

The Role Of Knowledge Absorption In The Mediation Of The Effect Of Social Network On The Competitive Advantages Of "Batik" Micro Company

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ABSTRACT

"Batik" cloth is one of Indonesia's pride product. When a micro company of batik fails to compete with similar products, then the pride is lost. Therefore, the existence of batik needs to be maintained. The purpose of the study explains the role of knowledge absorption in mediating the influence of social networks on entrepreneurship orientation, product innovation, and competitive advantage of micro company of batik. Research location in Regency of Banyuwangi, East Java Province, Indonesia. The study population is 154 craftsmen. Sampling technique using simple random sampling method. Number of respondents 111 micro company of batik or craftsmen. The data collection instrument used questionnaires. Data analysis using structural equation modeling with Smart PLS 3 software. The research findings show social network have a significant positive effect on the knowledge absorption, the knowledge absorption of mediates the significant positive effect of social network on entrepreneurship orientation and product innovation, positively significant to entrepreneurship orientation and product innovation but no significant positive effect on competitive advantage. While the influence of other research variables can be studied further on this scientific work.

Keywords: Social Network, Knowledge Absorption, Entrepreneurship Orientation, Product Innovation, Competitive Advantage.

INTRODUCTION

Globalization has made the business environment change so fast and become unstable. The single market of the ASEAN Economic Community is a form of free competition at the regional level demanding that Indonesian micro enterprises of batik improve competitive advantage in order to continue to exist in the market through social networking activities, absorb new knowledge and utilize it optimally. Exploiting new social networks and knowledge for micro enterprises of batik will enable the establishment of an entrepreneurial orientation, product innovation, which ultimately improves competitive advantage. However, new knowledge is determined by the ability to absorb knowledge from its social network. Without the ability to absorb knowledge, undoubtedly there will be nothing new created by micro companies of

batik. The ability to absorb knowledge is linked to almost all micro company operations including increased entrepreneurial orientation, new products, and competitive advantage. Without it all, companies will get knocked out and lost.

Social networks are an important means for micro-enterprises of batik to absorb knowledge. Social networks can be interpreted as a number of elements that exist in the environment outside the company such as customers, suppliers, clients, consultants, educational institutions, social institutions, economic institutions and internal environment of micro enterprises such as employees. Every micro company of batik needs to have a social network because all that is needed is there. Social networking is a fundamental prerequisite for micro enterprises of batik to exist in the marketplace.

Absorbing knowledge can be done in the external and internal environment of micro-enterprises. Both are important because they generate new knowledge. But more important is to absorb knowledge from outside the micro-enterprise environment because there is new value that can be brought into the company and make the company as a knowledgeable company. If a micro company of batik is not able to create competitive advantage it is feared they will go bankrupt. Therefore, this research explains the role of knowledge absorption in mediating the effects of social networks on competitive advantage on micro enterprises of batik.

The purpose of this study to analyze the influence of social networks on the knowledge absorption; the influence of knowledge absorption on entrepreneurship orientation, product innovation, and competitive advantage; the influence of entrepreneurial orientation on product innovation and competitive advantage; the effect of product innovation on competitive advantage; and the role of knowledge power in mediating the effects of social networks on entrepreneurial orientation, product innovation, and competitive advantage.

LITERATURE REVIEW

Social Network

Social networks are instrumental in supporting the flow and sharing of organizational knowledge to solve complex problems, encouraging and planning innovations, learning processes, and information sources (Abrams et al., 2003; Bosua & Scheepers, 2007; Hansen, 2002), source of competitive advantage (Swan et al. (2007). Social networks can be interpreted as ways of connecting many people and tools to achieve goals (Evans & Bosua, 2016) or guidelines that are essential to the flow of knowledge (Easterby-Smith, 2008), which exist in social networks will seek to maintain their contacts (Rejeb-Khachlouf et al., 2011). Social networks are a medium of internal and external actor knowledge flow such as clients, customers, suppliers, consultants, educational institutions, research institutions.

Organizational leadership is a key factor in building social networks. There are four important leadership factors that can develop social networks: a) peer-based leadership networks, b) organizational leadership networks, c) policy-based leadership networks in the field, and d) collective leadership networks (Hope & Reinelt, 2010). These four types of leadership can shape the company's competitive advantage.

