

# The effect of Internal environment, Knowledge management, and Dynamic capability toward Innovative capability and E-business Performance on Clothing online business in east java, Indonesia

Hananiel M Gunawan, Henky Supit, & Christina Esti Susanti

## Abstract

The dynamics of business competition is increasing in its intensity and aggressiveness. This requires businesses to focus on effective strategies to maintain and achieve their goals. E-commerce has forced businesses to expand their ability and also their performance in this current era. For clothing online business, especially in east Java, the effort is tremendous due to the dynamic of changing market and consumer preferences. This industry is expected to achieve and improve its performance, with various capabilities and strategies. The purpose of this research is to determine the effect of Internal Environment, Knowledge Management, Dynamic Capability, to E-Business Performance through Innovation Capability. This research uses 210 clothing online business as samples with random sampling method. Method of hypothesis testing uses structural equation model to test 10 hypotheses in this research. The result shows that Internal Environment, Knowledge Management, Dynamic Capability has significant influence on Innovation Capability. In addition, only Internal Environment, and Dynamic Capability significantly influence E-Business performance, while Knowledge Management does not significantly influence E-Business Performance. Furthermore, Innovation Capability is found as intervening variable of relationship between Internal Environment, Knowledge Management, and Dynamic Capability to E-Business Performance.



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**Keywords:** *Internal Environment, Knowledge Management, Dynamic Capability, Innovation Capability, E-Business Performance.*

## About Author (s)

**Hananiel M Gunawan (corresponding author)**, Graduate School, Widya Mandala Surabaya Catholic University, Indonesia.

**Henky Supit**, Graduate School, Widya Mandala Surabaya Catholic University, Indonesia.

**Christina Esti Susanti**, Graduate School, Widya Mandala Surabaya Catholic University, Indonesia.

## **Introduction**

The Government of the Republic of Indonesia has predicted that the potential for the e-business market will continue to grow to US \$20 billion in 2020. Meanwhile, Bank Indonesia stated the same thing, that this digital economic growth could contribute US\$155 billion to Indonesia's Gross Domestic Product and a workforce growth of 3.7 million workers in 2025 (Rosmayanti, 2019). This is also in accordance with the results of research from the Deloitte Consumer Insights Survey conducted in 2019. The digital economy sector such as e-business is estimated to be a trigger for Indonesia's economic growth going forward. E-business sector entrepreneur cannot avoid tight competition, and therefore, e-business entrepreneur are required to make new innovations in order to maintain customer loyalty and improve Business Performance. Therefore, it is very important to understand the environmental growth and competitive dynamics of the e-business sector, which has shown very rapid development. According to the Ministry of Industry (2019), the demand for apparel is increasing and the apparel industry is becoming a large segment. This makes the apparel industry increase its production growth the highest among other sectors in 2019.

The clothing trading industry has challenges, including internally the company, the online business must have creativity and ideas to develop its business, and attract consumers to visit online sites. And externally, the number of existing competitors is increasing, especially during the current pandemic. The phenomenon in the industry also shows that the growth of the online clothing business can be seen clearly, this can be seen by the rapid growth in the number of online clothing businesses which has increased drastically in Indonesia, especially the online business in the clothing sector (Dianawanti, 2020). A company will strive to achieve a competitive advantage or competitive advantage that is superior to existing competitors. According to Ombaka (2015), companies must have resources, namely excellence in innovating before implementing a strategy. However, innovation alone is not enough to determine the company's success. Other studies also mention several factors that affect Business Performance, namely the Internal Environment (Alzhura, 2017), Knowledge Management (Kamasak, 2016), and Dynamic Capability (Chien, 2012). Business Performance is strongly influenced by Innovation Capability and the type of innovation chosen. In achieving Business Performance, innovation is widely regarded as a critical success factor in a company. Tavassoli (2015) states that companies can take advantage of Innovation Capability to create value for the company.. This means that not all organizations that innovate are guaranteed to improve E-business Performance. Several studies have attempted to reveal the factors that influence the performance of E-Business. However, there are still few studies that try to look at the Innovation Capability and Resource Based View of an organization when used see from the strategic aspect.

