

Research Article

## The Role of Employee Training and Organizational Culture Improving SME Performance with Innovation as a Mediator

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**Abstract:** The strategic role of SMEs in the Indonesian economy and the phenomena of declining performance as a result of the Covid-19 pandemic motivated author to research this sector. Various internal problems make it difficult for SMEs to improve their performance and competitiveness in a competitive business environment. Using the dynamic capability perspective, this study examines the influence of human resource configuration through employee training and organizational culture which is able to encourage innovation that improves SME performance. This study uses purposive sampling technique and data collection is done through questionnaires and interviews with 122 SMEs in East Java. Data analysis is carried out using PLS SEM. The research results show that employee training does not have a direct effect on SME performance, however employee training is able to encourage innovation which has an impact on improving SME performance. On the other hand, organizational culture has a significant direct and indirect effect on SME performance through innovation. Results of this study can be used as a consideration by SME owners in making business decisions in order to improve their performance. From the theoretical side, the results of this study confirm the dynamic capability theory by Teece and Pisano regarding the key role of innovation and Becker's opinion from a human resource management perspective which states that employee training must be designed systematically according to the long-term needs of the organization in order to have an impact on improving organizational performance.

**Keywords:** Dynamic Capability; Employee Training; Innovation; Organizational Culture; SME Performance.

### 1. Introduction

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SMEs are a sector that has a strategic role in the Indonesian economy. Based on data from the Ministry of Cooperatives and SMEs in 2021, shows that this sector contributes more than 61.07% of national GDP or IDR 8,573.89 trillion, absorbs 97% of the workforce and is able to collect up to 60.4 percent of total investment in Indonesia (DJKN, Indonesian Ministry of Finance: 2022).

Marinescu, et al. (2019) underlined the importance of research on SME performance in terms of several aspects: first, SMEs have a large role in Gross Domestic Product (GDP) and labor absorption; second, SMEs have resilience and the ability to adapt in facing changes in the business environment.; third, SME business practices reflect the owner's creativity, which is important for SME competitiveness.

In terms of resilience to the crisis, SMEs have proven to be a sector that is able to survive the economic crisis and recession that occurred in Indonesia in 1998 and 2008. However, when the Covid 19 pandemic occurred, SMEs were one of the sectors that were quite severely affected, 56% of SMEs experienced a decline in sales and profits (Utami, 2021). This shows the weak side of SMEs that have not been revealed in the previous two crises. Using the Dynamic Capability approach, this research examines how the impact of utilizing human resources as an internal aspect can have an impact on improving SME performance. Several previous studies found that Dynamic Capabilities are closely related to the performance of

SMEs in facing changes in the business environment (Bailey&Breslin, 2021) and able to encourage SMEs optimizing their opportunities, overcome challenges and improve their performance (Cheng&Jin, 2019).

Based on the Dynamic Capability approach, innovation that arises from the configuration of internal resources in response to changes in the business environment is a key factor in improving the performance of an organization (Teece & Pisano, 1997) and maintaining the sustainability of business in the long term (Teece, 2023). From a human resource management perspective, innovation can be generated through employee innovative behavior which originates from adding new skills and knowledge, observing business processes and capturing opportunities from changes in customer tastes (Chang et al., 2020; Singh et al., 2020; Beaver&Hutchings, 2005). Another thing that is needed is conducive work environment that able to encourage employees to express their thoughts and ideas (Haddad, M. I., et al., 2019) as well as facilitating the exchange of new skills and knowledge between employees (Bianchi et al., 2021).

Based on the phenomena, problems and studies above, this research tries to examine the impact of employee training and organizational culture on SME performance with innovation as the mediating variable. This research aims to provide an alternative solution for SME to increasing their performance. This research also aims to fill the research gap where the process of increasing employee capabilities through training and the unique organizational culture of SMEs in the process of boosting innovations that have an impact on improving SME performance is still very limited and has not been studied much in previous research (Yahaya dan Nadarajah, 2023).

## 2. Literature Review

### 2.1 Dynamic Capability

Teece and Pisano (1997) state that companies must be able to read and analyze changes in the dynamic business environment, then integrate their internal and external resources as a unique asset that has an impact on changes in the company's internal business processes as a result of the transformation of company resources so that they are able to produce innovations that are difficult for competitors to imitate and ultimately are able to produce competitiveness, increased performance and ensure long-term business sustainability.

