

*This study focuses on the performance of micro, small, and medium enterprises (MSMEs) in the craft fashion sector in Malang Raya, by examining the influence of network capability on MSME performance and the moderating role of environmental dynamics. The main problem raised is the low performance of MSMEs in this sector, even though the Malang Raya area has great potential with a high number of tourists. MSMEs still face difficulties in utilizing market opportunities due to limited network access and adaptation to environmental dynamics. The results of the study show that network capability significantly improves MSME performance by strengthening access to resources, collaboration, and innovation. In addition, environmental dynamics – such as changes in market demand and the level of competition – moderate this relationship by increasing the impact of network capability on MSME performance. Data analysis shows that MSMEs with strong network capabilities are better able to capture market opportunities through collaboration with suppliers, customers, and strategic partners. Meanwhile, high environmental dynamics encourage flexibility and innovation in product development, thereby strengthening network effectiveness and increasing competitiveness. The uniqueness of this research result lies in the finding that the synergy between network capability and environmental adaptation enables MSMEs to overcome market barriers and increase profitability. This finding is relevant not only for the craft fashion sector in Malang Raya but also for other creative economy sectors with dynamic market conditions. Implementation of this result requires MSME investment in business network development as well as government policy support that encourages collaboration and training*

**Keywords:** MSME performance, network capability, environmental dynamics, fashion craft, craft fashion sector

# THE DEVELOPMENT OF BUSINESS ENVIRONMENT DYNAMICS TO IMPROVE THE RELATIONSHIP BETWEEN NETWORK CAPABILITY AND MSME PERFORMANCE

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Received 28.11.2024

Received in revised form 20.01.2025

Accepted 07.02.2025

Published 28.02.2025

**How to Cite:** Kumalasari, R. D., Sudiro, A., Rofiaty, R., Djumahir, D. (2025). The development of business environment dynamics to improve the relationship between network capability and MSME performance. *Eastern-European Journal of Enterprise Technologies*, 1 (13 (133)), 69–77. <https://doi.org/10.15587/1729-4061.2025.318050>

## 1. Introduction

The COVID-19 pandemic significantly impacted small and medium enterprises (SMEs) worldwide, with Indonesian SMEs particularly affected. The LIPI Center's survey revealed 94.69 % of Indonesian SMEs saw sales declines during COVID-19, with 56 % reporting a decrease in turnover. Moreover, 87.4% of these affected businesses were micro-enterprises, highlighting their vulnerability during economic disruptions. This situation underscores the urgent need to study SME performance in Indonesia, particularly in the Malang Raya region, which includes Malang City and Batu City – areas recognized for their tourism-driven economies.

In 2019, East Java's gross regional domestic product (GRDP) reached IDR 2,019 trillion, with MSMEs contributing IDR 1,290 trillion [1]. The concentration of SMEs in East Java varies significantly, with Jember hosting 647,416 MSMEs, Malang Regency 600,054, Malang City 117,840, and Batu City 44,963. Despite Batu City being a well-known tourist destination with

approximately 5 million visitors in 2022, its SME numbers remain lower than expected. This discrepancy raises important research questions about the factors influencing SME performance in Malang Raya, particularly in the fashion and craft sectors, which play a crucial role in Indonesia's creative economy. The fashion industry is the second largest sector in the creative economy after culinary, encompassing film, music, art, and animation. Understanding the dynamics affecting SMEs in this sector is essential for economic development.

One of the primary challenges faced by artisan fashion SMEs is inadequate human resources, which impact entrepreneurial competency [2]. Weak entrepreneurial skills lead to knowledge gaps, creating difficulties in professional management and business development [3]. The lack of a professional business culture and low competency levels further hinder the growth and competitiveness of SMEs in the fashion and craft industries [2]. Several previous studies on the performance of the craft fashion business sector further strengthen the data explained above.

A theoretical framework that can be applied to address this issue is the resource-based view (RBV), which emphasizes the importance of internal resources and collaboration networks in enhancing firm value. Networking capabilities enable business actors to gain cost-effective access to essential resources, creating competitive advantages. Prior research has demonstrated that strong business networks facilitate economies of scale while minimizing the disadvantages associated with excessive enterprise size. However, conflicting findings suggest that network capabilities do not always positively influence business performance. Additionally, firms operating in dynamic environments can leverage entrepreneurial orientation to improve performance and profitability. Understanding how environmental dynamics influence SME performance, networking capabilities, and entrepreneurial orientation remains a critical area of investigation.