## **Theoretical Basis**

### **E-Business Performance**

Measurement of company performance is still a research topic that is often studied by researchers. (Tang & Zhang, 2015; Sandada, 2014). However, some researchers tend to agree that organizations can generally use goals rather than subjective measures to assess their success, provided that accurate information is provided (Chow & Van der Stede, 2016; Panigyrakis & Theodoridis, 2009). A study by Tang and Zhang (2015) revealed that objective performance data are influenced by industry-specific factors and are therefore not suitable for reference or comparison across industries. Ali (2015), defines organizational performance as the organization's ability to utilize its resources (knowledge, employee skills, and raw materials) to achieve organizational goals in an effective and efficient manner. Furthermore,

Ramli and Yusoff (2015), state that performance can be defined as how the company realizes the goals that have been set. In general, company performance can be viewed from two perspectives, either financial or non-financial performance (Venkatraman and Ramanujam, 2016). Therefore, most studies focus on financial measures only, such as profitability (Megan, Sims, & Gallear, 2008). The indicators to measure the E-Business Performance variable used in this study adapted from Migdadi (2016) are Efficiency, Sales Performance, Customer Satisfaction, Relationship Development

### **Internal Environment**

According to Moses Hubeis and Mukhamad Najib (2008), Internal Environment is an aspect within a company and has a direct impact and specific implications for the company. Furthermore, Briner (2000) describes the internal environment as a very broad category consisting of physical settings, job characteristics, and even other organizational setting factors. The internal environment is known to consist of a number of different components, namely organizational structure, organizational culture, fiscal resources, human resources, research and development resources, and information management systems (Gichaaga, 2014). Duncan (1972) and Williams (2009) assert that the internal environment of the organization consists of factors related to the company that affect its capacity to achieve an achievable goal. It aims for the organization to achieve the expected performance (Amoako Gyampah, 2003; Ghani, Nayan, Ghazali & Shafie, 2010). Waterman, Peters and Julien (1980) describe the internal environment as the main key that must be aligned and aligned to improve performance or implement effective change. An understanding of the internal environment of an organization can provide a deeper understanding of the strengths and weaknesses of the organization (Tolbert & Hall, 2009). The indicators for measuring the Internal Environment variables used in this study adapted from Alshura (2017) are Communication Structure, Organizational Value, and Organizational Resource

### **Knowledge Management**

Knowledge is the result of learning, can provide real changes in behavior (Argote, 2013). Knowledge can be described in various dimensions (Windhager et al., 2013). Marquardt (1996) identified four dimensions of knowledge management capability into knowledge acquisition, knowledge creation, knowledge storage, and knowledge sharing. This study adapts the variable dimensions of knowledge management capability from the research of Kamasak (2016), Rasula (2012), Ferraris (2017) which measures knowledge management capability using three dimensions, including learning and obtaining, sharing knowledge, and creating and improving. Learning and obtaining indicates the extent to which members in the organization are able to understand and acquire knowledge from various internal and external sources. Knowledge sharing indicates the extent to which members within the organization use various communication methods (both formal and informal) to assist in sharing knowledge. Creating and improving indicates the extent to which members in the organization can create new knowledge and improve their work behavior (Carayannis and Rakhmatullin, 2014). Several studies explain that Knowledge Management is a company's effort to seek new information and knowledge, both inside and outside the organization, which leads to new knowledge (Cepeda, Cegarra, & Jimenez, 2012; Chen & Edgington, 2015). The indicators to measure the Knowledge Management variable used in this study adapted from Wu (2014) are the Creation Process, Transfer Process, Integration Process, and Application Process.

### **Dynamic Capability**

Dynamic Capability can be understood as an extension of RBV theory in the field of strategic management science (Eisenhardt and Martin, 2000). The concept of dynamic capability has

been largely developed under the influence of two major studies conducted by Teece et al. (1997) and Eisenhardt & Martin (2000). Teece et al. (1997) consider dynamic capabilities as a firm's ability to "integrate, build and reconfigure internal and external competencies to cope with a rapidly changing business environment." While Eisenhardt & Martin (2000) understand dynamic capabilities as a specific strategic process and state that DC shows how the organization utilizes the resources within the organization to respond to market changes. Teece (2007) has developed a definition of dynamic capabilities as a series of processes that must be managed by the company. The Dynamic Capability approach suggests that to identify new opportunities (sensing); to manage effectively (capture/seize); and to adopt (reconfiguring), is considered more specific than the strategy itself. A strategy should be understood as to be better understood as a preventive measure to ward off competitors as well as increase the barriers of new competitors (Helfat & Peteraf, 2015; Teece, 2007). In this case, companies need to align their resources with market needs through perception of opportunities or threats (sensing), opportunity assessment and threat management (seizing), and reconfiguration of resources (reconfiguration). The indicators to measure the Dynamic Capability variable used in this study adapted from Monteiro (2019) are Resource Integration, Resource Reconfiguration, Learning Capability, and Respond to Changing Environment.

