



# Dynamics of Knowledge and Innovation: Strategies for Optimizing Business Performance

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**Abstract.** This study seeks to assess the impact of Knowledge Management on Business Performance via Innovation Performance at Distribution Outlets in Bandung. This study's population comprises business operators of distribution outlets in the Citarum region of Bandung City, totaling 50 business owners, with the sampling method employed being saturation sampling. This study employs a quantitative methodology together with descriptive and verificative analytical techniques. The analytical instruments employed comprise path analysis. The research findings indicate a good and considerable impact of Knowledge Management on Business Performance via Innovation Performance at Distribution Outlets in Bandung, both directly and indirectly. With the increasing complexity of industrial competition, business owners are required not only to manage physical resources but also to utilize knowledge as a key asset in the innovation process. Therefore, they need to implement a systematic knowledge management system, encourage a culture of information sharing, and develop a sustainable innovation ecosystem. With this strategy, businesses can be more adaptive to market changes and strengthen their competitiveness in the long term.

**Keywords:** Knowledge Management, Innovation Performance, Business Performance, SMEs.

## 1 Introduction

This research explores how knowledge management affects innovation performance and business performance, with a focus on distribution outlets. The results show that effective knowledge management can enhance innovation performance, which impacts revenue growth, product innovation, and competitiveness. This research provides a new contribution to understanding the role of knowledge management in improving business performance in distribution outlets in the Citarum area. Some empirical evidence shows how knowledge management influences the digital transformation of MSMEs in Palu City, successfully creating and managing knowledge through support, learning, and collaboration [1]. Previous research on innovation performance can partially serve as a mediating variable for the relationship between entrepreneurial orientation and marketing performance due to the owner's high ability in effective communication management, utilizing technology to make products more effective, and efficiently managing time [2]. Previous research on knowledge sharing has a positive and significant

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impact on business performance through innovation in the Lasem Batik SMEs in Rembang due to the exchange of shared knowledge, techniques, experiences, and ideas through innovation [3]. Previous research on entrepreneurial orientation has an impact on organizational performance mediated by the knowledge management process in online fashion businesses in Jakarta. Business owners should hold discussion forums to facilitate new ideas and knowledge sharing [4]

One of the industries that plays a role in economic growth is the creative industry. The creative industry is an industry that utilizes creativity, skills, and individual talents as resources. This industry aims to improve welfare and create jobs while fostering individual creativity. The creative economy cannot be separated from the creative industry, and fashion falls under the category of the creative industry [5]. The development of the creative economy in West Java, especially in the fashion subsector, has become the foundation for the fashion subsector in Indonesia. In addition, along with the culinary subsector, the fashion subsector is rapidly developing in West Java [6] Fashion, as a sub-sector of the creative economy, is very important because it significantly contributes to the Indonesian economy. The public's increasing awareness of the importance of fashion has led to a continuous rise in fashion product purchases every year due to factors of necessity and prestige [7]. Bandung became the first place where distribution outlets (Distro) emerged in 1994. Distro has changed the economy and lifestyle of the city of Bandung. Because distros have become part of the fashion industry, many subcultures have emerged through fashion and hobbies, creating new communities. With the continuous development of subcultures, other subcultures can also emerge [8]. Business in the era of globalization is becoming increasingly competitive and complex. SMEs must be able to quickly adapt to changes occurring in the dynamic business environment. It is important for companies to gather knowledge from various information sources for smooth business operations. In addition to knowledge, innovation is also necessary to improve performance. Global trends are closely linked to the conditions of local MSMEs in Bandung. The use of digital technology, open collaboration, and the development of creative skills are key to enhancing innovation performance because the current global fashion trends will serve as inspiration for Bandung's fashion SMEs. SMEs in Bandung can leverage this trend by adopting effective knowledge management strategies. The strategy includes the management of tacit and explicit knowledge, the development of human resource skills, and the use of information technology. Thus, local SMEs can improve their innovation performance, competitiveness, and contribution to the local economy.