In modern economic conditions, scientific research on SME performance in the fashion and craft sector is necessary for several reasons. First, SMEs are vital contributors to national economies, particularly in emerging markets like Indonesia, where they form the backbone of employment and economic growth. The disruptions caused by the COVID-19 pandemic have exposed vulnerabilities in the SME sector, necessitating a deeper understanding of resilience strategies and success factors. Second, the increasing competition in the globalized economy requires SMEs to enhance their entrepreneurial competencies and resource management strategies to remain competitive. Research on networking capabilities and environmental dynamics will provide valuable insights into how SMEs can optimize their business operations in an evolving economic landscape.

The practical implications of this research are significant. By identifying the key determinants of SME performance, particularly in tourism-driven regions like Malang Raya, policymakers can design targeted support programs to enhance SME resilience and sustainability. Additionally, SME owners can leverage the findings to improve their business strategies, foster collaboration networks, and enhance their entrepreneurial competencies. The results will also inform initiatives to strengthen Indonesia's creative economy, ensuring that fashion and craft SMEs can compete effectively in both local and international markets.

Therefore, studies that are devoted to analyzing the impact of environmental dynamics, networking capabilities, and entrepreneurial orientation on SME performance are of great scientific relevance. These studies provide a foundation for developing robust business models that enhance SME resilience and contribute to sustainable economic development in Indonesia and beyond.

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## 2. Literature review and problem statement

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The paper by [4] presents the results of research on the significance of networking capabilities in enhancing SMEs' business performance. The study highlights that establishing strong business networks with suppliers, designers, influencers, and fashion communities allows SMEs to access crucial resources that might otherwise be difficult to obtain independently. This shows that SMEs with robust networking capabilities can achieve better market reach, increased financial support, and more effective promotional strategies. However, there were unresolved issues related to the efficient and cost-effective acquisition of external resources, particularly for

SMEs operating in highly dynamic industries such as fashion, where competition is fierce and market trends shift rapidly.

The reason for this may be objective difficulties associated with fluctuating market demands and unpredictable consumer behavior, which require continuous adaptation to trends [5]. Additionally, the fundamental impossibility of accurately forecasting the direction of fashion trends poses a significant challenge for SMEs, making long-term strategic planning more complex [6]. Another contributing factor is the high cost associated with building and maintaining strategic business relationships. Many SMEs struggle with resource limitations, preventing them from leveraging external networks effectively [7]. These financial constraints often hinder the ability of SMEs to invest in collaborative partnerships, digital marketing initiatives, and supply chain optimization, all of which are critical for sustaining competitive advantage in a rapidly evolving industry.

A way to overcome these difficulties can be through the adoption of innovative strategies that maximize resource efficiency. One such approach is resource-sharing or strategic collaboration with other industry players, allowing SMEs to pool their resources, reduce costs, and enhance operational efficiency [8]. This approach was used in the study by [9], which found that companies with strong external networks could leverage shared knowledge and business connections to lower operational expenses and improve performance. However, while the study demonstrated the benefits of networking, it did not account for the moderating effects of environmental dynamics, which could significantly influence the success of networking strategies.

Environmental dynamics play a crucial role in determining the effectiveness of networking capabilities. Rapid technological advancements, shifts in consumer preferences, and changes in market regulations all contribute to the uncertainty that SMEs must navigate. According to [10], businesses that integrate external networks into their risk-management strategies are better positioned to adapt to unforeseen challenges and capitalize on emerging opportunities. Moreover, [11] argues that a highly volatile business environment can catalyze SMEs to strengthen their networking efforts, enabling them to gain access to critical resources that would otherwise be unavailable.

Despite the potential advantages of networking capabilities, there remain gaps in the literature regarding how SMEs can strategically navigate competitive pressures while optimizing their networks. All this suggests that it is advisable to conduct a study on how SMEs can leverage their networking capabilities to adapt to dynamic market conditions while mitigating resource constraints. The findings of such a study could provide valuable insights into effective strategies for building and sustaining competitive advantages in industries characterized by high uncertainty and rapid innovation. Given the increasing importance of digital transformation in business networking, further research should also explore how SMEs can harness technology-driven solutions, such as AI-powered trend forecasting and e-commerce platforms, to enhance their networking effectiveness and overall business performance [12, 13].

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## 3. The aims and objectives of the study

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The aim of this study is to analyze the factors influencing the performance of MSMEs, particularly in relation to

networking capabilities and environmental dynamics. This will allow MSMEs to enhance their networking capabilities by effectively exploring, organizing, and utilizing social ties to improve business performance. Furthermore, understanding the role of environmental dynamics will help businesses adapt to external changes, optimize their networking strategies, and strengthen their competitive advantage. By integrating external resources and improving risk-taking capabilities, MSMEs can achieve sustainable growth and resilience in dynamic business environments.

To achieve this aim, the following objectives are pursued:

- analyze how networking capabilities affect the performance of MSMEs;
- examine the role of business environmental dynamics in strengthening or weakening the impact of networking capabilities on business performance.