Knowledge Absorption

Knowledge is one resource of intangible resources (Barney and Clark., 2007). It is attached to an individual or company. Other experts incorporate into the concept of intellectual capital (Mar, 2006; Pierre et al., 2011). Knowledge is a very important factor for anyone as a source of innovation, the growth of entrepreneurial values (Drucker, 1985), competitive advantage (Teece, 2007). This type of knowledge can be differentiated into tacit knowledge and explicit

knowledge (Nonaka and Takeuchi, 1995). Knowledge characteristics can be measured, transferred, and cumulative (Kerste et al., 2002).

The concept of knowledge absorption was introduced by Cohen and Levinthal (1989). They define the capacity to absorb knowledge as the ability to recognize new values of external information / knowledge, assimilate, apply, and be able to predict future technological advancements for commercial purposes (Cohen & Levinthal, 1994). Zahra and George (2002) improved the concept by incorporating transformation capability elements. They claim there are four dimensions of the capacity to absorb knowledge: acquisition, assimilation, transformation, and exploitation. The acquisition of knowledge and capability to assimilate is categorized as "potential absorbing capacity" while the transformation of knowledge and capabilities exploits it as "real absorbing capacity" (in Zornoza & Julian, 2006). They define acquisitions as the ability to recognize value and acquire critical external knowledge for the company. Assimilation is defined as routines and processes that enable a company to understand, analyze, interpret and include information from external sources. Transformation refers to a company's ability to build and redefine routines that facilitate the transfer and combination of knowledge existence with the acquisition and assimilation of new knowledge. The main goal of this ability is to find solutions to adapt or reconfigure new knowledge to specific, real-world needs. Exploitation refers to a company's ability to apply new commercial knowledge externally to realize organizational goals or to refer to routines that enable a company to redefine, expand and leverage existing competencies or create new ones by combining acquired and assimilated knowledge into company operations.

The absorption power of knowledge depends on the type of knowledge environment. In a stable type of knowledge environment, the focus of absorptive knowledge is exploiting; high efficiency; scope and flexibility is low. In such a chaotic type of knowledge environment, the focus of absorptive knowledge explores while its efficiency is low and its scope and flexibility are high (Van Den Bosch et al., 2003).

Entrepreneurial Orientation

Entrepreneurship can be interpreted as an activity that refers to the discovery and exploitation of opportunities for the realization of goods and services in the future (Shane & Venkataraman, 2000) while entrepreneurs are those who bear the risk of their work in realizing their goals and developments (Griffin et al. (2004). The concept of entrepreneurial orientation is more oriented towards a strategic orientation. The entrepreneurial orientation is the strategic orientation of the entrepreneur or company, capturing the specific aspects of entrepreneurship such as decision-making styles, methods and practices (Lumpkin & Dess, 1996). Entrepreneurial orientation that is innovativeness, proactiveness, risk-taking, competing aggressiveness, and independent or autonomy (Lumpkin & Dess, 1996). The five elements of entrepreneurial orientation can be found in individuals/workers, business founders, and companies that already exist but with different emphasis on each element (Certo et al., 2009).

Product Innovation

Product innovation is a new or improved product or service and introduces it to the market (Camison et al. 2010). Product innovation is related to the company's main activity. Product innovation is seen as an important source that can improve competitive advantage. Product innovation reflects solutions to threats and market opportunities, creating what is called the survival base and success of the company into the future. On the other hand, product innovation contains cost and risky activities.

Product innovation is often created to cope with increasingly fierce competition (Ellitan et al, 2009), creating entry barriers for old competitors and/or new entrants, establishing the company's position as a market leader, opening new distribution channels, and gathering new customers to improve market position which exists. Product innovation occurs because of the successful exploitation of new ideas. Therefore, product innovation contains two conditions: novelty and usefulness.

Competitive Advantages

Competitive advantage is the ability to profit from investments made by companies above the average in an industry (Porter, 1985). Companies have a competitive advantage when implementing value creation strategies not simultaneously by competitors and when competitors can not duplicate the benefits of that strategy (Barney, 1991).