This research explores how knowledge management affects innovation performance and business performance, with a focus on distribution outlets. The results show that effective knowledge management can enhance innovation performance, which impacts business performance, leading to increased revenue for the distribution outlets, product innovation, and expanded insights. This research offers a novel contribution to comprehending the impact of knowledge management on enhancing company performance within the distribution sector of the Citarum region. This research seeks to address the gap in existing studies on the relationship between knowledge management and business performance by emphasizing the mediating role of innovation performance, a variable that has been insufficiently explored in the context of fashion SMEs in Bandung

City. Innovation performance is crucial for enhancing knowledge management and, consequently, corporate performance. This research provides a novel perspective and is anticipated to enhance the strategic management literature about SMEs in Indonesia, specifically within the fashion sector. Subsequent paragraphs, however, are indented.

## **2 Literatur Review**

### **2.1 Knowledge Management**

Knowledge management, which includes identifying, gathering, and applying existing knowledge to help the business compete more successfully, is a methodical approach to managing information and other intellectual property rights to give the business a competitive edge [9]. Designing, executing, and assessing strategies to ensure that the correct individuals have access to information at the right time is the goal of the management function known as knowledge management [10]. Knowledge management is a strategic concept relevant to fashion SMEs. This concept involves knowledge management to enhance creativity, innovation, and business performance. By implementing knowledge management, fashion SMEs can identify, create, explain, and distribute knowledge to enhance innovation, performance, and competitive advantage. The implementation of knowledge management in fashion SMEs brings various benefits, such as improved performance, innovation, and competitive advantage. Research shows that SMEs implementing knowledge management gain the same benefits as large companies. Therefore, the implementation of knowledge management is essential in creating innovations that enhance business performance in fashion SMEs [11].

### **2.2 Innovation Performance**

Innovation performance is the main factor driving innovation. The company formally combines various capabilities to continuously generate a sufficient number of high-quality ideas and implement them effectively and efficiently. Innovation encompasses aspects of quality, cost, and time, as well as meeting customer expectations [12]. The performance of organizational innovation depends on their ability to transform knowledge into actions that can discover and utilize the value of knowledge, thereby enhancing their innovation performance [13]. For example, one of the entrepreneurs who implements innovation, a pioneer in the domestic fashion industry, integrates Artificial Intelligence (AI) technology and the metaverse into their business processes. The use of AI in clothing design allows for more personal and accurate designs, taking into account the preferences and needs of individual customers. The Metaverse allows customers to see the design results virtually before they are made, providing benefits for customers and Rachmaniar Fashion Taylor in optimizing the production process [14].

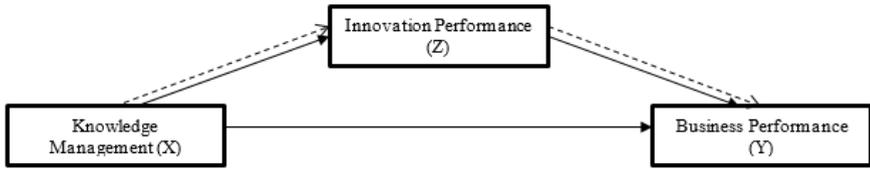
### 2.3 Business Performance

Business performance is an achievement attained by a company and is a key factor in maintaining its existence in the modern era. Business performance encourages entrepreneurs to improve their business management methods by implementing management systems specifically designed to achieve certain goals [15]. Business performance is the result of achieving organizational goals through effective strategies and techniques. Performance also serves as an important benchmark used by economic entities to assess business success [16]. The optimal business performance of SMEs is characterized by high growth and profitability. If the performance of SMEs is good, it can be seen from the increase in sales, which ultimately leads to company profits and has a positive impact on employee welfare as well as significant contributions to national economic development by increasing the circulation of money in the community [3]. Sales, market share, profit, and customer growth are all indicators of a company's performance [17]. An important factor in improving innovation performance is knowledge management. Companies can get beyond knowledge-based innovation hurdles by offering training, staff development, and a positive work atmosphere. A supportive work environment, resources, and tools are all provided by effective knowledge management, which promotes the development of creative ideas and improves innovation performance [18]. Business success is greatly impacted by innovation performance, which includes, among other things, recycling, energy conservation, pollution reduction, and the creation of customer-friendly products. As a result, market share, sales growth, and efficiency all rise. The integration between Innovation Performance and Responsible Business Performance is key to achieving superior and sustainable business performance. Therefore, companies must commit to proactive technology and product innovation strategies to add products that customers desire, thereby improving business performance [19].