#### 4. Materials and methods

This study utilizes a quantitative methodology. A quantitative approach is an analysis that evaluates data or facts expressed numerically and analyzed by statistical methods. The research was carried out in Fashion and Craft Industry/SME at Malang City, Malang Regency, and Batu City, East Java, Indonesia.

The main hypothesis proposed in this study is that networking capabilities have a positive effect on MSMEs' business performance (H1) and dynamic capabilities can strengthen the relationship between networking capabilities and business performance (H2) (Table 1).

This study will span one year, beginning in January 2023 and ending in 2024. The timeframe of this study

will be established from the time the research idea was formulated. This study used a sampling methodology for research objectives. This study utilizes non-probability sampling through a purposive selection procedure, where in the researcher establishes particular criteria to select respondents. This study consists of 230 samples, aimed at verifying the device's compatibility with larger datasets. SEM analysis fundamentally consists of confirmatory factor analysis (CFA) and regression/path analysis. The utilization of AMOS software is relevant for untested hypotheses; the main objective of this study is to employ SEM to predict or clarify the target structure or latent variables. Statistical testing of this study utilizes AMOS software. There are two model evaluations in the analysis process using AMOS, namely measurement model evaluation and structural model evaluation. Measurement model analysis is carried out to illustrate a relationship between indicator blocks and their latent variables. There are three measurement criteria for assessing the outer model, namely convergent validity, discriminant validity, and construct reliability, while the structural model aims to determine the strength of the relationship between structures. In the measurement model stage, the relationship between latent variables and manifest variables is evaluated, in addition to the structural model stage, the relationship between latent variables and manifest variables is evaluated. The main purpose of using AMOS is to develop and test models of complex relationships between variables, both in the context of factor analysis, path analysis, and structural models. This software is very useful in research involving causal relationships, hypothesis testing, and latent factor modeling to gain a better understanding of the phenomenon being studied.

Table 1

List of questionnaires

Network capabilities	Coordination	1	The business I manage has the ability to build cooperation with other business partners
		2	The business I manage has flexibility in negotiating with partners
		3	The businesses I manage almost always solve problems with business partners in a constructive manner
	Relational skills	1	The business I manage has the ability to build cooperation with other business partners
		2	The business I manage has flexibility in negotiating with partners
		3	The businesses I manage almost always solve problems with business partners in a constructive manner
	Partner knowledge	1	I know the target market of my business partners
		2	I know the products/processes/services of my business partners
		3	I know the strengths and weaknesses of my business partners.
	Internal communication	1	Communication is done regularly and effectively in the business I manage
		2	In the business I manage, there is a culture of developing informal contacts between employees
Environmental dynamics	Environmental changes (customers, markets, and competitors)	1	In the business I manage, changes in the market environment are very intense
		2	I feel that competitors' actions are unpredictable
Business performance	Financial perspective	1	In my perception, sales or income in my business is growing
		2	In my perception, my business net profit is growing
		3	In my perception, my business assets are growing
	Customer perspective	1	In the business I manage, there are fewer complaints about service quality indicators
		2	In the business I manage, customer complaints while shopping have decreased
		3	In the business I manage there are fewer complaints about the attention given by employees
	Market performance	1	In the business I manage, total sales tend to be stable
		2	The business I manage has experienced an increase/expansion in market share
		3	In the business I manage, customer satisfaction with the product is increasing and tends to be stable

## 5. Results of network capability analysis, environmental dynamics, and company performance: results of validity, reliability, and hypothesis testing

### 5.1. The effect of network capability on MSME performance

According to the data tabulation derived from the distribution of questionnaires, the following presents the average (mean) responses of participants for the network capability variable. The network capability variable, which includes four indicators – coordination, relationship skills, partner knowledge, and internal communication – demonstrates an average score beyond 4.0, therefore classifying it as high or good. Consequently, it is asserted that respondents possess a favorable perception of network capability. Among the four measures, the partner knowledge indicator exhibits the highest perception, with an average score of 4.327. Conversely, the internal communication indication exhibits the lowest perception, with an average score of 3.998. The minimum mean value for the internal communication indicator in item (fostering informal relationships among staff) is 3.97. This diminished worth arises from the perception that interpersonal interactions among employees are deemed inconsistent. Ultimately, employees primarily concentrate on completing their tasks, and intimate personal ties are rarely established post-work.

