and from a heterogeneous perspective, for example, communication, customer collaboration, internal entrainment, external entrainment, implementation climate and strategic resources (Singh et al., 2020). In addition, change management factors can increase innovative behaviour and organizational innovation (do Adro & Leitão, 2020; Sung & Kim, 2021).

**Conclusion**

Based on the research results, it can be concluded that organizations that can become media for learning and development can improve the organization's performance. Employees who are given the opportunity to learn and develop feel comfortable and cared for. This makes employees motivated to work harder so that organizational performance will also increase. On the other hand, organizations must create a culture of innovation for their employees. This is important so employees can create breakthroughs related to technology, methods, working methods, and even the product itself. Organizations with a good culture of innovation will be able to encourage employees to think creatively and innovatively to improve their organizational performance. This research is expected to be a reference for UD Sumber Dwi Jaya Food to improve its organizational performance by maintaining and increasing the learning and development of employee potential. In addition, it is necessary to improve the innovation culture that exists in the organization. There are many varied innovations in MSMEs, be it ideas, methods, technology, or the product itself. MSMEs have their way of thinking about solving challenges, so it is interesting to study. But it needs to be added to the number of respondents to improve the data obtained.

**Acknowledgment**

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**References**


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