## 3 Methodology

The quantitative methodology used in this study combines descriptive and verificative methods. Because it allows for the validation of the suggested hypotheses and quantifies the correlations between the variables under investigation, the quantitative technique is used. Primary and secondary data are the two kinds of data used in this study. Surveys and interviews are used to obtain primary data directly from individuals. Knowledge management, innovation performance, and business performance were all included in the questionnaire that was created to evaluate the research elements. Subsequently, interviews were undertaken to further comprehension of the context and dynamics present in the distribution within the Citarum region of Bandung City. Secondary data were acquired from literature reviews of prior research, including journals, scholarly publications, and pertinent books related to this topic. The participants in this study comprise all distribution business operators in the Citarum region of Bandung City, amounting to 50 company entities. This study used a saturated sampling strategy, utilizing the entire population as the sample for research, as a population of fewer than 100 is deemed representative for comprehensive analysis. Data were gathered via the

dissemination of questionnaires and direct interviews with business stakeholders in the Citarum region of Bandung.



**Fig 1.** Research Model  
Source: Author's work

The acquired data was further evaluated employing descriptive and verificative methodologies. Descriptive analysis seeks to delineate the attributes of respondents and their replies to the questionnaire items, so offering an overview of the conditions of the distribution in the Citarum region of Bandung City. Subsequently, to evaluate the assumptions posited in this study, SEM-PLS analysis was performed utilizing the SmartPLS software. This analysis aims to elucidate the direct and mediating links among knowledge management factors, innovation performance, and company performance. The SEM-PLS approach was selected because to its theoretical and practical advantages. SEM-PLS theoretically facilitates the investigation of intricate interactions among variables, models latent constructs, and accommodates variables that are not directly quantifiable. SEM-PLS is adept at managing non-normative data, offers rapid and efficient analytical capabilities, and enhances the understanding of results. Consequently, SEM-PLS is very appropriate for study necessitating intricate and precise analysis. Saturation sampling was selected for robust theoretical and practical justifications. Saturated sampling, applicable to populations under 100, facilitates the acquisition of representative and precise data, minimizes sample errors, and bolsters the validity of study findings. This method is more efficient and effective since it eliminates the need for a sample selection process, hence conserving time and resources. Consequently, saturated sampling is very appropriate for studies involving a restricted population. The employed methodologies and data substantiate this research, as the findings will significantly aid the distribution in theoretical analysis, consequently offering strategic insights for the advancement of the distribution industry in Bandung.

## 4 Discussion

### 4.1 Descriptive Analysis

The feedback from business operators at the distribution center in the Citarum region of Bandung City indicates that the knowledge management variable achieved a score of 82.4%, categorizing it as good. This signifies that the entrepreneurs have accurately recognized knowledge, as identifying true knowledge enables the organization to get the most current ideas aligned with market demands. Knowledge management plays a

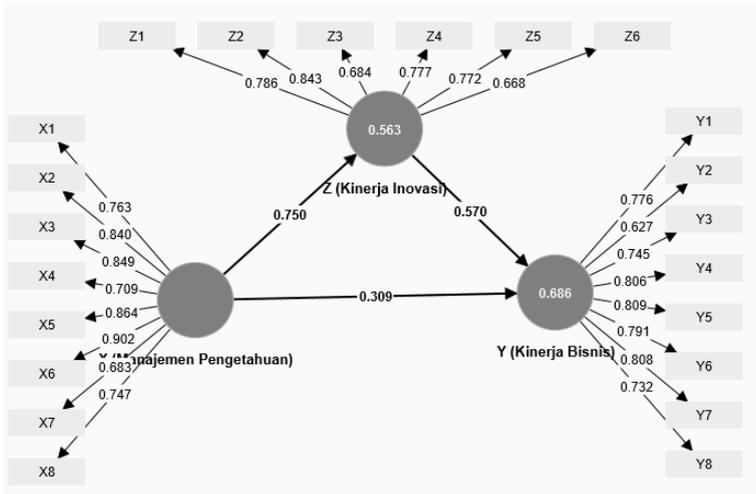
vital role in modern business, significantly contributing to innovation, competitive advantage, and organizational performance. According to research by Andreeva and Kianto (2012), effective knowledge management practices can enhance company performance through increased innovation and operational efficiency [20]. Additionally, a study by Inkinen (2016) emphasizes that Knowledge management skills have a good correlation with corporate performance, especially when it comes to business procedures and innovation [21]. Furthermore, small and medium-sized businesses that implement knowledge management methods are more likely to be competitive and adaptable in dynamic business contexts [22].