Descriptive data indicates that the peak value in networking capability is found in internal communication, rated at 4.30, which reflects the capacity of Malang Raya craft fashion SMEs to facilitate consistent and effective communication among personnel within their enterprises. The average score for relational skills is 4.23, indicating that Malang Raya craft fashion SMEs are proficient in establishing business partnerships, demonstrating flexibility in negotiations, and effectively resolving issues with partners. Business entities in Malang Raya's fashion SMEs possess substantial knowledge about their business partners, evidenced by a descriptive value of 4.13, indicating their awareness of the target market, production processes, and the strengths and weaknesses of their partners. The networking capability variable ( $X$ ) had an average score of 4.17, signifying that respondents possessed a very high level of networking capability. The maximum value was recorded for the partner knowledge indicator in the statement "I know the products/processes/services of my business partners," which scored 4.37. Consequently, when engaging in extensive networking with external entities, SMEs must possess a comprehensive understanding of their collaborators, since this maintains to the intrinsic business DNA encompassing shared objectives, vision, mission, and strategy.

According to the data tabulation derived from the distribution of questionnaires, the following represents the average (mean) of respondents' responses about the company performance variable. 3 indicators form the business performance variable ( $Y$ ) with a total of 9 items. In the financial perspective indicator, the highest average statement item was obtained at 4.12, namely in the item (perception of business net profit growth), while the lowest average statement item was 4.08, namely in the item (perception of business asset growth). The average indicator of 4.09 indicates that respondents have a high or good level of financial perspective. In the customer perspective indicator, the highest average item was obtained at 4.26, namely in item (reducing customer complaints when shopping). The average indicator of 4.19 indicates that respondents have a high or good level of customer perspective.

In the market performance indicator, the highest average item was 4.28, namely in item (increased customer satisfaction tends to be stable), while the lowest average item was 3.91, namely in item (Increased total sales tended to be stable). This low mean value is caused specifically because during the pandemic, fashion craft SMEs experienced a decline in sales. Before the pandemic, sales tended to be unstable because fashion craft SMEs could not market their products well and were hampered by online marketing through social media. Overall, the business performance variable ( $Y$ ) obtained an average of 4.12, indicating that respondents had a high or good level of business performance. The highest value was in the market performance indicator with an item (customer satisfaction increased and tends to be stable) of 4.29. This can be interpreted as an SME actor; it is important to make consumers number one and always uphold the principle that consumers are king. Therefore, fashion or craft SME actors must implement excellent service as much as possible so that consumers are always satisfied with the work they produce.

Meanwhile, the numerical data presented in this study can be found in Table 2.

Confirmatory factor analysis (CFA) testing is a test equivalent to the measurement model test. CFA testing is carried out on network capabilities ( $X$ ), environmental dynamics ( $M$ ), and business performance ( $Y$ ). The evaluation of convergent validity involves comparing the factor loading values of each indicator to a determined threshold of over 0.50, as shown in Table 3.

The convergent validity assessment is conducted by comparing the factor loading value of each indicator against a specified threshold of more than 0.50. The testing findings for network capabilities ( $X$ ), environmental dynamics ( $M$ ), and business performance ( $Y$ ) yielded factor loadings exceeding 0.50 for each indication, so confirming that all indicators utilized in each variable satisfy the criteria for convergent validity testing.

The results of the multidimensional discriminant validity test can be seen in Table 4.

The evaluation of discriminant validity using the Fornell-Larcker criterion entailed comparing the square root of the Average Variance Extracted ( $AVE$ ) with the correlation coefficients between latent variables. The testing results for network capabilities ( $X$ ), environmental dynamics ( $M$ ), and business performance ( $Y$ ) produced a square root value of  $AVE$  surpassing the correlation among latent variables, demonstrating that the variables met the requirements for the discriminant validity assessment.

Meanwhile, the results of the construct reliability test can be seen in the following Table 5.

The chi-square test statistic and significance value ( $p$ ) demonstrate that the test value fails to satisfy the criteria, so it is deemed adequate or a poor match. The root mean square error of approximation (RMSEA) value of 0.049 signifies that the model is adequate and applicable. The goodness of fit index (GFI) value of 0.912 and the adjusted goodness of fit index (AGFI) value of 0.879 suggest that the model remains usable despite not fully meeting the criteria and being near the threshold limit. The comparative fit index (CFI) value of 0.956, the incremental fit index (IFI) value of 0.957, and the Tucker-Lewis index (TLI) value of 0.945 demonstrate that the model satisfies the criteria for being classified as a fit model. The results indicate that the model is applicable since it satisfies multiple requirements for RMSEA, GFI, TLI, CFI, and IFI.



