

Leveraging Knowledge Management for Business Success: The Influence of Dynamic Capabilities and Entrepreneurial Competence, Moderated by Government Policy

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Abstract

This study examines the impact of knowledge management on business performance, mediated by dynamic capabilities and entrepreneurial competence, and moderated by government policy. A survey of 156 small and medium-sized enterprises (SMEs) in the Riau Coastal Food sector was conducted, and data were analyzed using Structural Equation Modeling (SEM). The findings reveal that knowledge management positively influences business performance, with dynamic capabilities and entrepreneurial competence acting as key mediators. However, government policy does not significantly moderate this relationship. The study highlights the importance of internal organizational capabilities in enhancing SME performance, suggesting that firms must focus on dynamic capabilities and entrepreneurial competence to maximize the benefits of knowledge management.

Keywords: Knowledge Management, Dynamic Capabilities, Entrepreneurial Competence, Government Policy, SMEs, Business Performance.

Introduction

Small and Medium Enterprises (SMEs) are widely regarded as a crucial pillar of economic development, particularly in emerging markets such as Indonesia. According to data from the Ministry of Investment (BKPM, 2022), SMEs contribute approximately 61.97% to the national Gross Domestic Product (GDP) and account for around 97% of total employment. These statistics highlight the critical role that SMEs play in fostering economic resilience and promoting inclusive growth across urban and rural regions. SMEs provide opportunities for innovation, job creation, and poverty alleviation, especially in resource-rich regions like the Riau Province, where coastal food SMEs are integral to the local economy.

Despite their significant contributions, SMEs face numerous challenges that impede their growth and sustainability. These challenges include limited access to capital, lack of technological innovation, inadequate management skills, and an inability to scale operations to meet market demands (Harjito & Martono, 2014). In addition, many SMEs in Indonesia operate in highly competitive and volatile markets, where external factors such as fluctuating demand, regulatory changes, and global economic shifts can further complicate their operational environments. To address these challenges, it is essential for SMEs to adopt strategic practices such as Knowledge Management (KM) to enhance their organizational capabilities and improve business performance.

Knowledge Management (KM) has emerged as a key determinant of organizational success in today's knowledge-driven economy. KM refers to the processes by which organizations create, acquire, disseminate, and apply knowledge to achieve business objectives (Tseng & Lee, 2014). Effective KM practices enable businesses to harness both internal and external knowledge, thereby enhancing their ability to innovate, improve decision-making, and optimize operational efficiency. For SMEs, KM can be particularly valuable as it helps mitigate resource constraints by facilitating better utilization of available knowledge, thus enabling firms to remain competitive in dynamic market environments (Mansoor, 2021).

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Several studies have shown that KM positively impacts business performance, especially in firms that operate in highly competitive industries (Nyachanchu, Chepkwony, & Bonuke, 2017; Imaniayah, Rifqi, & Umam, 2018). However, the extent to which KM contributes to performance improvements often depends on other mediating factors such as organizational capabilities and competencies. Dynamic capabilities, defined as a firm's ability to reconfigure resources in response to changing environments, are particularly important in this context (Teece, Pisano, & Shuen, 1997). Additionally, entrepreneurial competence, which includes skills such as leadership, risk management, and strategic thinking, is another critical factor that influences how well SMEs can capitalize on KM practices to achieve business success (Wulandari, 2021).

The present study seeks to explore the relationship between KM and business performance in SMEs, with a specific focus on dynamic capabilities and entrepreneurial competence as mediators. While previous research has examined the direct effects of KM on business outcomes, less attention has been paid to the mediating roles of these organizational factors, particularly in the context of developing economies. Moreover, the role of external factors such as government policy in moderating these relationships remains underexplored.

Government policies can significantly influence the operating environment of SMEs by providing financial support, infrastructure development, and regulatory frameworks that promote business growth. However, the effectiveness of government policies in enhancing SME performance may vary depending on the firm's internal capabilities and market conditions (Purwidiyanti & Rahayu, 2017). In this study, we investigate whether government policy acts as a moderating variable that strengthens or weakens the impact of KM on business performance through dynamic capabilities and entrepreneurial competence.

Thus, this research aims to fill the following gaps:

Investigating the direct effect of KM on business performance in SMEs.

Analyzing the mediating roles of dynamic capabilities and entrepreneurial competence in enhancing business performance.

Exploring the moderating role of government policy in the KM-business performance relationship.