Competitive advantage results from strategic assets (Meso and Smith, 2000, in Kamukama et al., 2011). The assets are controlled by the company and formulated into strategy and implemented effectively and efficiently and depend on valuable resources, rare, hard to imitate and hard to substitute (Barney et al., 2007). Competitive advantage will be obtained when firms are able to meet: a) what is difficult for competitors to imitate, b) exploit something commercial with current capabilities, c) provide significant value to customers, and d) timely (Hitt et al., (2001).

Micro Company

The criteria of micro enterprises can be seen from two things: a) influences coming from the external environment, and b) the limitations of the owner or manager (Kelliher et al., 009). External influences can be identified five things: power relationships, diseconomies of scale, externality enforced change, perfect competition, negative regulatory impact.

Power relationships, micro enterprises generally have a small size that can be interpreted as having no great power to build relationships with other external parties, while the manager or owner style is usually paternalistic. Diseconomies of scale, micro enterprises are typically incapable of playing strategies on economies of scale so the strategy used is a niche strategy, a very specific strategy in market niches that is relatively difficult to penetrate by non-micro firms, while the authority and control of managers or owners him. Externally enforced change, the micro company makes incremental changes while the manager or owner acts as the ultimate decision maker. Perfect competition, micro enterprises are vulnerable to short-term perspectives, while managers or owners play an informal strategic planner. Negative regulatory impact, micro enterprise structure is generally simple or even no structure, poor resources, informal communication, and increased knowledge, skills or skills gained from the training that followed, while the value system or corporate culture centered on the manager or owner and near with interested parties.

Relationship between Variables

There is a relationship between social networks with knowledge, product innovation, competitive advantage, and performance (Evans et al., (2013). The relationship is illustrated by the two images below.

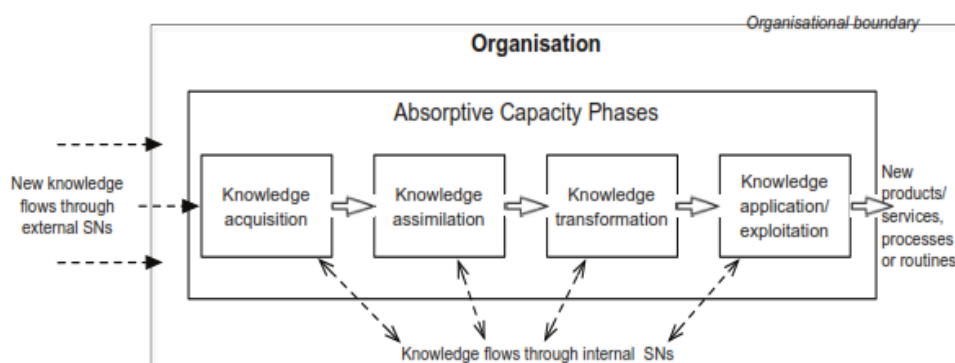


Figure 2.1: The Relationship of Social Network, Knowledge Absorption, and New Product
Source: Evans et al., (2013).

Based on the picture above can be interpreted social network has a relationship with the capacity or the ability to absorb knowledge. The result of absorbing knowledge is the increase of new knowledge of the old knowledge of the organization. Based on the description, the first hypothesis of research (H1) is the social network affect the knowledge absorption.

Increased knowledge is intended to improve organizational operations by redefining existing routines or processes to new things (Cohen and Levinthal, 1989; Zahra and George, 2002 in Zornoba and Julian, 2006). This indicates if more knowledge is absorbed from the social network, the greater the capacity of knowledge owned by individuals or organizations that are likely to encourage innovation (including product innovation) and competitive advantage.