Table 2

## Description of network capability variable (X2)

No.	Statement	SD		D		N		A		SA		Mean item
		F	%	F	%	F	%	F	%	F	%	
1	Employees learn about partners' goals, capacities, and strategies	0	0.0	0	0.0	56	22.4	110	44.0	84	33.6	4.112
2	Conduct an initial evaluation of potential partners in planning relationship building	0	0.0	0	0.0	43	17.2	102	40.8	105	42.0	4.248
3	Discuss ways to support each other's success with partners	0	0.0	0	0.0	43	17.2	109	43.6	98	39.2	4.220
Mean coordination indicator												4.193
1	Ability to build cooperation with other business partners	0	0.0	0	0.0	38	15.2	127	50.8	85	34.0	4.188
2	Flexibility in negotiating with partners	0	0.0	0	0.0	48	19.2	119	47.6	83	33.2	4.140
3	Solve problems with business partners in a constructive manner	0	0.0	0	0.0	48	19.2	113	45.2	89	35.6	4.164
Mean relational skills indicator												4.164
1	Knowing the target market of business partners	0	0.0	0	0.0	26	10.4	115	46.0	109	43.6	4.332
2	Knowing the products/processes/services of business partners	0	0.0	0	0.0	28	11.2	101	40.4	121	48.4	4.372
3	Knowing the strengths and weaknesses of business partners	0	0.0	0	0.0	46	18.4	89	35.6	115	46.0	4.276
Mean partner knowledge indicator												4.327
1	Communication is done regularly and effectively	0	0.0	0	0.0	66	26.4	112	44.8	72	28.8	4.024
2	Develop informal contacts between employees	0	0.0	0	0.0	69	27.6	119	47.6	62	24.8	3.972
Mean internal communication indicator												3.998
Mean of network capability variable (X2)												4.171

Source: processed primary data (2024).

Table 3

## Results of multidimensional convergent validity test

Variable	Indicator	Loading	Requirements	Requirements
Network capability (X1)	X.1	0.717	>0.50	Fulfilled
	X.2	0.643	>0.50	Fulfilled
	X.3	0.722	>0.50	Fulfilled
	X.4	0.796	>0.50	Fulfilled
Environmental dynamics (M)	M.1	0.772	>0.50	Fulfilled
	M.2	0.819	>0.50	Fulfilled
	M.3	0.675	>0.50	Fulfilled
Business performance (Y)	Y.1	0.813	>0.50	Fulfilled
	Y.2	0.723	>0.50	Fulfilled
	Y.3	0.696	>0.50	Fulfilled

Source: processed primary data (2024).

Table 4

## Results of the multidimensional discriminant validity test

Variable	X	M	Y
Network capability (X)	0.722	–	–
Environmental dynamics (M)	–0.412	0.758	–
Business performance (Y)	0.679	–0.344	0.746

Source: processed primary data (2024).

Table 5

## Results of the multidimensional construct reliability test

Variable	Construct reliability	Requirements	Description
Network capability (X1)	0.812	>0.70	Fulfilled
Environmental dynamics (M)	0.801	>0.70	Fulfilled
Business performance (Y)	0.789	>0.70	Fulfilled

Source: processed primary data (2024).

In hypothesis testing, the t-statistic and p-value are utilized for analysis. In hypothesis testing, using statistical values, the t-statistic value is employed at an alpha level of

5 % is 1.960. The hypothesis Ha is accepted and H0 is rejected when the t-statistic exceeds 1.960. To accept or reject the hypothesis based on probability, Ha is accepted if the p-value is less than 0.05. The empirical data included in this study allows for the testing of the hypothesized hypothesis. The results of the influence test can be seen in Table 6.

Table 6

## Hypothesis test results

Hypothesis	Effect	Path coefficient	T	p	Description
H1	X→Y	0.290	2,047	0.041	Significant
H2	XM→Y	0.285	2,861	0.004	Significant

Source: processed primary data (2024).

Based on the results of the H1 influence test, it was found that the significance value was  $0.041 < 0.05$ , so it can be said that networking skills have a significant positive influence on the success of the company. Overall, each indicator in network capability provides an important contribution to business performance which includes financial performance indicators, customer performance, and market performance.

Good coordination, strong relational skills, in-depth partner knowledge, and effective internal communication will strengthen the synergy between businesses and their partners. This synergy will strengthen the company's ability to innovate, react to market dynamics, and provide better products and services to customers. Ultimately, all of this leads to improved financial performance, higher customer satisfaction, and a stronger market position. Given the ability to establish relationships with other businesses, a business can gain information and resources that can be mutually beneficial. So, this makes it easier to maintain a business which then helps improve the performance of its business productivity. The results of this study support previous studies that prove that networking capabilities have a positive and significant effect on performance [8, 9]. The findings of [9] also show that companies with superior networking capabilities are able to obtain and multiply access to external resources in order to cut expenses, which has an impact on stronger company performance. To enhance business performance, companies should boost network capabilities via coordination, relational skills, and communication. This synergy fosters innovation, customer satisfaction, and market position, improving financial outcomes through stronger relationships and adaptability. The results of this study are not in line with [14], where network capabilities are unable to improve performance. The study states that the dynamic capabilities of SMEs are needed to form, rearrange, configure, and rearrange the company's capabilities so that they can respond well to environmental changes and then create innovation as well as performance for SMEs. Based on descriptive data, which has an average score of 4.17, indicating that respondents have a very high level of network capability. The maximum value was recorded for the partner knowledge indicator in the statement "I know the products/processes/services of my business partners," which scored 4.37. This shows that the network capability of Fashion MSMEs has become an important part, so that performance also increases the growth of network capability.