In facing changes and developments in the dynamic business world, many thoughts from strategy and management experts state that Dynamic Capability is the heart of a company's strategy, value creation and competitive advantage so that it is able to survive in a dynamic business environment (Teece, 2009; Eisenhardt dan Martin, 2000; Winter, 2003; Helfat et al., 2007).

### 2.2 SME Performance

According to Amoa-Gyarteng et al. (2023) defines SME performance as referring to the operational and financial performance of the SME. He further explained that performance shows how good the business processes of SMEs are in many aspects including finance, business development, operational efficiency, attracting new customers and retaining old customers to securing the target market segment.

Performance is the result of an effort that can be measured based on its aims and objectives (Ebrahimi, et al. 2016). According to Jauch & Glueck (2013) a company's performance can be determined from its level of sales, profits, return on capital and market share. While Sarac et al. (2014) views organizational performance as an assessment of the level of assets and business development.

Yahya, et al. (2012) stated that the obstacles that arise in the growth of SME businesses originate from weaknesses inherent in the internal business, such as: limited human resources, lack of knowledge of production and marketing technology, limited capital and the ability of business owners.

### 2.3 Innovation

Griffin (2004) states that innovation is a managed effort by an organization to develop new products or services or add new uses to existing products or services. He further divided innovation carried out by an organization into several forms: Radical innovation, gradual innovation, managerial innovation and technical innovation (which consists of product innovation and process innovation).

According to Trott (2006) innovation occurs from the combined process of individual creative efforts, operational functions, and organizational activities, as well as business processes that run within an organization. Technological developments and new knowledge gained by individuals in organizations encourage creative ideas and thoughts that result in improvements to business processes to adapt to changes in the external environment so as to produce products that suit market needs.

## 2.4 Employee Training

McCrie and Lee (2022) state that training is an activity to improve the abilities and improve the performance of employees or members in carrying out their duties by improving abilities, knowledge, skills, attitudes and behavior related to work.

Becker (1964) stated that training or learning increases employee effectiveness in completing their work by providing valuable knowledge and skills for employees. He further views employee training as a form of company investment which is expected to provide a greater rate of return economically.

According to Wiek, et al. (2023), revealed that employee training has an impact on the long-term sustainability of SME businesses by increasing skills, encouraging innovative behavior and encouraging SME performance. One method for measuring the effectiveness of employee training is the Kirkpatrick evaluation model (1959) which consists of evaluating reactions, learning, behavior and results. Several researchers have previously used this evaluation model to measure the effectiveness of training in the SME sector such as Curado, C., & Sousa, I. (2021), Curado, C., & Martins Teixeira, S. (2014) and Aragón-Sánchez, et al., (2003).

## 2.5 Organizational culture

According to Deal and Kennedy (1982) organizational culture is the values, beliefs, stories, rituals and ceremonies contained in the organization. Organizational culture must be formed, implemented and developed because organizational culture is the formation of traits, behavioral patterns and values that must be learned, which are shared by all members of the organization, and passed down from generation to generation to the next generation, not created by themselves, but formed first. Organizational culture can be a major instrument of competitive advantage, when organizational culture supports organizational strategy and can answer or overcome environmental challenges quickly and precisely.

A good organizational culture can increase employee engagement, which in turn can have a positive impact on company productivity and performance (Setiawan et al., 2022). In this case, employee involvement is a key aspect, because employees who are emotionally and professionally involved tend to make a greater contribution to organizational goals. Schneider et al. (2018) stated that a good organizational culture creates a sense of togetherness and clear goals for all team members, which leads to increased job satisfaction and employee loyalty.

## 2.6 Hypothesis Preparation

Employee training is a systematic effort by the company to improve employee skills, knowledge and behavior to overcome the gap between the abilities required by the organization and those currently possessed by employees. Several previous studies found a significant influence between employee training and SME performance, including Israr, et al. (2021), Igudia (2022) and Bochra Idris et al. (2020), stated that employee training has an impact on improving performance in the SME sector. Ipinnaeye, et al. (2017) found that SMEs that invest through employee training have increased business performance and growth. The research results of Hernita, et al. (2021) and Mohammadian and Rezaie (2020) stated that increasing the capabilities of SME employees can increase the productivity and performance of SMEs. Based on previous research, the author prepared the first hypothesis, namely:

**H1: Employee training has a positive effect on SME performance.**

Organizational culture is a system, norms and values that apply in an organization that are mutually agreed upon and become the behavior of every member of the organization in their daily lives. Several studies show a significant influence between organizational culture and SME performance, such as: Nguyen and Tuan (2023), Lažnjak, et al. (2019), Eniola, et al. (2019) and Arabeche, et al. (2022). Haddad, Monther I., et al. (2019) found that a participative organizational culture is able to encourage SME performance. Meanwhile, the results of research by Ur Rehman et al. (2019) concluded that an organizational culture where members

continue to learn and share knowledge with each other can improve the performance of SMEs.