The innovation performance variable attained a score of 73.8%, categorizing it as good. This indicates that despite the considerable hurdles associated with innovation performance, the distribution entrepreneurs in the Citarum region of Bandung City continue to provide creative items that enable their companies to endure. Companies may create new, more efficient products, services, and processes that benefit customers by demonstrating strong innovation performance [23]. Furthermore, research by Jiménez-Jiménez and Sanz-Valle (2019) demonstrates that the effectiveness of innovation in businesses is significantly impacted by an organizational culture that encourages learning and information sharing [24]. Investment in innovation thus becomes a crucial component in promoting sustainability, growth, and corporate competitiveness in the global marketplace.

Ultimately, the business performance variable attained a score of 81.4%, categorizing it as good. This indicates that, despite considerable hurdles in business performance, the distribution outlet owners in the Citarum region of Bandung City are successfully sustaining their business growth. The primary metric for evaluating a company's success is its business performance, which is also crucial for establishing a competitive edge and ensuring the company's long-term viability. Business performance, as defined by Richard et al. (2009), includes a number of factors that affect a company's competitiveness in the market, including profitability, growth, customer satisfaction, and operational efficiency [25]. According to a Neely (2018) study, businesses may assess company strategy, increase operational effectiveness, and spot chances for innovation and development by using effective performance measurement [26]. Furthermore, Latan et al. (2019)'s research demonstrates that elements like market orientation, innovation, and dynamic capacities significantly affect enhancing business performance, especially in technology-oriented and highly competitive industries [27].

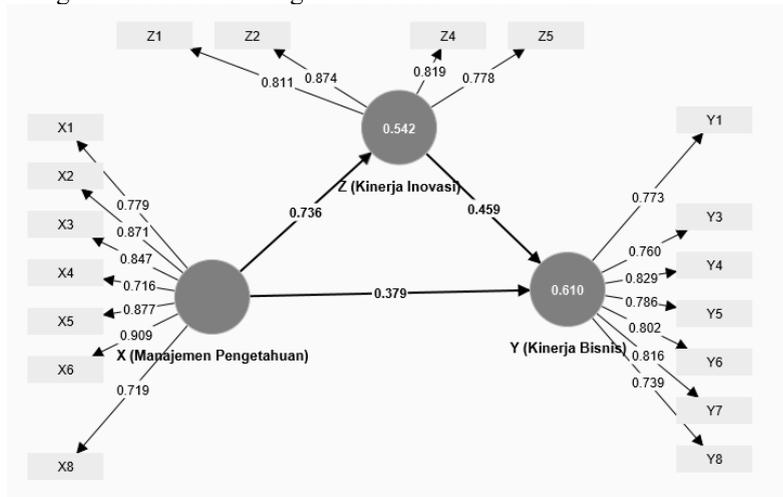
## 4.2 Verificative Analysis

The convergent validity test can be seen through the loading factor value and Average Variance Extracted (AVE). The loading factor value of the latent variable against its indicators shows convergent validity, which is considered valid if  $>0.7$  and falls into the good category [29]. Here are the loading factor values obtained using SmartPLS 4.0:



**Fig 2.** Loading Factor #1  
Source: Author's work

In Fig 2, there are four manifest variables with a loading factor value  $< 0.7$ , namely in the statement items X.7, Z3, Z6, and Y2. These items do not meet the established criteria, so they were excluded from the research model. Next, a retest was conducted to ensure that all statement items met the requirements. Fig 3 below shows the results of the loading factor after removing the invalid statement items.



**Fig 3.** Loading Factor #2  
Source: Author's work

According to Fig 3, all manifest variables of knowledge management (X), innovation performance (Z), and business performance (Y) exhibit a loading factor value exceeding 0.7. Consequently, it can be inferred that all statement items satisfy the requirements and adequately represent the latent variable under investigation. The subsequent stage involves verifying that AVE value exceeds 0.5 [28]. Table 1 below elucidates AVE value:

**Table 1.** Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)
Knowledge Management (X)	0,673
Innovation Performance (Z)	0,674
Business Performance (Y)	0,619