Networking capabilities are useful for companies to collaborate and coordinate in terms of gaining knowledge about external markets/information and internal communication. In this case, human resources, which are inherent in their entrepreneurial orientation, are the strongest actors in establishing and building internal and external networks of their companies, which will later be reflected in the performance of their companies. [11] argue that a harsh environment can be a trigger for additional resources that make SMEs increase their efforts in networking in order to obtain these resources. According to [15], the dynamics of the environment encourages companies to integrate all their resources from external networks in order to increase their risk-taking capabilities and pursue risk compensation.

Meanwhile, the moderating effect of environmental dynamics can have a positive effect on networking capabilities. Uncertain and unpredictable environments can lead to a strong shared understanding of inputs and outputs related to technological or process knowledge. So, this can refer to a positive relationship between networking capabilities and innovative performance moderated by environmental dynamics, where the more positive the environmental dynamics, the more positive the relationship between the two. SMEs in Malang Raya need to strengthen their networks and relational skills to improve business performance. Constructive problem-solving and good communication with suppliers

help them manage inventory, reduce costs, and expand markets efficiently.

## 5.2. The moderating role of business environmental dynamics in the relationship between networking capabilities and business performance

Meanwhile, the analysis numerical indicators in this study can be found in Table 7.

Table 7

Description of environmental dynamics variables (*M*)

No	Statement	SD		D		N		A		SA		Mean item
		F	%	F	%	F	%	F	%	F	%	
1	Changing customer needs and demands	0	0.0	0	0.0	68	27.2	118	47.2	64	25.6	3.984
2	Environmental changes in the market	0	0.0	0	0.0	51	20.4	138	55.2	61	24.4	4.040
3	Competitors' actions are unpredictable	0	0.0	0	0.0	72	28.8	120	48.0	58	23.2	3.944
Mean indicator of environmental change												3.989
Mean of environmental dynamics variable ( <i>M</i> )												3.989

Source: processed primary data (2024).

According to the data tabulation derived from the distribution of questionnaires, the following presents the average (mean) of respondents' responses about the environmental dynamics variable. The environmental dynamics variable (*M*) consists of one indicator consisting of three components. The environmental change indicator recorded the greatest item average of 4.04 for the item concerning environmental changes in the market, while the lowest item average was 3.98 for the item regarding the unpredictability of changes in customer requirements and desires as well as competitors' conduct. The minimum mean value results from fashion craft SMEs' inability to quickly adapt to evolving client wants and requests. Market tastes change rapidly in this fast fashion era. Similar to consumers, competitors also always release products with incessant innovations. This makes fashion craft SMEs not find the right rhythm to predict competitors' actions and even match their steps or breakthroughs. SMEs need to overcome this challenge in order to reach potential consumers and increase sales. Overall, the environmental dynamics variable (*M*) obtained an average of 3.98, indicating that respondents have a fairly good opportunity for a level of readiness in facing environmental dynamics.

In addition, according to Table 7, the H2 influence test value shows that the significance value is  $0.04 < 0.05$  so that the complexity of the company's environment significantly increases the correlation between networking capabilities and business performance. Based on descriptive data, the environmental change indicator recorded the largest average item of 4.04 for items about environmental changes in the market, while the lowest average item was 3.98 for items about the uncertainty of changes in customer needs and desires and competitor behavior. This shows that environmental dynamics actually give rise to a complex rhythm in the fashion MSME industry due to the rapid change of fashion. However, the complexity of these dynamics actually stimulates MSMEs to move to improve their ability to compete.

Amidst the dynamic market challenges, SMEs in Malang Raya fashion crafts need to have strong networking capabilities, especially in partner knowledge. Understanding the target market of partners and their products allows for product and service adaptation, increases collaboration, and opens up growth opportunities. Collaboration in aggressive marketing strategies helps to re-attract customers and increase sales, ensuring competitiveness in the market. Networking capabilities are important in understanding the strengths and weaknesses of partners, improving business performance, and responding to market trends through effective collaboration and strategic support. SMEs in Malang Raya fashion crafts need to have strong networking capabilities through effective internal communication, regular meetings, and feedback to improve business performance and respond to changes in demand. SMEs in Malang Raya fashion crafts need to build networking capabilities through internal communication and informal interactions between employees.