### **Innovation Capability**

From an organizational perspective, innovation refers to a firm's capacity to introduce new processes, products, or ideas within the organization (Hult et al., 2014). Hence, a strong innovation is 'willingness to change', i.e. openness to new ideas as an aspect of corporate culture (Huhtala, 2014). According to Lynch et al. (2010), organizational innovation consists of the capacity and ability to innovate, where the necessary skills, knowledge and abilities are available to take advantage of market opportunities. The key element of innovation is organizational culture that encourages the introduction of new processes, products, and ideas (Hult et al., 2014; Beraha, 2018), and the tendency to innovate is arguably related to the level of effectiveness of an organization (Tajeddini, 2011). Giniuene (2015) defines innovation as the application of a new and significantly improved product (either product or service), or a new process, marketing method, or organizational method in business practices, organizational workplace or external relations. Verde et al., 2011 argue that Drucker (1954) was the first researcher to discuss the importance of Innovation Capability for an organization. Researchers suggest that companies must be innovative to survive in a rapidly evolving environment.. The indicators to measure the Innovation Capability variable used in this study adapted from Monteiro (2019) are Success of new product introduced and launched, relatively accelerated speed compared to competitions to market, Number of new product configured, Improved work process methods

### **Influence of Internal Environment on Innovation Capability**

The role of the internal environment in shaping the company's competitiveness is very important for the survival of a company (Chang, 2011). The findings by Jansen et al (2011) suggest that exploitative and exploratory innovation theories may require two fundamentally different internal organizational structures and contexts. A study by Mohamed (2012) in the United Arab Emirates has found that internal organizational variables such as managerial attitudes, decentralized systems, support and supervision, group satisfaction, diversity, exposure to management thinking and committee membership are values in the company that are very significantly related to behavior. innovative department. So that the value of the company is needed to achieve organizational goals.

The results of research conducted by Indris (2015), show that the effect of the work environment greatly affects the choice of strategy and the performance of company, and the results show that companies with high business performance will most likely to be able to adjust the complexity and challenges within the external environment by using internal environmental variables as an effective control and policy within the company. . Meanwhile, according to Ellitan (2009), companies involved in partnerships can benefit through the creation of improvements and developments such as access to research and new discoveries so that they can help companies to develop new processes as well as new products. Therefore, the hypothesis can be formulated as follows:

**H1: Internal Environment has a significance influence on Innovation Capability**

### **The Effect of Knowledge Management on Innovation Capability**

In his study, Darroch (2015) empirically confirms that Innovation Capabilities emerge because of the combination of knowledge elements in organizations. Likewise, Joshi et al., (2010) consider knowledge as the main raw material for innovation. Several studies that discuss Innovation Capabilities consistently show that knowledge of corporate resources is strongly related to innovation success (Wu and Chen, 2014, Tortoriello, 2015; Bashir, 2019). Although, Easterby-Smith and Prieto (2008) explained that it is very important to be able to separate and distinguish between knowledge resources and information dissemination processes in organizations. Although knowledge assets within a company can be treated and considered as a unique and valuable resource in sustaining competitive advantage, knowledge itself is a static resource that needs to be transferred and diffused throughout the organization to create value (Grant, 2019; Baden Fuller 2012). Knowledge Management Capabilities can be operationalized through the right combination of aspects of the employees in the company and the technology in it (Easterby-Smith and Prieto 2008; Bansemir et al. 2012). While the technology side makes use of IT infrastructure, databases, intranets, document management systems, and other technical and managerial procedures, the human side focuses on reasonable individual behavior, on social relationships and cultural factors when dealing with organizational knowledge (Tortoriello, 2015). Therefore, the hypothesis can be formulated as follows:

**H2: Knowledge Management has a significance influence on Innovation Capability**

### **Effect of Dynamic Capability on Innovation Capability**

Dynamic capability is the company's ability to integrate, build, and reconfigure internal and external competencies to cope with a rapidly changing environment (Teece et al., 1997). Dynamic capabilities emphasize that companies must constantly strive to acquire, generate, and combine and reconfigure their resources. Eisenhardt & Martin (2010) stated that Dynamic Capability shows how organizations utilize resources within the organization to respond to market changes. Zollo & Winter (2012) in their article states that Dynamic Capability is a stable activity style used by organizations to create and update operational procedures to increase their effectiveness. The dynamic capability literature shows that Dynamic Capability is a multidimensional construct and can be broken down into distinct but related capabilities (Wuet al., 2014). Giniuniene (2015) defines innovation as a process of change in an organization, whether this change comes due to the impact of the surrounding environment, or as an action taken by the organization to affect the surrounding environment. So that Dynamic Capability becomes the main key for successful innovation in organizations (Hill & Rothaermel, 2009). Based on the theoretical review, hypothesis 3 is formulated, namely:

**H3: Dynamic Capability has an influence on Innovation Capability**

### Influence of Internal Environment on E-Business Performance

The internal environment is one of the main drivers of organizational performance in a market environment that is undergoing major changes (Genç, 2014). Prajogo et al. (2011) have found that culture and work climate are good predictors of organizational performance. Musram munizu (2010) study on the influence of internal and external factors on the performance of Small and Medium Enterprises in South Sulawesi found that the external environmental factors consist of aspects of government policy, socio-cultural and economic. Meanwhile, internal factors consisting of aspects of human resources, finance, production, and marketing have a significant and positive influence on the performance of SMEs. The Internal Environment has several aspects that will affect the physical and psychological well-being of employees. The internal environment itself will be the main key in encouraging employees to carry out the tasks that must be completed and in achieving the desired company performance (Chandrasekar, 2011). Based on the theoretical review, the fourth hypothesis is formulated, namely:

**H4:** *Internal Environment has an influence on Business Performance*

**H8:** *Innovation Capability mediates the influence of the Internal Environment on E-Business Performance*

### Effect of Knowledge Management on E-business Performance

Knowledge Management is considered the best strategy that businesses can use to increase the company's level of competition (Audretsch & Thurik, 2014). This is because knowledge is a strategic resource that allows companies to gain a higher level of competitiveness and innovation (Chirico, 2011). Barney (2007) argues that knowledge leads to improved performance when managed properly. Knowledge Management which consists of knowledge acquisition, knowledge creation, knowledge sharing, knowledge storage and knowledge implementation plays an important role in achieving superior performance (Soderberg & Holden, 2012; Spender, 2012). Thus, companies seeking to remain competitive should put more effort into managing their knowledge resources needed to increase profits, sales growth and market share. Furthermore, researchers, such as Seba and Rowley (2010) and Zack, McKeen, and Singh (2009) observed that companies that use appropriate Knowledge Management practices will be able to improve their capabilities, resulting in more efficient business performance improvements. Based on the theoretical review, the fifth hypothesis is formulated, namely:

**H5:** *Knowledge Management has an influence on Business Performance*

**H9:** *Innovation Capability mediates the effect of Knowledge Management on E-Business Performance*

### Effect of Dynamic Capability on e-business Performance

Dynamic capability defined as the ability of a company to develop and apply a strategic management theorem (Teece, 2007). Despite its significant growth, systematic reviews and meta-analytical studies (Di Stefano, Peteraf, & Verona, 2010; Eriksson, 2014; Peteraf, Di Stefano, & Verona, 2013; Vogel & Güttel, 2013). Barney and Felin (2013) also focus on research that better understands Dynamic Capability which helps managers describe the relevant strategic considerations and priorities that they should adopt to improve company performance. Dynamic Capability generates new knowledge, products, and processes, which enable the creation of a competitive advantage in the face of intense competition. This can also create an ability or a capability within the company to produce better performance (Drnevich & Kriauciunas, 2011). Companies with dynamic capabilities can provide a company with better strategy to integrate and and also transfer knowledge resources, and the impact will get greater

performance. There is some support in previous research regarding the influence between dynamic capabilities and performance. Griffith et al. (2009) suggested that the development of dynamic capabilities can result in better performance. Similarly, Morgan et al. (2012) found that dynamic capabilities facilitate a firm's business performance. Roberts and Grover (2011) provide evidence of a positive relationship between ability and dynamic performance. Based on the theoretical review, the sixth hypothesis can be formulated, namely:

**H6:** *Dynamic Capability has an influence on Business Performance*

**H10:** *Innovation Capability memediasi pengaruh Dynamic Capability terhadap E-Business Performance.*

#### The Influence of Innovation Capability on E-Business Performance

Change and uncertainty in the corporate environment motivate organizations to seek strategic change (Lawrence and Lorsch, 2014), and innovation is a way to create change to ensure adaptive behavior (Damanpour et al., 2009). Companies will adopt innovations to adapt internal functions to respond to a demanding environment, operate efficiently and effectively, and improve performance, especially in conditions of uncertainty and a rapidly changing market environment (Damanpour et al., 2009). Experts argue that innovations are a growth strategy instrument for companies seeking to enter new markets, and they lead to an increase in the share of existing markets (Gunday et al., 2011; Wang, Lu, & Chen, 2008). Based on the theoretical review, hypothesis 7 is formulated, namely:

**H7:** *Innovation Capability has an influence on Business Performance*

### Research Model

#### conceptual framework

The conceptual framework is the relationship between theories and concepts that support research that is used as a guide in preparing systematic research. The Resource Based View (RBV) approach to company capabilities and resources has created an understanding that companies must develop different capabilities and resources. In this case, it allows the company to build a competitive advantage and improve the company's performance in the short and long term (Barney, 1991). The theory of Resource Based View in this research aims to examine several factors that influence E-Business Performance in an online clothing business in East Java. This study explains the influence of the Internal Environment, Knowledge Management, Dynamic Capability on E-Business Performance through.

The deductive reasoning process aims to examine problems that are general in nature and lead to things that are specific or specific and this is done through an understanding of theory and previous research. On the other hand, the process of inductive thinking is carried out to understand and analyze things that are specific or specific, and direct them to things that are general. This can be done by conducting empirical studies.

This study was conducted to explain the factors that determine the performance of companies that do business through e-commerce which has been developed by Calantone et al 2002. This study also aims to develop the theory of RBV or Resource Based View (Barney, 1991). However, there are many critics who state that the valuable, rare, inimitable and irreplaceable resources of an organization cannot guarantee superior organizational performance (Peteraf, 1993); (Henderson and Cockburn, 1994). Respondents used in this study are owners or managers who have control over the online clothing business in East Java. This study explains the influence of the Internal Environment, Knowledge Management, and Dynamic Capability on e-business performance through Innovation Capability. After the literature review has been carried out

theoretically and empirically, the formulation and formation of research hypotheses will be carried out. The research hypothesis is a provisional guess on the research questions. The hypotheses that have been developed are then tested statistically to find out the truth of the hypotheses that have been developed. The results of hypothesis testing are then analyzed to produce a dissertation concept which is expected to be able to produce theoretical findings, either supporting or rejecting the existing theory or theory development.

Theoretical and empirical studies have a reciprocal relationship. It can be explained that empirical studies are carried out based on theoretical studies, but the results of empirical studies will then complement theoretical studies. Both things are equally important in a study. between theoretical and empirical studies produce hypotheses used in research. The hypothesis proposed in this study is the basis for the formation of a conceptual framework. The conceptual framework is measured by using appropriate indicators for each construct. Next is tabulation of data and statistical test process. after the statistical test is carried out, then proceed with a discussion of the results of statistical tests based on theoretical and empirical studies to be followed by the process of making conclusions on the research conducted. The results of this dissertation are a contribution to theoretical and empirical studies. The variables in this study were classified into exogenous variables and endogenous variables. Exogenous variables consist of Internal Environment, Knowledge Management, and Dynamic Capability while endogenous variables consist of Innovation Capability and E-Business Performance.