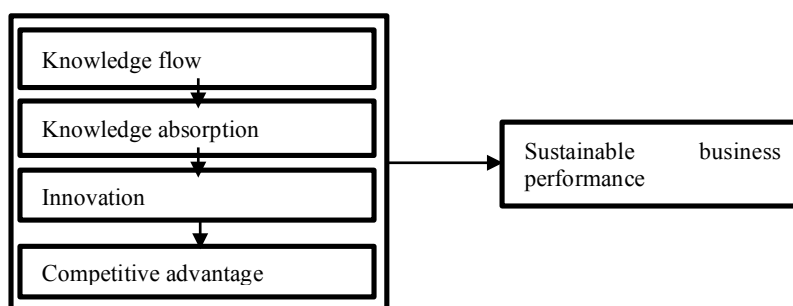


Figure 2.2: The Knowledge-Capacity, Competitive Advantage, and Performance
Source: Evans et al., (2013)

The findings of Poernomo et al (2014) show that knowledge absorption has a significant positive effect on product innovation. Based on the above description, the second hypothesis of research (H2) is the knowledge absorption to affect product innovation. On the other hand, the findings of Poernomo et al (2014) also show the ability to absorb knowledge has a significant positive effect on entrepreneurial orientation. Based on above descriptions, the third hypothesis of research (H3) is the knowledge absorption to affect the entrepreneurial orientation. The findings of Kaveh et al (2015) show that knowledge management (in which there is knowledge absorption) is positively related to competitive advantage. The findings of Adriansyah and Afif (2015) show that knowledge absorption influences the competitive advantage. On the basis of these findings, the fourth hypothesis of the study (H4) is that knowledge absorption influences the competitive advantage.

Morales et al., (2006); Harper (2003), Griffin et al., (2004), Lumpkin and Dess (1996), Certo et al., (2005) stated entrepreneurship involves the creation of new resources or a combination of existing resources in new ways of building and commercialize new products, enter new markets, and / or new customer services. There is a relationship of entrepreneurial orientation with product innovation. The findings of Poernomo et al (2014); Madhoushi M. et al., (2011) stated that entrepreneurial orientation has a significant positive effect on product innovation performance. Starting from the description above, the fifth hypothesis of research (H5) is the entrepreneurial orientation effect on product innovation.

Changhanti and Changhanti (1983), Figenbaum and Karnani (1991), and Meredit (1987) in Wright et al. (2005) suggest innovation (process, organizational, product) as the primary source of competitive advantage. Statement Cooper and Kleinschmidt, 1987; Damanpour and Evan, 1984; Damanpour and Gopalakrishnan, 2001; Damanpour et al., 1989; Hitt et al., 1997; Kleinschmidt and Cooper, 1991; Rogers, 1983; Subramanian and Nilakanta, 1996, in Valencia et al., (2010) suggest today innovation is considered the key to achieving competitive advantage and business success in the market. Camison et al. (2010) views product innovation as an important source of competitive advantage that can lead to improved organizational performance. There is a product innovation relationship with competitive advantage. Based on the above description, the fifth hypothesis of research (H6) is that product innovation has an effect on competitive advantage.

Model concept of research.

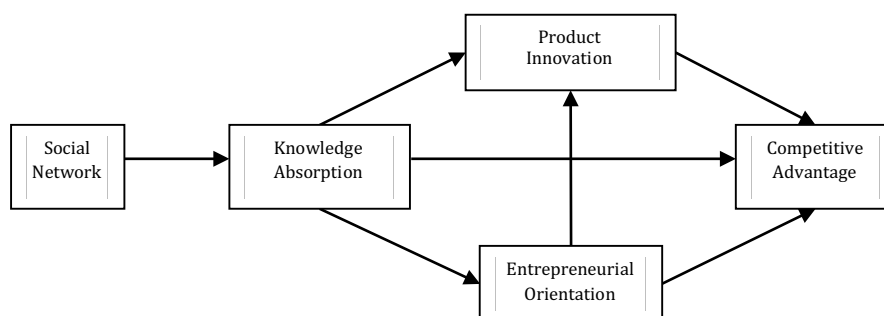


Figure 2.3: Model of research

RESEARCH METHODS

Population

The research population is a micro batik company totaling 154 in Banyuwangi Regency.

Samples and Sampling Techniques

The sampling technique applies simple random sampling method. The number of decisions using the Slovin formula (Umar, 2010). as follows.

$n = N / (N \cdot d^2 + 1)$. Where: n = number of samples, N = total population, d = percentage of inaccurate tolerance due to intolerable sampling error of 5% ($d = 0.05$). $n = 154 : (154 \times 0.0025 + 1) = 111, 19$ rounded = 111. Total sample 111 micro company of batik / craftsmen.