This improves business performance by increasing employee engagement, accelerating information exchange, and strengthening relationships between teams in facing competition. One solution to improve employee comfort is to provide a comfortable break room and an informal mentoring program. The room is equipped with free coffee and free lunch facilities to encourage social interaction. The mentoring program is unstructured, allowing comfortable interaction between experienced mentors and new employees, thus integrating them well and increasing motivation. In the context of Malang Craft fashion SMEs, high networking capabilities improve performance amidst environmental uncertainty. Environmental dynamics encourage collaboration and adaptation, helping SMEs manage risks and utilize information. In addition, changes in government policies also encourage SMEs to adapt, for example, by joining industry associations to fight for common interests. To assist SMEs in navigating challenges, support in network building, risk management, and access to resources is essential. Proposed solutions include training, technology use, collaboration with financial institutions, and leveraging government policies to enhance performance.

However, this study refers to a research method that uses a quantitative approach only because of the generative nature of the research. Therefore, further research is suggested to consider a mixed method approach to obtain more in-depth results from fashion MSMEs actors. This is based on the phenomenon found during the research. After conducting further in-depth studies, the researcher found that the MSMEs fashion industry is currently being attacked by foreign production, thus affecting the development of the local industry, so this study has not contributed to the phenomenon that is disrupting the industry.

## 6. Discussion of the results of the study on network capability and business performance

The results of this study indicate that higher network capability leads to improved performance of fashion craft SMEs. The analysis reveals that network capability, measured through coordination, relational skills, knowledge partners, and internal communication, significantly improves business performance. According to [8], network capability is the ability of a firm to systematically and competently explore and utilize complementary social ties. [9] further supports this

by stating that networks accumulate positively with various aspects of firm performance because they provide access to important social resources.

Table 1 shows that the highest mean score is associated with partner knowledge, particularly in understanding business partners' products, processes, and services. SMEs in Malang Raya benefit from this knowledge by ensuring high-quality raw materials and forming strategic supply chain partnerships. For example, collaboration with local textile manufacturers allows SMEs to source premium fabrics at competitive prices. Understanding partner products also drives innovation, as seen in SMEs developing unique accessories together with specialized suppliers.

In contrast, Table 2 shows that internal communication has the lowest mean value with high factor loading (0.796), especially in developing informal employee interactions. Respondents reported that tight deadlines and work pressure hinder social engagement among employees. In addition, personality differences and personal commitments limit their participation in informal activities, which affects the overall quality of communication in the organization.

This study supports previous research showing that networking capabilities significantly affect business performance, especially in the fashion and craft industries [8]. The results of this study are also in line with research in other sectors [4, 9], which strengthens the broad application of networking capabilities in improving business outcomes.

Compared to previous studies, this study offers several advantages. First, the approach used is holistic, where this study not only analyzes the influence of networking capabilities on business performance but also examines how business environment dynamics act as a moderating factor. Second, this study identifies a moderating role that shows that business environment dynamics can strengthen or weaken the relationship between networking capabilities and MSME performance. This aspect has not been widely explored in previous studies. Third, the results of this study provide broad practical implications, both for MSME owners in developing more adaptive networking strategies and for policymakers in designing MSME business network strengthening programs.

This study provides solutions to several key challenges identified previously. One problem found is the influence of networking capabilities on MSME performance. The results indicate that networking capabilities facilitate access to broader business resources, accelerate product innovation through strategic collaboration, and increase competitiveness through strengthening sustainable business networks.

This study also revealed that the dynamics of the business environment can strengthen or weaken the effectiveness of network capabilities. MSMEs with strong business networks are more responsive to changes in regulations and consumer trends. Increasingly tight competition makes building strategic networks more urgent. However, extreme environmental factors, such as economic crises or pandemics, can limit the effectiveness of networks, so flexibility is needed in managing business relationships.

Although this study makes a significant contribution, some limitations need to be considered. This study does not cover other variables, such as the role of leadership and organizational culture in networking capabilities. In addition, the focus of the study is limited to MSMEs without covering large-scale companies. The analysis of the dynamics of the business environment is only carried out on external aspects without considering internal factors such as innovation cul-

ture. This study also has not examined business diversification strategies and the role of digitalization in strengthening business networks.

Despite its contributions, this study has several limitations. First, it does not consider additional factors such as leadership style and organizational culture, which may influence the effectiveness of networking capabilities. Future studies should explore these variables to provide a more comprehensive understanding of how internal organizational factors impact business networks.