## **H2: Organizational culture has a positive effect on SME performance.**

Successful employee training will be able to provide increased employee capabilities where the employee will be more creative and innovative in carrying out their duties and work. Islami and Mulolli (2024) and Demirkan, et al. (2022) found that there is a positive relationship between training and SME innovation capabilities. Meanwhile research by Jalil, et al. (2021), Lesakova (2014) and Rasbin (2019) stated that increasing the human resource capacity of SMEs who are educated, trained and creative is able to increase SME innovation which supports their long-term business development strategy.

## **H3: Employee training has a positive effect on innovation.**

An organizational culture that supports member participation and involvement in organizational decision making is able to create a comfortable working climate for each member of the organization so that it is able to encourage new, innovative ideas from members of the organization. Mileva and Hristova's (2022) research shows that organizational culture is able to encourage SME innovation through a conducive work environment, employee involvement in organizational decision making, and good interaction between organizational members and business owners. This is in line with the research results of Shuaib and Zhen he (2021), Lati, et al. (2020), Zhen, et al. (2021) and Sánchez-Báez, et al. (2019) which states that organizational culture has a significant influence on encouraging SME innovation.

## **H4: Organizational culture has a positive effect on innovation.**

SME innovation in terms of processes, products, markets and customer service is important in order to be able to read dynamic market opportunities and challenges and produce products or services that meet customer desires. This is what is ultimately able to improve the performance of SMEs so that they are able to survive in the face of a dynamic business environment and are able to maintain business continuity in the long term. Kamutando and Tregenna (2024) found that innovation carried out by SMEs, both in terms of products and business processes, was able to improve SME performance. Danh Vinh Le, et al. (2023) stated that SMEs that innovate both in terms of product development, use of new technology and introduction of new products on the market have better performance than SMEs that do not. This confirms previous research by Palomo, et al. (2023), Naranjo-Valencia et al. (2016), Anning-Dorson (2017) and Oltra et al. (2018) stated that innovation has a positive effect on SME performance.

## **H5: Innovation has a positive effect on SME performance.**

Training that focuses on routine capacity building efforts may have an impact on improving employee performance and provide short-term benefits for the company. Meanwhile, training that focuses on the skills needed by the organization in the long term will have an impact on the organization's performance (Becker: 1964). Increasing the ability of employees who are able to face developments in the business world as well as changing customer needs and tastes will be able to produce innovations that emerge from employees so that they can produce their own advantages for the organization to face its competitors. This is in line with the dynamic capability view developed by Teece and Pisano (1994) and confirmed by research by Anifowose, et al. (2022) that employee training and development is able to encourage innovation which has an impact on improving SME performance. Fitriati, et al. (2020) also found that individual and collective knowledge in an SME, whether existing or developing, is able to improve SME performance if it is able to produce innovation in terms of product, process or market innovation.

## **H6: Innovation mediates the effect of employee training on SME performance.**

A participatory organizational culture where employees are accustomed to being actively involved in solving organizational problems will be able to give birth to innovative ideas that can be implemented in order to face the organization's dynamic external environment. Culture can be considered an organizational asset if the ideas that emerge will produce innovation for the company to be able to survive changes in the external environment and maintain organizational performance so that it remains good compared to competitors. The

research results of Srisathan et al. (2020) who concluded that innovation is closely related to the long-term sustainability of SME businesses and this is influenced by organizational culture which ultimately has an impact on SME performance. Chen and Suwandej (2024) also found that organizational culture was able to encourage innovation which had an impact on SME performance.

**H7: Innovation mediates the influence of organizational culture on SME performance.**

### 3. Method

This research uses a quantitative approach, namely an approach that emphasizes testing theories or concepts through measuring variables metrically or numerically and carrying out data analysis procedures using statistical equipment and aiming to test hypotheses (Creswell, 2013). Based on the type of research, this research is classified as Explanatory Research, namely analyzing the relationship between one variable and another or how one variable influences other variables through testing (Singarimbun, 2006).