Operational Definition of Variables

Social Networks are a number of elements in an external environment such as customers or consumers, suppliers, consultants, clients, banks, cooperatives, schools, colleges, local governments, NGOs that have already established relationships with respondents. Knowledge Ability is the ability to absorb new information from outside the company by the respondents, unify with existing knowledge, generate new knowledge that gives new value, and apply it for the purpose of making a profit. Indicators: a) acquisition of new knowledge, b) assimilation of new knowledge, c) transformation of new knowledge, and d) exploitation of new knowledge

applications.

Entrepreneurial Orientation is an individual behavior that leads to new things. Indicators: a) proactiveness, (b) innovativeness, (c) risk taking, (d) competing aggressiveness, and (e) independence/autonomy. Product innovation is a new product. Indicators: a) quantity, b) type, c) the quality of new products produced. Competitive Advantage is the company's product is absorbed by the market or consumer. Indicators: a) cost reduction, b) exploitation of market opportunities, and c) surviving the threat of competition.

Measurement Instruments

This study measures the attitudes of respondents. Measurable measuring instruments use the Likert Scale (Black and Champion, 2001). The Likert Scale research uses five alternative answers, examples "strongly disagree" identical value 1, "disagree" value 2, "neutral" value 3, "agree" value 4, and "strongly agree" value 5. Scale of measurement used research this is the Ordinal scale. Data collection using questionnaires.

Test Reliability and Validity of Research Instruments

Before the questionnaire was distributed, the researcher did reliability test and questionnaire validity. Test of reliability and validity of research instrument conducted on 40 batik craftsmen outside the respondents. The test is conducted to get the certainty of the questionnaire can be understood or not before the spread to the respondent. The result of reliability test item questionnaire indicates that all items have Corrected Item-Total Correlation > value (r table value, $n = 40$, $\alpha = 0,05$), so that all questionnaire items can be declared reliable (worth) to be distributed.

Processing and analysis of data

Data processing using structural equation modeling (SEM) with the help of Smart PLS software 3 (Garson, G.D., 2016; Hair et al, 2014). The use of SEM is based on thought a) the number of samples (it would be better if the amount is at least 100 because with increasingly many samples then the Maximum Likelihood (ML) method increases the sensitivity to detect differences between data, b) the influence of independent variables with some non-free variables partially or simultaneously, c) the structural effect model is complicated (Ferdinand, 2005).

Hypothesis Testing Results

Testing of research hypothesis on Smart PLS 3 is done by applying structural model calculation with bootstrapping method, on two-sided test with significance level ($\alpha = 0.05$). The reported value is the value of t . The result, it is known that the value of the indicator variable in relation to the latent variable is significant.

The significance of the indicator variable value based on outer loading does not automatically drive the value of the latent variable to the latent variable is also significant. This is due to the absence of normal distributed data assumptions as described above. In the testing of hypothesis shows that the latent variable of social network has t value equal to 8,345 to the knowledge absorption. Meanwhile, the knowledge absorption has a t value of product innovation of 2,164; against the entrepreneurial orientation of 8.942, to the competitive advantage of 1.403. Detailed results of hypothesis test research can be seen in the table below.

Table 1. Hypothesis Test Results

Research Hypothesis	T Statistic	P Values	Evaluation
Social network -> Knowledge absorption	8.345	0.000	Significant Positive
Knowledge absorption -> Product innovation	2,164	0.023	Significant Positive
Knowledge absorption -> Entrepreneurial orientation	8,942	0.000	Significant Positive
Knowledge absorption -> Competitive advantages	1,403	0.161	Positive, Not Significant
Product innovation -> Competitive advantages	2,290	0.022	Significant Positive
Entrepreneurial orientation -> Product innovation	3,802	0.000	Significant Positive
Entrepreneurial orientation -> Competitive advantage	3,738	0.000	Significant Positive

Source: research data, 2015

RESEARCH RESULT AND DISCUSSION

Description of Respondents

The number of respondents of male sex is less than female respondents, that is by 20% difference. Male respondents amounted to 40%, while female respondents amounted to 60% of a total of 111 respondents. The number of respondents by tribe, 60,36% of respondents came from Java tribe, and 2.70% of mixed ethnic respondents.