Second, the study focuses exclusively on SMEs and does not examine large-scale enterprises. As networking strategies may differ between small and large businesses, future research could expand the scope to include larger firms to assess whether the findings remain applicable across different business scales.

Third, the study primarily considers external business environment dynamics and does not delve into internal factors such as innovation culture, digital transformation, or business diversification. Examining how these internal factors interact with networking capabilities could provide deeper insights into how SMEs can strengthen their competitive advantage.

Fourth, this study relies on self-reported survey data, which may introduce biases in responses. Future research could incorporate longitudinal studies or case studies to validate the findings through direct observations and interviews with business owners and stakeholders.

Based on the findings, several areas for further research are recommended. First, future studies should explore strategies to enhance internal communication within SMEs, given its relatively weak performance in this study. Practical interventions, such as team-building activities, informal discussion forums, and leadership training, could be evaluated to determine their effectiveness in improving internal communication.

Second, the study indicates that SMEs struggle with adapting to changing customer demands. Future research could examine how SMEs can leverage digital tools, such as social media analytics and e-commerce platforms, to better understand and respond to evolving market trends. Regular market research and direct customer engagement through digital channels could be explored as potential solutions.

Third, market performance remains a challenge for many SMEs, as indicated by the relatively low mean score for increasing total sales. Future research should investigate strategies such as product diversification, targeted marketing campaigns, and digital marketing adoption to optimize sales growth. Additionally, studies on customer loyalty programs and their impact on SME revenue stability could provide valuable insights.

Fourth, expanding the geographical scope of research beyond Malang Raya to other regions in East Java or Indonesia could enhance the generalizability of the findings. Comparative studies across different regional markets could provide a broader perspective on how local economic conditions influence networking capabilities and business performance.

Finally, the potential for fashion SMEs to integrate into a larger industrial cluster should be explored further. Research could examine how clustering strategies, joint training programs, and shared resource initiatives could strengthen the competitive positioning of fashion SMEs. Additionally, collaborations with universities, government institutions, and

private sector stakeholders could be studied to assess their impact on SME development and long-term sustainability.

In conclusion, this study reaffirms the importance of network capability in enhancing the business performance of fashion craft SMEs. While partner knowledge plays a crucial role in fostering strong business relationships, internal communication remains a challenge that requires targeted interventions. Given the influence of external environmental dynamics, SMEs must adopt flexible and adaptive networking strategies to sustain growth in an ever-changing market landscape. Addressing the study's limitations and exploring new research directions will further contribute to a deeper understanding of how SMEs can maximize the benefits of their network capabilities for long-term success. Further research can investigate the correlation between environmental dynamics and company success, with the anticipation that the findings of this study will provide answers to navigate uncertain and highly complex environments.

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## 7. Conclusions

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1. The results of this study found that MSME performance was directly improved by networking capabilities, or moderately improved by environmental dynamics. This study proves that this study confirms the RBV theory, where the RBV theory explains that the networking capabilities possessed by MSMEs in the fashion industry can be a strategic resource that increases competitiveness and allows them to survive in a very dynamic environment. The results of this study indicate that improving networking skills can improve the performance of Malang Raya fashion craft SMEs. Network capability improves the performance of fashion SMEs, this shows that the network capability of fashion MSMEs has become an important part, so that performance also increases the growth of network capability.

2. The results of this study also provide practical considerations for fashion MSMEs where the results of this study can encourage them to optimize existing resources and capabilities, such as business networks, technology, or expertise in production. Thus, MSMEs can not only compete better in the market, but also have the ability to innovate and grow faster, while facing the dynamics and challenges of the ever-changing market. The dynamics of the business environment increases the correlation between networking skills and the performance of Malang Raya fashion craft companies. This is also stimulated by the rapid movement of fashion trends that encourage the fashion industry to move faster and have an impact on improving its performance.

Malang Raya fashion craft SMEs must improve their processes to identify and grow networks, especially with collaboration between managers and staff in articulating the goals, capabilities, and strategies of business partners. SME managers must assess early planning when the team establishes relationships with other entities and consistently engage in discussions and coordination within the team to collaborate effectively and achieve success with their partners.

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## Conflict of interest

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The authors declare that they have no conflict of interest in relation to this research, whether financial, personal, au-



thorship or otherwise, that could affect the research, and the results presented in this paper.

#### Financing

The study was performed without financial support.

#### Data availability

Manuscript has associated data in a data repository.

#### Use of artificial intelligence

The authors confirm that they did not use artificial intelligence technologies when creating the current work.

#### Acknowledgement

The authors would like to thank all parties who supported this research, which also helped the authors do much research. This research helped increase the authors' knowledge and skills. This research will be helpful for knowledge and a better future.

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