The sampling technique in this research uses purposive sampling, namely a sampling technique for certain purposes or certain criteria (Ferdinand, 2014). Data was collected from owners and managers of 122 SMEs in East Java Province through questionnaires and interviews. Of the 122 questionnaires filled out by respondents in this study, 22 questionnaires were excluded from data processing because they did not meet the specified sample criteria, there was an error in filling them in or there were indicators that were not filled in by the respondents.

Based on this, 100 of the most representative samples were taken for processing, taking into account sample adequacy based on the opinion of Hair, et al. (2010) which states that the minimum sample is 100 for more representative data processing. Data processing in this research uses Smart PLS 4 with the PLS-SEM analysis method.

## 4. Results and Discussion

### 4.1 Results

#### 4.1.1 Validitas Konvergen

**Table 1.** Outer Loading Values.

Indicator	Path Coefficient	Information
Employee Training (X1)		
X11	0.805	Valid
X12	0.778	Valid
X13	0.748	Valid
X14	0.751	Valid
X15	0.742	Valid
X16	0.769	Valid
X17	0.759	Valid
X18	0.769	Valid
Organizational culture (X2)		
X21	0.843	Valid
X22	0.904	Valid
X23	0.715	Valid
X24	0.769	Valid
Innovation (Z)		
Z1	0.906	Valid
Z2	0.869	Valid
Z3	0.914	Valid
Z4	0.876	Valid
SME Performance (Y)		
Y1	0.775	Valid
Y2	0.787	Valid
Y3	0.831	Valid
Y4	0.823	Valid
Y5	0.720	Valid
Y6	0.825	Valid

**4.1.2 Validitas Diskriminan****Table 2.** Cross Loading Values.

Indicator	X1	X2	Y	Z
<b>Employee Training</b>				
X11	0.805	0.215	0.301	0.369
X12	0.778	0.159	0.253	0.341
X13	0.748	0.208	0.270	0.390
X14	0.751	0.316	0.292	0.519
X15	0.742	0.264	0.234	0.407
X16	0.769	0.218	0.231	0.374
X17	0.759	0.210	0.203	0.303
X18	0.769	0.140	0.260	0.330
Organizational culture				
X21	0.199	0.843	0.504	0.707
X22	0.229	0.904	0.540	0.684
X23	0.162	0.715	0.698	0.571
X24	0.351	0.769	0.548	0.634
SME performance				
Y1	0.202	0.674	0.775	0.701
Y2	0.254	0.546	0.787	0.516
Y3	0.220	0.554	0.831	0.554
Y4	0.333	0.571	0.823	0.630
Y5	0.289	0.493	0.720	0.491
Y6	0.328	0.510	0.825	0.558
Innovation				
Z1	0.456	0.756	0.781	0.906
Z2	0.467	0.735	0.647	0.869
Z3	0.455	0.732	0.633	0.914
Z4	0.426	0.625	0.523	0.876

Based on the results of data processing, it shows that the tested data has a path coefficient greater than 0.7 (Chin & Dibben: 2010) and the cross loading value meets the requirements so it is declared valid (Zainudin dan Wardhana, 2023).

**4.1.3 Construct Reliability Test****Table 3.** Results of construct reliability tests.

Variabel	Cronbach's Alpha	Composite Reliability	AVE
Employee Training	0.899	0.904	0.586
Organizational culture	0.823	0.823	0.658
SME Performance	0.883	0.889	0.631
Innovation	0.914	0.921	0.795

Based on the results of the construct reliability test above, it shows that the Cronbach's alpha and composite reliability values for each of the Employee Training (X1), Organizational Culture (X2), SME Performance (Y) and Innovation (Z) variables show a value greater than 0.7. then the AVE value of all variables is greater than 0.5. This shows that all items are declared reliable in measuring the latent variable and the variables Employee Training (X1), Organizational Culture (X2), Innovation (Z), and Performance (Y) have met the construct reliability requirements or are declared reliable (Ghozali & Latan, 2015).