Source: Author’s work

Table 1 indicates that all variables in this study possess an AVE value exceeding 0.5: knowledge management (X) at 0.673, innovation performance (Z) at 0.674, and business performance (Y) at 0.619. Consequently, it may be concluded that all latent variables exhibit strong convergent validity. This study approach has convergent validity, as each statement item effectively describes the examined variable. This study evaluates discriminant validity by examining the cross loadings value and the square root of AVE. The initial assessment performed to evaluate discriminant validity is the cross loadings detailed in Table 2 below:

**Table 2.** Cross Loading.

Indicators	Knowledge Management (X)	Innovation Performance (Z)	Business Performance (Y)
X.1	0.779	0.639	0.606
X.2	0.871	0.573	0.537
X.3	0.847	0.596	0.638
X.4	0.716	0.508	0.525
X.5	0.877	0.683	0.607
X.6	0.909	0.646	0.578
X.8	0.719	0.555	0.605
Z.1	0.566	0.811	0.700
Z.2	0.616	0.874	0.597
Z.4	0.648	0.819	0.561
Z.5	0.588	0.778	0.557
Y.1	0.487	0.587	0.773

**Table 2 (Continue).** Cross Loading

Indicators	Knowledge Management (X)	Innovation Performance (Z)	Business Performance (Y)
Y.3	0.634	0.649	0.760
Y.4	0.533	0.612	0.829
Y.5	0.520	0.547	0.786
Y.6	0.582	0.518	0.802
Y.7	0.527	0.529	0.816
Y.8	0.634	0.595	0.739

Source: Author's work

Table 2 indicates that all manifest variables in this study exhibit greater cross-loadings for the constructed variables compared to other variables. Consequently, it may be inferred that each indicator of the research variables exhibits cross-loadings that satisfy the established criteria. The subsequent phase in assessing discriminant validity involves utilizing the square root of AVE value according to the Fornell-Larcker criterion. If the square root of a construct's AVE surpasses its correlation with other latent variable constructs, the construct is deemed to possess adequate discriminant validity [29]. Table 3 elucidates the square root of the AVE value:

**Table 3.** Fornell-Larcker Criterion

	Knowledge Management (X)	Innovation Performance (Z)	Business Performance (Y)
Knowledge Management (X)	<b>0,820</b>		
Innovation Performance (Z)	0,736	<b>0,821</b>	
Business Performance (Y)	0,717	0,738	<b>0,787</b>

Source: Author's work

Table 3 indicates that the square root of the AVE for the knowledge management variable (X) is 0.820, surpassing the correlations with other latent variables, which are 0.717 and 0.736. The Innovation Performance variable (Z) has a square root of AVE of 0.821, surpassing the correlations with other latent variables, which are evaluated at 0.736 and 0.738. The square root of the AVE value for the business performance variable (Y) is 0.787, surpassing the correlations with other latent variables, which are 0.717 and 0.738, respectively. The indicators in this study exhibit strong discriminant validity, since the square root of the AVE for each construct exceeds the correlation with other latent variable constructs, signifying the conceptual distinctions among each variable.

A reliability study is conducted by assessing the Cronbach's Alpha and Composite Reliability coefficients after all variables have met the requirements of the validity assessment. If a variable's Composite Reliability and Cronbach's Alpha values are greater than 0.7, it is considered reliable [29]. The results of this investigation's Cronbach's Alpha and Composite Reliability are shown in Table 4.

**Table 4.** Cronbach’s Alpha and Composite Reliability

Variables	Cronbach’s Alpha	Composite Reliability
Knowledge Management (X)	0,917	0,935
Innovation Performance (Z)	0,838	0,892
Business Performance (Y)	0,897	0,919

Source: Author’s work

The Cronbach's Alpha and composite reliability values are shown in Table 4 as follows: Values for the Knowledge Management variable (X) was 0.935 and 0.917, the Innovation Performance variable (Z) was 0.892 and 0.838, and the Business Performance variable (Y) was 0.919 and 0.897. Given that the composite reliability and Cronbach's Alpha values are over 0.7, which indicate that each construct produces reliable findings, it can be concluded that all of the variables in this study have met the reliability test criteria. Finding the path coefficients comes next, once every item has been verified and every variable has been found to be trustworthy. Data converted into standard scores is used to calculate path coefficients, which are standardized regression coefficients. The study's path coefficients are shown in Table 5 below.