Number of respondents aged under 25 years, 27.03% of respondents aged 26-35 years, 27.93% of respondents aged 36-45 years, 9.01% of respondents aged 46 - 55 years old, and 3.60 % of respondents aged over 55 years. The number of respondents has worked for less than 5 years, 17.12% of respondents have worked for 5 to 10 years, and 4.50% of respondents have worked for more than 10 years.

DISCUSSION

The Influence of Social Networks on Knowledge Absorption

This finding confirms the first hypothesis of research (H1) that states social networks have an effect on the knowledge absorption received. These findings reinforce previous theories that suggest a social network linkage to the knowledge absorption (Evans et al., 2013). This finding is a new finding because there has been no such findings before. This finding means that the more extensive social network owned by micro companies of batik the greater the opportunity the company is absorbing new knowledge. But it will happen otherwise, if the social network owned by a micro-batik company is not or yet wide then the opportunity to absorb new knowledge will not be big.

The Influence of Knowledge Ability of Product Innovation

This finding proves the second research hypothesis (H2) that states the ability to knowledge absorption positively affect the product innovation is acceptable. These findings reinforce the theory of Evans et al., (2013) which states there is a relationship between the knowledge absorption with product innovation. These findings support the findings of Poernomo et al (2014) that product innovation is positively influenced significantly by the knowledge absorption. These findings can be interpreted the higher the ability to absorb the knowledge of micro companies of batik the greater the opportunity the company produces new products. Conversely, if the absorption of knowledge of micro companies of batik low then the opportunity to create new products will be low as well. Based on the statement, micro companies of batik need to realize that the ability to absorb new knowledge is very important to give birth to new products. The ability to absorb new knowledge will be easier and faster if

the micro companies of batik open themselves to the outside world, willing to continue to learn in their external environment, and understand that the eternal in this world is change.

Influence of Knowledge Absorption on Competitive Advantage.

These findings show that the knowledge absorption has no effect on competitive advantage. This finding rejects the third research hypothesis (H3) which states that knowledge absorption has an effect on competitive advantage. Many strategy management experts claim that knowledge absorption has a positive effect on competitive advantage because with increasing knowledge it will be easier to build competitive advantage. But the problem is not that easy, the increased knowledge of company personnel may not necessarily create or strengthen competitive advantage. Competitive advantage can only be realized if the company's knowledge is able to produce products that are valuable, rare, inimitable, non-substitutable (Barney, 2007). In other words, increasing the knowledge of the company through the absorption of knowledge will positively affect the competitive advantage if the resulting product meets the criteria of value, rare or unique, not easily imitated, and not easily replaced as introduced by Barney. According to Omerzel, D.G. & Gulev, R.E., 2011, the source of competitive advantage is dependent on knowledge but knowledge alone is not sufficient. Therefore, they argue need to be explored through future in-depth study of different capability relationships, specific knowledge, and different measures of competitiveness.

This finding can be interpreted that the knowledge absorption has not been able to make competitive advantage in the micro company of batik to be better. The absorption of knowledge does not necessarily make the competitive advantage to be better because of logical thinking still needed variables between which can bridge or as a medium of relationship between the absorption of knowledge with competitive advantage. On the other hand, batik products produced by micro enterprises that have existed have not been able to create entry barriers for competitors. The ease of existing competitors and new comers to create similar products will erode the competitive advantage of the old comers. In other words, the unavailability of valuable, rare, inimitable, non-substitutable (VRIN) on batik products of respondents has been suspected to be another factor that causes the third research hypothesis to be rejected. The strengthening of VRIN's values is also thought to be caused by the majority of respondents (78 percent) having work experience in micro company of batik for 5 years at the most. So, it can be concluded that micro enterprises lack experience in running their business.

Influence of Knowledge Absorption to Entrepreneurial Orientation

These findings attest to an entrepreneurial orientation strongly influenced positively significant by the ability of knowledge absorption. These findings support the fourth research hypothesis (H4) which states that knowledge absorption has an effect on entrepreneurial orientation.