#### 4.1.4 R Square

**Table 4.** R Square Value.

Independent Variable	Dependent Variable	R-Square	R Square Adjusted
(X1), (X2), (Z).	(Y)	0.579	0.566
(X1), (X2).	(Z)	0.727	0.721

The results of the coefficient of determination of the influence between Employee Training (X1), Organizational Culture (X2), and Innovation (Z) on SME Performance (Y) obtained an R-square value of 0.579, which means that the influence on Performance (Y) can be explained by 57.9% by Employee Training (X1), Organizational Culture (X2), and Innovation (Z) while the rest is explained by other variables. The results of the coefficient of determination of the influence between Employee Training (X1) and Organizational Culture (X2) on Innovation (Z) obtained an R-square value of 0.727, which means that the influence on Innovation (Z) can be explained by 72.7% by Employee Training (X1) and Organizational Culture (X2), while the rest is explained by other variables.

#### 4.1.5 Predictive Relevance

Q-Square is a tool used to measure the extent to which models and parameter estimates in research have predictive relevance. In other words, the higher the Q-Square value, the better the model fits the data, and has better predictive ability (Wardhana, 2023)

The Q-Square calculation for this research model is as follows:

$$Q2=1-(1-R12)(1-R22) \dots (1-RP2)$$

$$Q2=1-(1-0.727)(1-0.579)$$

$$Q2=1-0.166$$

$$Q2=0.885$$

From the results of the calculations that have been carried out, it was found that the value of  $Q2$  (predictive relevance) is 0.885. This means that 88.5% of the diversity in research data can be explained by the research model used. Meanwhile, the remaining 11.5% is the influence of factors not included in the research model.

#### 4.1.6 Hypothesis test results

**Table 5.** hypothesis test results.

Influence	Original sample ()	T statistics ( O/STDEV )	P values
X1 -> Y	0.009	0.132	0.895
X2 -> Y	0.344	2.629	0.009
X1 -> Z	0.299	4.586	0.000
X2 -> Z	0.717	14.373	0.000
Z -> Y	0.453	3.410	0.001
X1 -> Z -> Y	0.135	2.478	0.013
X2 -> Z -> Y	0.324	3.454	0.001

Based on the table above, the effect of Employee Training (X1) on SME Performance (Y). The results from the table presented show that the parameter coefficient has a value of 0.009, which indicates a very weak influence on SME performance (Y). Evaluation of the t-statistic value, which is 0.132, shows that this value is smaller than the standard t-table value of 1.96 and the P value of  $0.895 > 0.05$ . Therefore, based on the test results, Hypothesis 1 is rejected or in other words it can be concluded that the Employee Training variable (X1) does not have a significant positive influence on SME Performance (Y).

Influence of Organizational Culture (X2) on SME Performance (Y). The results from the table presented show that the parameter coefficient has a value of 0.717, which indicates a positive influence on SME performance (Y). Apart from that, evaluation of the t-statistic value, which is 2.629, shows that this value is greater than the standard t-table value of 1.96 and the P value is 0.009 or smaller than 0.05. Therefore, based on the results of testing Hypothesis 2, it is accepted, or in other words it can be concluded that the Organizational Culture variable (X2) has a significant positive influence on SME Performance (Y).

The Effect of Employee Training (X1) on Innovation (Z). The results from the table presented show that the parameter coefficient has a value of 0.299, which indicates a positive influence on SME performance (Y). Apart from that, evaluation of the t-statistic value of 4.586 shows that this value is greater than the standard t-table value of 1.96 and the P value of 0.000 is smaller than 0.05. Therefore, based on the results of testing Hypothesis 3, it is accepted, or in other words it can be concluded that the Employee Training variable (X1) has a significant positive influence on Innovation (Z).

The Influence of Organizational Culture (X2) on Innovation (Z). The results from the table presented show that the parameter coefficient has a value of 0.299, which indicates a positive influence on SME performance (Y). Apart from that, evaluation of the t-statistic value, which is 14.373, shows that this value is greater than the standard t-table value of 1.96 and the P value of 0.000 is smaller than 0.05. Therefore, based on the results of testing Hypothesis 4, it is accepted, or in other words it can be concluded that the Organizational Culture variable (X2) has a significant positive influence on Innovation (Z).

Influence of Innovation (Z) on SME Performance (Y). The results from the table presented show that the parameter coefficient has a value of 0.453, which indicates a positive influence on SME performance (Y). Apart from that, evaluation of the t-statistic value, which is 3.410, shows that this value is greater than the standard t-table value of 1.96 and the P value of 0.001 is smaller than 0.05. Therefore, based on the results of testing Hypothesis 5, it is accepted, or in other words it can be concluded that the Innovation variable (Z) has a significant positive influence on SME Performance (Y).