By focusing on SMEs in the Riau Coastal Food sector, this study provides valuable insights into the challenges and opportunities faced by SMEs in resource-dependent regions. The findings of this research are expected to contribute to both the academic literature on KM and organizational capabilities, as well as to practical strategies for improving SME performance in developing countries.

Literature Review

Knowledge Management and Business Performance

Knowledge Management (KM) is broadly defined as the systematic management of an organization's knowledge assets to create value and meet tactical and strategic requirements (Tseng & Lee, 2014). Effective KM practices enable firms to improve decision-making, streamline processes, and foster innovation. Previous studies have shown that organizations with robust KM systems tend to perform better in terms of operational efficiency and market competitiveness (Wright et al., 1994; Nyachanchu, Chepkwony, & Bonuke, 2017).

Dynamic Capabilities

Dynamic capabilities refer to the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Teece, Pisano, & Shuen, 1997). In the context of SMEs, dynamic capabilities allow businesses to adapt to market shifts, technological changes, and evolving customer demands. Several studies suggest that dynamic capabilities are a key driver of business performance, particularly in volatile markets (Nyachanchu et al., 2017; Permana & Ellitan, 2020).

Entrepreneurial Competence

Entrepreneurial competence encompasses the skills, knowledge, and behaviors that enable individuals to successfully initiate and grow businesses. Competencies such as risk-taking, innovation, leadership, and strategic thinking are critical for business success (Wulandari, 2021). Prior research has found that entrepreneurs with strong competencies are better equipped to manage uncertainty and capitalize on new opportunities, thereby enhancing their firms' performance (Imaniyah, Rifqi, & Umam, 2018).

Moderating Role of Government Policy

Government policy can significantly influence the business environment in which SMEs operate. Supportive policies, such as subsidies, tax incentives, and access to credit, can help SMEs overcome resource limitations and scale their operations. However, the impact of government policy on SME performance is often context-dependent and may vary based on the specific regulatory environment (Purwidiyanti & Rahayu, 2017). This study examines whether government policies enhance the effects of KM on SME performance.

Research Gap

While numerous studies have explored the relationship between KM and business performance, few have examined the mediating roles of dynamic capabilities and entrepreneurial competence, particularly in the context of SMEs in developing economies. Moreover, the moderating role of government policy remains underexplored. This study aims to fill these gaps by providing empirical evidence from SMEs in the Riau Coastal Food sector.

Methodology

3.1 Research Design

This study employs a quantitative research design, utilizing a survey-based approach to collect data from SMEs in the Riau Coastal Food sector. The research is explanatory in nature, seeking to understand the causal relationships between KM, dynamic capabilities, entrepreneurial competence, government policy, and business performance.

3.2 Population and Sample

The population for this study consists of SMEs in the Riau Coastal Food sector, spread across Bengkalis, Rokan Hilir (Rohil), Siak, Meranti Islands, and Dumai. A total of 257 SMEs were identified, and a sample of 156 was selected using the Sample Fraction method. This sampling method ensures that the sample is representative of the broader population of SMEs in the region.

3.3 Data Collection

Data were collected using a structured questionnaire, which was distributed to SME owners and managers. The questionnaire was designed to measure KM practices, dynamic capabilities, entrepreneurial competence, government policy, and business performance. Each construct was measured using a Likert scale, with responses ranging from 1 (strongly disagree) to 5 (strongly agree).

3.4 Instrumentation

The measurement instruments were adapted from validated scales used in previous studies. KM was measured using items related to knowledge acquisition, dissemination, and utilization (Tseng & Lee, 2014). Dynamic capabilities were assessed based on the firm's ability to reconfigure resources and adapt to environmental changes (Teece et al., 1997). Entrepreneurial competence was measured using items related to leadership, risk-taking, and innovation (Wulandari, 2021).

3.5 Data Analysis

Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). This technique was chosen because it allows for the examination of complex relationships between multiple variables, including mediating and moderating effects. PLS-SEM is particularly well-suited for exploratory research with small to medium sample sizes.

Data Analysis

The data analysis consists of two main steps: descriptive statistics and hypothesis testing. Descriptive statistics provide an overview of the sample characteristics, including the mean, standard deviation, and correlation matrix of the variables.