## **Population and Sample**

### **Population**

The population is the entire symptom or unit that you want to study (Priyono, 2016). Population refers to the whole group of people, events, or things of interest that the researcher wants to investigate (Sekaran, 2006). Population is a complete group of elements, which are usually people, objects, transactions or events (Kuncoro, 2003). In this study, the population used is the owner of an online clothing business in East Java and the number of clothing online businesses in East Java is not known accurately. This object was chosen because the clothing industry is required to follow the existing trends and dynamics, especially in the categories of t-shirts, shorts, and nightgowns. This clothing industry requires every effort to improve every existing capability and the allocation of existing resources to achieve better performance. East Java was chosen because this province has a very large online clothing business market potential and is a consideration for clothing online business owners and investors from all over. The main factor is that the market potential of the online clothing business industry in Indonesia continues to increase every year along with increasing purchasing power, increasing internet penetration, and the increasing number of services offered as well as internet access that is increasingly widespread and stable. ([www.kominfo.go.id](http://www.kominfo.go.id), downloaded on August 9, 2020). Therefore, using the population in East Java will be interesting to study and its contribution to the development of knowledge about the online clothing business. Sample According to Sekaran (2006), the sample is part of the population. The sampling technique used in this study is probability sampling, with reasons for generalization. This technique is used because this technique provides equal opportunities for a predetermined population. Therefore, this study will take a random sample from the existing population. According to Ferdinand (2002) some guidelines for determining sample size are as follows:

1. 100-200 samples for Maximum Likelihood Estimation;
2. Depends on the number of parameters estimated. The guideline is 5-10 times the estimated number of parameters;



3. Depends on the number of indicators used in all latent variables. The number of samples is an indicator multiplied by 5 to 10.

The sample for the conceptual framework using indicators in this study was 19 indicators, therefore the minimum number of samples was 95 respondents, and for this study the number of respondents was set at 210 people. Samples were collected from various groups of people in East Java. In accordance with the research objectives that have been formulated, in determining the sample in this study will use the following criteria, with the characteristics of the respondents, namely:

1. Business actors in clothing online business owners who have opened their business for at least 3 years. According to Khan (2010), online business has a high failure rate due to competitive conditions and changing trends very quickly. Mason (2017) in his research reveals that more than 70% of online businesses fail during their first three years of operation. Therefore, in accordance with the research objectives that have been set, this study uses a sample of an online clothing business that has been established for at least 3 years.

2. Online businesses that fall into the small category. Chan and Foster (2010) revealed that in doing business online, the strategic planning activities as well as the implementation and evaluation carried out were classified as less structured and comprehensive. This is because small online businesses tend to be passive and only adjust to conditions that are deemed necessary (Fuller, 2014). On this basis, in accordance with the research objectives to be achieved, this research takes a small-scale online clothing business as a sample.

3. Based on the data on the criteria or classification of MSMEs contained in Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises. According to the law, the criteria for MSMEs can be distinguished from the number of assets and total sales turnover for one year. The selected sample will be included in the small category. The following are the criteria for Small Business:

- a. Has more than 5 employees and less than 19 people.
- b. Assets (net worth) from IDR 50 Million to IDR 500 Million.
- c. Annual sales turnover from IDR 300 Million to IDR 2.5 Billion

## Discussion

This chapter will discuss the results of empirical research, which includes research data and analysis of research results. The results of data processing will then be used as a reference in answering any existing problem formulations. Data processing will use Structural Equation Modeling (SEM). A company or industrial business is a business unit that carries out economic activities, aims to produce goods or services, is located in a certain building or location, and has its own administrative record regarding production and cost structure and there is one or more people who are responsible for the business. The industrial classification used by the Ministry of Industry is the Standard Classification of Indonesian Business Fields (KBLI, 2009) so that the main group is determined to be commodities produced with the largest quantity, including food, beverages, tobacco processing, textiles, and apparel. According to the Ministry of Industry (2021), the classification of the manufacturing industry and service industry can be classified into four types based on the number of employees.

- Large Industry (Employ 100 people or more)
- Medium Industry (Employ 20-99 people)
- Small Industry (Employ 5-19 people)
- Home Industry (Employ 1-4 people)

### Respondent Description

In this study, the description of the respondents includes the age of the company and the number of employees. The characteristics of the respondents will provide information about the respondent's profile which will be useful as a reference and discussion related to the variables used in this study.