The Effect of Employee Training (X1) on SME Performance (Y) through Innovation (Z) as a Mediating Variable. Based on the data in the table provided, Innovation (Z) has a role as a mediating variable between Employee Training (X1) and SME Performance (Y). This can be seen from the parameter coefficient value for the Competency variable which is 0.135, with a t-statistic value of 2.478 and a P value of 0.013. In other words, innovation mediates the effect of employee training on SME performance so that Hypothesis 6 is accepted.

The Influence of Organizational Culture (X2) on SME Performance (Y) through Innovation (Z) as a Mediating Variable. Based on the data in the table provided, Innovation (Z) has a role as a mediating variable between Organizational Culture (X2) and SME Performance (Y). This can be seen from the parameter coefficient value for the Competency variable which is 0.324, with a t-statistic value of 3.454 and a P value of 0.001. In other words, Hypothesis 7 is accepted because innovation is able to mediate the influence of organizational culture on SME performance.

## 4.2 Discussion

The results of hypothesis testing show that employee training does not have a significant impact on SME performance, this is because the training carried out by the majority of SMEs has so far been carried out independently and has not been carried out systematically (Becker, 1964). This training is provided by business owners or experienced employees with the aim of ensuring that business processes can run well so that product quantity demands are met, not designed to increase employee capabilities which has an impact on improving SME performance. Then this training is not oriented towards generating added value for SMEs in the long term such as improving product quality, using technology to expand market access, efficiency of production costs and does not take into account the skills and knowledge needed by employees in facing changes in the business environment.

The results of this study confirm previous research by Jamal et al. (2024), Peter, J & Ibrahim (2024), Goal and Yarso (2023) and Riana, et al. (2020) who also found that employee training did not have a significant impact on improving SME performance. Meanwhile, the results of this study contradict the results of research by Israr, et al. (2021), Igudia (2022) and Bochra Idris et al. (2020) where the results of their research show a significant influence between employee training and SME performance.

Based on the results of hypothesis testing, Organizational Culture has a significant effect on SME performance. Respondents in this research were production SMEs with 59% having a workforce of 6-20 people. With a small workforce, each UKM employee knows each other well so they are able to create family values in their work environment. This conducive organizational climate creates a habit of sharing knowledge both in daily work processes or new things between fellow UKM employees which is able to improve their performance. Apart from that, employees are also free to ask their colleagues for help if they experience difficulties in carrying out their work. This encourages the performance of UKM employees to be optimal, thus having an impact on improving overall UKM performance.

The results of this research strengthen previous research by Nguyen and Tuan (2023), Lažnjak, et al. (2019), Eniola, et al. (2019), Arabeche, et al. (2022) and Ur Rehman et al. (2019) who also found a significant impact of organizational culture on SME performance. However, these results contradict the research of Ganawati et al. (2024), which states that organizational culture does not have a significant effect on SME performance.

UKM employee training carried out by owners, employees or external and private parties provides a comprehensive overview of the business processes within the UKM. Through

training, employees make improvements in their work processes, this is usually related to the process of completing large orders on certain days so that employees think of solutions to complete these orders more quickly. Apart from that, to adapt to customer needs and simplify production, SMEs innovate products both in terms of packaging, variations in taste and different product sizes.

The results of this research are in line with research by Islami and Mulolli (2024), Demirkan, et al. (2022) and Jalil, et al. (2021), which states that employee training has a positive impact on SME innovation capabilities. Meanwhile, these results contradict the research results of Rahmadhani et al. (2024) who found that employee training did not have a significant influence on employees' innovative behavior.

Based on the results of hypothesis testing in this research, organizational culture has a positive and significant effect on SME innovation. In accordance with the characteristics of SMEs in Indonesia where family values between organizational members are well embedded which creates a conducive organizational climate, SME employees have good closeness between fellow employees and between employees and owners. Apart from that, another characteristic of UKM is that UKM employees come from the area around which the UKM is located so they are able to read the potential of that area.