Descriptive Statistics

Table 1. Descriptive Statistics of Study Variables

| Variable | Mean | Std. Deviation | N |
|----------------------|------|----------------|-----|
| Knowledge Management | 3.8 | 0.7 | 156 |
| Dynamic Capabilities | 3.5 | 0.6 | 156 |
| Entrepreneurial Comp | 3.7 | 0.8 | 156 |
| Business Performance | 4.0 | 0.9 | 156 |

The SMEs surveyed had an average of 15 employees and annual revenues ranging from IDR 500 million to IDR 2 billion. The majority of respondents (72%) had been in business for more than five years, indicating a relatively mature sample. KM practices were rated moderately high, with an average score of 3.8 out of 5, while dynamic capabilities and entrepreneurial competence had mean scores of 3.5 and 3.7, respectively.

Path Analysis Results

Table 2. Path Coefficient Results

| Path | Coefficient (β) | t-statistic | p-value |
|--|-------------------------|-------------|---------|
| KM \rightarrow Dynamic Capabilities | 0.575 | 12.459 | 0.000 |
| KM \rightarrow Entrepreneurial Competence | 0.871 | 51.060 | 0.000 |
| KM \rightarrow Business Performance | 0.371 | 3.409 | 0.001 |
| Dynamic Capabilities \rightarrow Performance | 0.187 | 2.153 | 0.031 |
| Entrepreneurial Comp \rightarrow Performance | 0.284 | 2.115 | 0.034 |

The results of the PLS-SEM analysis are presented in Table 1. The path coefficients reveal significant positive relationships between KM and dynamic capabilities ($\beta = 0.575$, $p < 0.01$), KM and entrepreneurial competence ($\beta = 0.871$, $p < 0.01$), and KM and business performance ($\beta = 0.371$, $p < 0.01$). Additionally,

dynamic capabilities and entrepreneurial competence were found to mediate the relationship between KM and business performance. However, the moderating effect of government policy was not significant ($\beta = 0.044, p > 0.05$).

Hypothesis Testing

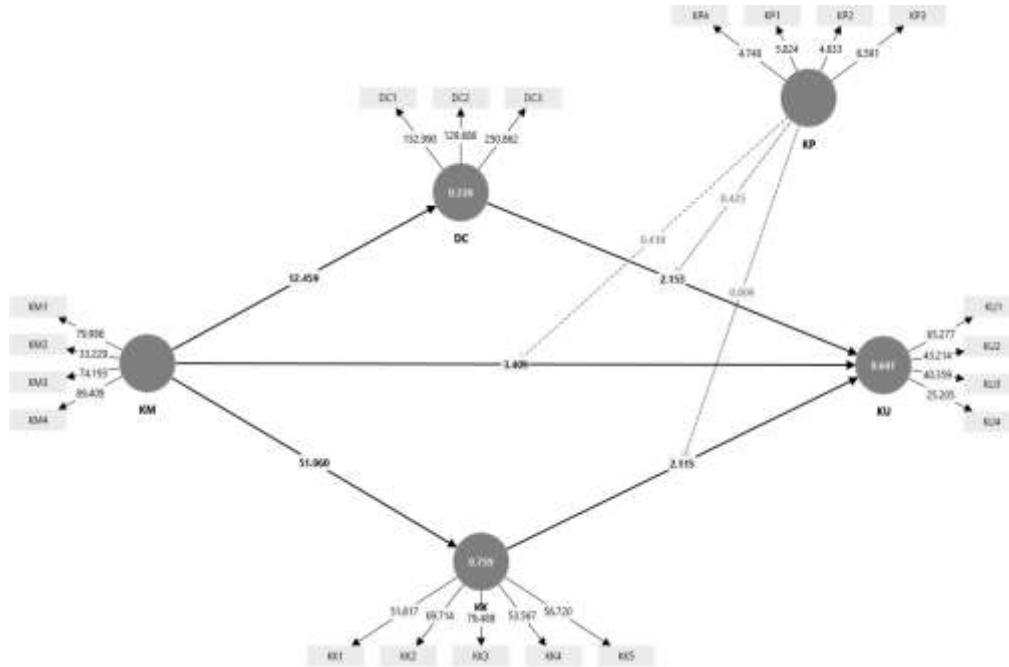


Figure 1. Hypothesis Testing Result Path

The results of the hypothesis testing are as follows:

H1: KM has a positive effect on business performance (supported).

H2: Dynamic capabilities mediate the relationship between KM and business performance (supported).

H3: Entrepreneurial competence mediates the relationship between KM and business performance (supported).