### Findings:

The instruments used in this research is used to measure how a variabel by using reliability test, and can be used in future references. The acceptable value of reliability test is  $\geq 0.07$  for all variables

### Construct Reliability

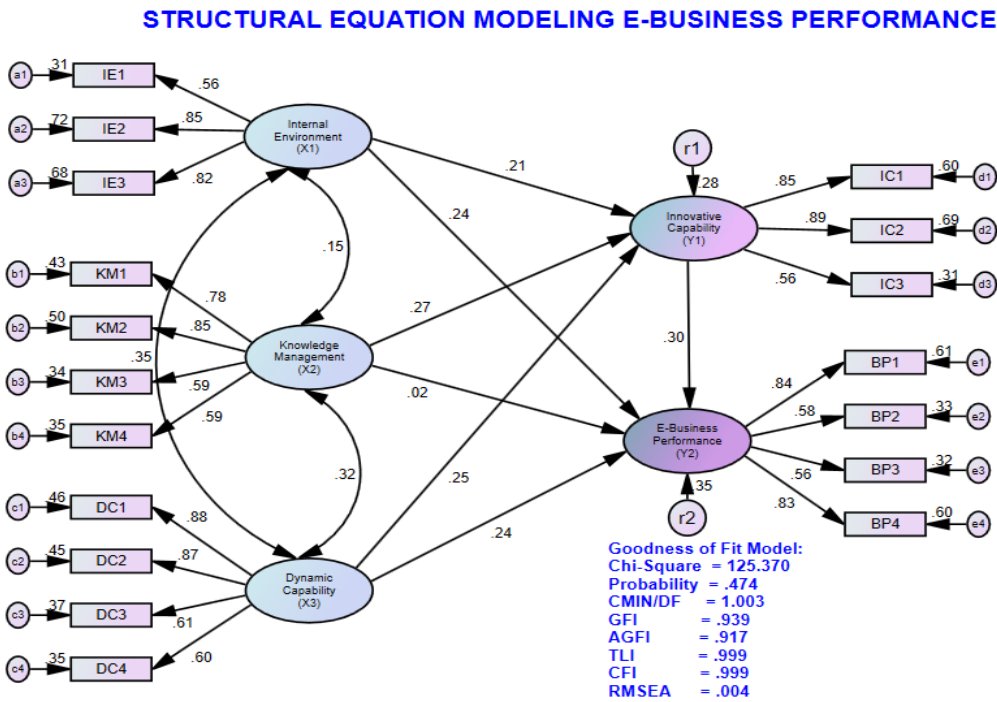
Variable	Indicators	Error	Result	Loading ( $\lambda$ )	$\lambda^2$	$1 - \lambda^2$	CR
Internal Environment (X1)	X1.1	0.000	Reliable	0.557	0.310249	0.689751	0.794
	X1.2	0.000	Reliable	0.859	0.737881	0.262119	
	X1.3	0.000	Reliable	0.814	0.662596	0.337404	
Knowledge Management (X2)	X2.1	0.000	Reliable	0.777	0.603729	0.396271	0.802
	X2.2	0.000	Reliable	0.854	0.729316	0.270684	
	X2.3	0.000	Reliable	0.604	0.364816	0.635184	
	X2.4	0.000	Reliable	0.586	0.343396	0.656604	
Dynamic Capabilities (X3)	X3.1	0.000	Reliable	0.882	0.777924	0.222076	0.834
	X3.2	0.000	Reliable	0.868	0.753424	0.246576	
	X3.3	0.000	Reliable	0.603	0.363609	0.636391	
	X3.4	0.000	Reliable	0.603	0.363609	0.636391	
Innovation Capabilities (Y1)	Y1.1	0.000	Reliable	0.850	0.722500	0.277500	0.809
	Y1.2	0.000	Reliable	0.867	0.751689	0.248311	
	Y1.3	0.000	Reliable	0.554	0.306916	0.693084	
E-Business Performance (Y2)	Y2.1	0.000	Reliable	0.844	0.712336	0.287664	0.798
	Y2.2	0.000	Reliable	0.543	0.294849	0.705151	
	Y2.3	0.000	Reliable	0.575	0.330625	0.669375	
	Y2.4	0.000	Reliable	0.832	0.692224	0.307776	

### Goodness of Fit Model:

The research model in this study and the conceptual framework is required to be fit by an empirical data. The result of the study shows that the overall goodness of fit model is supported and this also is conducted to find out the hypothesis model is supported or not.