**Table 5.** Path Coefficients

Path	Original Sample
Knowledge Management (X) -> Business Performance (Y)	0,379
Knowledge Management (X) -> Innovation Performance (Z)	0,736
Innovation Performance (Z) -> Business Performance (Y)	0,459
Knowledge Management (X) -> Innovation Performance (Z) -> Business Performance (Y)	0,338

Source: Author’s work

According to Table 5, knowledge management (X) positively influences company performance (Y), as evidenced by an original sample value of 0.379. This signifies a unidirectional association between the two variables, indicating that improved knowledge management (X) correlates with enhanced business performance (Y) at the Distro in the Citarum region of Bandung City. Moreover, knowledge management (X) positively affects innovation performance (Z), as evidenced by the original sample value of 0.736. The findings demonstrate that the relationship between the two variables is unidirectional, indicating that improved knowledge management (X) correlates

with enhanced innovation performance (Z) at the Distro in the Citarum region of Bandung City. Innovation performance (Z) positively influences business performance (Y), as evidenced by the original sample value of 0.459. This indicates that the association between the two variables is unidirectional, signifying that improved innovation performance (Z) correlates with enhanced business performance (Y) at Distro in the Citarum region of Bandung City. Ultimately, knowledge management (X) affects company performance (Y) via innovation performance (Z), as evidenced by the original sample value of 0.338, which is positive. The findings indicate that the innovation performance variable (Z) mediates the effect of knowledge management (X) on business performance (Y).

The coefficient of determination measures how much of the variance in the dependent variable can be explained by the independent variable. This study looks at two factors—innovation performance and business performance—that are influenced by other factors. The results of the coefficient of determination are shown in Table 6 below.

**Table 6.** R-Square

Variables	R-square	Percentage
Innovation Performance (Z)	0,542	54,2%
Business Performance (Y)	0,610	61%

Source: Author's work

Table 6 indicates that the R-Square value for the business performance variable is 0.610. This figure signifies that 61% of business performance (Y) may be elucidated by knowledge management (X) and innovation performance (Z). The R-Square value for the innovation performance variable is 0.542, indicating that 54.2% of innovation performance (Z) is elucidated by knowledge management (X). Consequently, it can be inferred that company performance exhibits intermediate criteria.

The degree to which independent variables affect the dependent variable is indicated by the F-Square score in this study. In order to measure the influence of independent factors on the variability of the dependent variable and provide a better understanding of the strength of the interactions within the study model, the F-Square evaluation is essential. F-Square results are explained in Table 7.

**Table 7.** F-Square

Path	F-Square
Knowledge Management (X) -> Business Performance (Y)	0,168
Knowledge Management (X) -> Innovation Performance (Z)	1,185
Innovation Performance (Z) -> Business Performance (Y)	0,247

Source: Author's work

The F-Square value of knowledge management's impact on business performance is 0.168, while the F-Square value of innovation performance's impact on business performance is 0.247, as indicated in Table 7. Both results lie within the interval of  $0.15 \leq F\text{-Square} \leq 0.35$ , signifying that knowledge management and innovation performance exert a moderate influence on business performance. The F-Square value for knowledge management's impact on innovation performance is 1.185, indicating a considerable influence, since the F-Square value is above 0.35. This suggests that both variables considerably contribute to elucidating business performance, albeit they cannot be classified as exerting a substantial influence.

Hypothesis testing is performed to address the research questions. The findings of the hypothesis testing presented in Table 8 indicate that all hypotheses in this study are accepted, accompanied with the following explanations:

- Knowledge management significantly influences company performance at Distribution Outlets in Bandung, evidenced by a significance value of 0.011.
- Knowledge management significantly impacts innovation performance at Distribution Outlets in Bandung, evidenced by a significance value of 0.000.
- Innovation performance significantly influences business performance at Distribution Outlets in Bandung, with a significance value of 0.005.

Knowledge management significantly affects business performance via innovation performance at Distribution Outlets in Bandung, with a significance value of 0.021

**Table 8.** Hypotheses Testing

Path	T-Stat	T-Tab	P-Val- ues	Decision
Knowledge Management (X) -> Business Performance (Y)	2.547	2.011	0.011	Accepted
Knowledge Management (X) -> Innovation Performance (Z)	7.835		0.000	Accepted
Innovation Performance (Z) -> Business Performance (Y)	2.806		0.005	Accepted
Knowledge Management (X) -> Innovation Performance (Z) -> Business Performance (Y)	2.315		0.021	Accepted

Source: Author's work

Knowledge management has a significant impact on business performance by enhancing operational efficiency, innovation, and the competitiveness of the company. According to research by Kianto et al. (2017), companies that implement good knowledge management practices are able to enhance innovation capabilities and create added value that positively impacts business growth [30]. Knowledge management is a catalyst for boosting a company's financial and non-financial performance, especially through improved internal collaboration and knowledge sharing [31]. Therefore,

knowledge management becomes a key element in building sustainable competitive advantage for companies across various industries.