These findings reinforce the theory that more knowledge is controlled by individuals or organizations increasingly allow for entrepreneurial orientation (Zornoba & Julian, 2006). These findings support the findings of Poernomo et al (2014) which states that knowledge absorption has a significant positive effect on entrepreneurship orientation. These findings can be interpreted the higher absorption of knowledge owned by the micro company of batik the greater the chance of creating an entrepreneurial orientation in the company. But it will happen otherwise, if the lower the absorption of knowledge of micro companies of batik, the lower the entrepreneurial orientation in the company.

Effect of Entrepreneurial Orientation on Product Innovation

These findings prove that entrepreneurial orientation has a significant positive effect on product innovation. This finding supports the sixth research hypothesis (H6) which states that entrepreneurial orientation has a positive effect on product innovation. These findings reinforce the theory that there is a relationship between entrepreneurial orientation and product innovation (Morales et al. (2006), Harper (2003), Griffin et al. (2004), Certo et al. (2005), Lumpkin & Dess (1996). This study supports the findings of Poernomo et al (2014) which states that product innovation is positively influenced by entrepreneurial orientation. This finding can be interpreted the higher the entrepreneurial orientation of the micro companies of batik the higher the creation of new products, but on the contrary, the lower the entrepreneurial orientation found in the micro companies of batik the lower the yield of new products.

Field facts are seen all the micro company of batik is quite innovative in producing the product. Almost all micro business of batik is very memorized with every product produced. This is evident when the production of all micro businesses of batik is collected into one, each micro enterprise of batik can know and show correctly that what they choose is their own production. But that is quite difficult is when consumers or customers are asked to show batik cloth is one by one production of micro business where. This is a challenge that is still faced by the micro business of batik because consumers or customers have not recognized exactly who the manufacturer of batik cloth when there are many new products batik cloth in "Gallery of Batik" except go directly to the production site.

The Effect of Entrepreneurial Orientation on Competitive Advantages

This finding proves entrepreneurial orientation to have a significant positive effect on competitive advantage. This finding accepts the seventh research hypothesis (H7) which states that entrepreneurship orientation has an effect on competitive advantage. These findings reinforce the theory that entrepreneurial orientation is related to competitive advantage (Valencia et al., 2010. Covin et al., 1999). This finding is a new finding because no previous research findings. These findings can be interpreted the greater the entrepreneurship orientation of micro companies of batik the greater the company's competitive advantage. On the contrary, the lower the entrepreneurship orientation of the micro batik companies the lower the company's competitive advantage.

The Influence of Product Innovation on Competitive Advantages

These findings prove that product innovation has a significant positive effect on competitive advantage. This finding accepts the eighth research hypothesis (H8) which states that product innovation has an effect on competitive advantage.

These findings reinforce theories that explain a positive relationship between product innovation and competitive advantage (Changhanti & Changhanti, 1983; Figenbaum & Karnani, 1991; Ed., 1987: in Wright et al., 2005); Cooper & Kleinschmidt, 1987; Damanpour & Evan, 1984; Damanpour & Gopalakrishnan, 2001; Damanpour et al., 1989; Hitt et al., 1997; Kleinschmidt & Cooper, 1991; Rogers, 1983; Subramanian & Nilakanta, 1996; in Valencia et al., 2010). These findings support the findings of Camison et al. (2010) which express product innovation as a source of competitive advantage. These findings can be interpreted more and more product innovation by micro companies of batik increasingly large competitive advantage in the company. But the opposite will happen, the lower the product innovation made by the micro companies of batik the lower the competitive advantage in the company.

The Role of Knowledge Absorption in mediating the Social Network's effects on Competitive Advantages

Based on the result of the analysis of the influence of research variables, it is known that the knowledge absorption mediates the significant positive effect of social network on entrepreneurial orientation and product innovation but does not mediate the influence of social network on competitive advantage. The findings of this study do not support the findings of Wu & Chen (2012) which suggest that the social bonding effect of the leader is mediated positively by the ability to acquire knowledge that is essentially identical to the absorption of knowledge or the ability to absorb knowledge.

CONCLUSIONS AND SUGGESTIONS

Conclusion

The knowledge absorption has a very important role because it has a significant positive direct effect on entrepreneurial orientation and product innovation and is also able to mediate significant positive social network influences on entrepreneurial orientation and product innovation.

Suggestion

Micro companies of batik need to increase their knowledge absorption effectively in order to improve competitive advantage.

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