Criteria	Cut - Off Value	Result	Model Fit
Chi - Square	Diharapkan kecil	125,370	Fit
Significance Probability	$\geq 0,05$	0,474	Fit
RMSEA	$\leq 0,08$	0,004	Fit
GFI	$\geq 0,90$	0,939	Fit
AGFI	$\geq 0,90$	0,917	Fit
CMIN/DF	$\leq 2,00$	1,003	Fit
TLI	$\geq 0,90$	0,999	Fit
CFI	$\geq 0,90$	0,999	Fit

Structural Equation Model:



**Hypotheses Testing:-** Hypotheses testing for this research is presented as follow.

Variabel	Coefficient	C.R.	Prob.	Result
Internal Environment (X1) → Innovative Capability (Y1)	0.207	2.105	0.035	Significant
Knowledge Management (X2) → Innovative Capability (Y1)	0.270	2.381	0.017	Significant
Dynamic Capability (X3) → Innovative Capability (Y1)	0.254	2.141	0.032	Significant
Internal Environment (X1) → E-Business Performance (Y2)	0.236	2.386	0.017	Significant
Knowledge Management (X2) → E-Business Performance (Y2)	0.016	.149	0.882	Not Significant
Dynamic Capability (X3) → E-Business Performance (Y2)	0.235	1.981	0.048	Significant
Innovative Capability (Y1) → E-Business Performance (Y2)	0.299	2.321	0.020	Significant

**Summary**

This study has ten hypotheses that have been explained and formulated so that through data processing that has been carried out, out of ten hypotheses have been found 9 accepted hypotheses and 1 not accepted hypothesis. The results of the discussion can be explained as follows

1. Internal Environment is a variable that affects Innovation Capabilities and E-Business Performance This research supports and strengthens previous research which states that the Internal Environment affects Innovation Capabilities (Melander 2018; Mohan 2012; Hogan 2014; Chang 2017) and also supports previous research. which states that the Internal Environment has an effect on E-Business Performance (Migdadi, 2016; Hogan, 2014; Calantone, 2012; Hughes, 2012; uz Kurt, 2013; Cabral, 2015). So that the Internal environment is proven to directly affect Innovation Capabilities and E-Business Performance. Therefore, it is hoped that future research, the Internal Environment needs to be investigated more deeply to develop strategic management science because of the importance of these variables.
2. Knowledge Management is a variable that affects Innovation Capabilities, but does not significantly affect E-Business Performance. This study supports previous research which states that Knowledge Management has an effect on Innovation Capabilities (Ferraris, 2017;

Carayannis and Rakhmatullin, 2014; González-Loureiro, Vila, & Schiuma, 2015; Chen & Edgington, 2015). However, it rejects the findings of previous research which states that Knowledge Management has an effect on E-Business Performance (Tangen, 2013; Griffin, 2013; Venkatraman and Ramanujam, 2016; Ali, 2015; Tang and Zhang, 2015). Knowledge Management cannot directly improve and shape E-Business Performance, but must go through Innovation Capabilities. The results of this study confirm that Knowledge Management can affect E-Business Performance mediated by the Innovation Capabilities variable

3. Dynamic Capability is an important factor in shaping Innovation Capabilities and E-Business Performance. This study proves and supports the findings of previous studies that Dynamic Capability has an effect on Innovation Capabilities (Wuet al., 2014; Giniuniene, 2015; Jurksiene et al., 2015; Ulusoy, 2013; Monfort-Mir, 2012). Dynamic Capabilities also affect E-Business Performance (Stefano, Peteraf, & Verona, 2010; Eriksson, 2014; Jurksiene, 2013; Vogel & Güttel, 2013)

4. Innovation Capabilities are variables that play a very important role in E-Business Performance. This study supports the findings of previous studies which state that Innovation Capabilities affect E-Business Performance (Audretsch & Thurik, 2014; Chirico, 2019; Soderberg & Holden, 2012; Spender, 2016; Rowley, 2010; Singh, 2009). Innovation Capabilities are also a mediator variable between the Internal Environment, Knowledge Management, and Dynamic Capability. Therefore, research in the field of strategic management needs to further develop topics related to innovation capabilities.

5. Performance is a very important variable because this variable can measure how well the work or E-Business Performance of a company. By knowing the factors that affect E-Business Performance, the business owner or manager can formulate the right strategy to improve E-Business Performance.

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