Through efficient management of information acquisition, distribution, and application, knowledge management significantly contributes to improving a company's innovation performance. According to research by Darroch (2005), businesses that use effective knowledge management techniques typically excel and are more creative than those that don't [32]. López-Nicolás and Meroño-Cerdán (2011) also discovered that successful knowledge management techniques have a beneficial impact on business performance and innovation capabilities [33]. Additionally, Andreeva and Kianto's (2011) study found that by enhancing the organization's capacity to generate and utilize new knowledge, knowledge management can improve innovation performance [34]. Consequently, a major element in promoting innovation and enhancing business performance is the application of efficient knowledge management. Thus, the implementation of effective knowledge management becomes a key factor in driving innovation and improving company performance.

Moreover, innovation performance is essential for improving business outcomes by allowing organizations to develop superior products, services, or processes relative to their competitors. Research by Gunday et al. (2011) indicates that innovation in products, processes, marketing, and organization significantly influences revenue growth, profitability, and corporate competitiveness [35]. Furthermore, Saunila's (2020) research highlights that firms exhibiting elevated innovation levels are likely to possess more durable competitive advantages, as innovation facilitates differentiation and enhances operational efficiency [22]. Research by Rajapathirana and Hui (2018) indicates that firms that continually invest in innovation have superior financial performance and enhanced adaptability to market fluctuations [36]. Consequently, enhancing innovation performance is an essential approach for firms to attain sustained growth and success.

Lastly, Knowledge management significantly influences business performance via the intermediary function of innovation performance. Efficient knowledge management allows organizations to optimize the management, dissemination, and use of knowledge, thereby augmenting their capacity for innovation. Research by Kianto et al. (2017) indicates that organizations with robust knowledge management systems are more adept at fostering product and process innovations, hence enhancing competitiveness and commercial success [29]. A study by Arfi et al. (2018) demonstrates that knowledge management fosters the generation and implementation of novel ideas, which positively influences innovation performance, hence augmenting the company's growth and profitability [37]. A subsequent study by AlAhbabí et al. (2019) established that the correlation between knowledge management and company success is enhanced by innovation performance as a mediating variable, as innovation enables organizations to adapt more effectively to market dynamics and consumer requirements [38]. Consequently, the strategic execution of knowledge management not only augments internal efficiency but also propels innovation as a crucial element in enhancing business success.

The results of this research help business actors understand the importance of effectively managing knowledge to enhance competitiveness. With good knowledge management, business actors can create, store, and share strategic information that drives

innovation, whether in products, services, or business processes. This can also improve operational efficiency, customer satisfaction, and adaptability to market changes, thereby contributing to enhanced business performance. This research also provides practical guidance for decision-makers in integrating knowledge management strategies with innovation initiatives to achieve competitive advantage

## 5 Conclusion and Recommendation

The descriptive analysis results indicated that respondents perceived knowledge management at Distribution Outlets in Bandung City as extremely well, with the highest rating on the information sharing indicator. The innovation performance was evaluated positively, achieving the highest score on the new product introduction speed metric. Subsequently, business performance received favorable ratings, achieving the highest score on the sales growth metric.

The findings of the verifiable analysis clearly indicate that knowledge management and innovation performance have a substantial impact on business performance, and that knowledge management also strongly influences innovation performance. Innovation performance can indirectly influence the relationship between knowledge management and commercial performance at distribution outlets in Bandung.

Given that Knowledge Management positively and significantly influences Business Performance both directly and indirectly via Innovation Performance, it is advised that distribution outlets in Bandung enhance their knowledge management methods. This can be accomplished by fostering a culture of knowledge sharing inside the firm, implementing technology to facilitate knowledge management, and promoting cooperation among employees to generate ideas. Moreover, ongoing training and incentive programs for personnel that foster innovation can enhance the beneficial effects on organizational performance. This method enables distribution outlets to adjust more effectively to market fluctuations and improve their competitiveness.

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