H4: Government policy moderates the relationship between KM, dynamic capabilities, entrepreneurial competence, and business performance (not supported).

Discussion and Recommendations

Discussion

The results of this study highlight the crucial role of Knowledge Management (KM) in enhancing the business performance of SMEs, particularly when dynamic capabilities and entrepreneurial competence are well-developed within the organization. These findings align with previous research that suggests KM acts as a vital resource for firms operating in competitive environments, enabling them to leverage knowledge for innovation, improved decision-making, and operational efficiency (Tseng & Lee, 2014).

The Impact of Knowledge Management on Business Performance

The significant positive relationship between KM and business performance demonstrates that SMEs that actively manage their knowledge assets tend to perform better in terms of growth and sustainability. This supports the Resource-Based View (RBV) of the firm, which posits that firms that can efficiently manage their intangible assets, such as knowledge, are more likely to gain a competitive advantage (Barney, 1991). SMEs that effectively collect, share, and apply knowledge are better equipped to address operational challenges and capitalize on new market opportunities.

Mediating Role of Dynamic Capabilities and Entrepreneurial Competence

Dynamic capabilities and entrepreneurial competence were found to mediate the relationship between KM and business performance, suggesting that KM's impact is amplified when these two factors are present. Dynamic capabilities allow SMEs to respond rapidly to changing market conditions by reconfiguring internal processes and resources, which is essential in volatile environments like the food sector (Teece, 2007). This finding corroborates the view that organizations with strong dynamic capabilities can use KM more effectively to drive business performance.

Similarly, entrepreneurial competence plays a critical role in enhancing the positive effects of KM. Entrepreneurs with strong leadership, innovation, and risk-taking skills are more likely to transform knowledge into actionable strategies that improve business outcomes (Wulandari, 2021). The results indicate that entrepreneurial competence enables SMEs to exploit KM practices fully by fostering a culture of innovation and strategic foresight.

The Role of Government Policy

Interestingly, the moderating role of government policy in the relationship between KM, dynamic capabilities, and entrepreneurial competence was not found to be significant. This finding suggests that while government policies can provide a supportive environment for SMEs, internal factors such as dynamic capabilities and entrepreneurial competence have a more direct impact on business performance. It also implies that external support mechanisms alone are insufficient to improve business outcomes if the firm lacks the necessary internal capabilities.

This result is consistent with prior studies that argue that government support, while important, must be complemented by strong internal management practices to achieve significant performance improvements (Purwidiyanti & Rahayu, 2017). In the context of Riau's coastal food SMEs, it appears that firms are more reliant on their internal resources and capabilities to drive performance than on external government interventions.

Implications for Theory and Practice

Theoretically, this study contributes to the literature by demonstrating the importance of dynamic capabilities and entrepreneurial competence as mediators in the KM-performance relationship. While many studies have examined the direct effects of KM, fewer have explored how these organizational factors interact to influence business outcomes, especially in SMEs in developing economies. This research adds to the growing body of knowledge that emphasizes the need for firms to build strong internal capabilities to leverage KM effectively.

From a practical perspective, the findings suggest that SME managers should focus on enhancing their dynamic capabilities and entrepreneurial competence to maximize the benefits of KM. This can be achieved through targeted training and development programs that foster innovation, adaptability, and strategic thinking. Additionally, while government policies can provide a helpful external environment, SMEs should prioritize building internal strengths to ensure long-term success in competitive markets.

Limitations and Future Research

This study is not without limitations. The research was conducted in the context of SMEs in the Riau Coastal Food sector, which may limit the generalizability of the findings to other industries or regions. Future research could explore the role of KM in other sectors and investigate whether similar mediating effects of dynamic capabilities and entrepreneurial competence exist in different contexts. Additionally, the role of other external factors, such as market competition and technological advancements, could be examined to gain a deeper understanding of how external environments interact with KM to influence business performance.

Recommendations for Future Research

Future studies should explore the role of other external factors, such as market conditions and technological advancements, in moderating the relationship between KM and business performance. Additionally, comparative studies across different sectors and countries could provide a broader understanding of the generalizability of these findings.

Conclusion

In conclusion, this study provides empirical evidence that KM positively impacts the business performance of SMEs in the Riau Coastal Food sector, with dynamic capabilities and entrepreneurial competence serving as key mediators. While government policy does not significantly moderate this relationship, the findings underscore the importance of internal organizational capabilities in driving business success.

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