By creating a conducive organizational climate, UKM employees have the freedom to convey their thoughts and ideas based on the business processes running in the UKM. For example, from the product side, employees are able to capture the potential use of raw materials according to the conditions surrounding the UKM to add flavor variants. Apart from that, based on interactions with customers, employees will provide input regarding increasing production for products that are most in demand by customers and provide suggestions for improvements in terms of color, size, product design and flavor variants in accordance with developing customer tastes. From interactions with customers and the characteristics of products produced by SMEs, employees are also able to provide input to owners to expand their market reach to potential customers using methods or media that make it easier for customers to buy products produced by SMEs.

The results of this research confirm previous research by Mileva and Hristova (2022), Shuaib and Zhen he (2021), Lati, et al. (2020), Zhen, et al. (2021) and Sánchez-Báez, et al. (2019) who found that organizational culture has a positive effect on innovation and is able to improve the performance of SMEs. These results are different from research conducted by Agustin (2020) which stated that organizational culture does not have a significant effect on employees' ability to encourage SME innovation.

The results of hypothesis testing show that innovation has a significant impact on improving SME performance. Based on the characteristics of the SMEs sampled in this research, on average they have been running the business for more than 3 years so they have sufficient experience to make certain changes to their business processes to meet market needs and customer tastes. This change process can come from decisions of SME owners or employees based on work processes and customers they face every day.

One of the results of interviews with SME owners stated that they added flavor variations based on agricultural commodities in their area. This idea emerged because up to now it has rarely been processed into ready-made food. Then, based on business experience, SME owners develop product marketing through partnerships with shops/gift centers in various regions to expand their market and maintain their competitiveness among similar products that can be obtained through online purchases at low prices.

The results of this research are in line with the research results of Kamutando and Tregenna (2024), Danh Vinh Le, et al. (2023) and Palomo, et al. (2023) which shows that innovation has a positive effect on SME performance. Meanwhile, these results are in contrast to the research results of Pranowo et al. (2021) and Daswal et al. (2023) who found that innovation did not have a significant impact on SME performance.

The role of Innovation as a perfect mediator of the relationship between employee training and SME performance in research can be described as follows; Based on the results of training provided by the owner or external parties, employees see that there are gaps in the production process that can be optimized to increase the effectiveness of their work in an effort to fulfill customer orders, so employees make changes to their way of working to be able to produce products that suit customer needs. This change in method not only results in faster time and processes in producing products, but also gives rise to new ideas regarding products produced by SMEs. It is these product changes that suit customer tastes that have a significant influence on improving SME performance.

The results of this research are in line with the research of Anifowose, et al. (2022) that employee training and development is able to encourage innovation which has an impact on improving SME performance and research by Fitriati, et al. (2020) which states that individual and collective knowledge in an SME, whether existing or developed, is able to improve SME performance if it is able to produce innovation in terms of product, process or market innovation.

Based on the results of hypothesis testing that has been carried out, this research finds that innovation has a mediating role in the relationship between organizational culture and SME performance. The mediating role of innovation in the relationship between the influence of organizational culture on SME performance is partial mediation where innovation is able to act as a mediator when organizational culture is also able to have a direct influence on SME performance.

The organizational climate created by the family values that are built between fellow UKM employees and the habit of helping each other if they encounter difficulties in carrying out daily work means that the culture formed in UKM is able to encourage optimal performance from each employee and have an impact on improving UKM performance. On the other hand, the culture that is built encourages UKM employees to comfortably and freely provide ideas and input to owners regarding UKM products and business processes in order to meet customer needs.

The results of this research confirm previous research conducted by Chen and Suwandej (2024) which also found that organizational culture is able to encourage innovation which has an impact on improving SME performance. The results of this study also strengthen the opinion of Srisathan et al. (2020) who concluded that innovation is closely related to the long-term sustainability of SME businesses and this is influenced by organizational culture which ultimately has an impact on SME performance.

## 5. Conclusions

Employee training does not have a direct influence on improving the performance of SMEs because so far employee training has been carried out mostly with the sole aim of fulfilling daily work processes and the quantity of SME production. This shows that the training that has been carried out so far has not been designed systematically to meet long-term needs so that it has not had an optimal impact on improving the performance of SMEs (Becker, 1964).

Employee training influences SME innovation because based on the knowledge and skills gained from training and observations carried out during daily work processes, employees have the initiative to make changes to their work processes in order to be able to meet production targets set by SME owners and produce products that suit customer needs and tastes.

The organizational culture that operates within SMEs has a positive impact on improving their performance because the values of togetherness and mutual assistance adhered to by each member of the organization are able to create a conducive work environment which has an impact on employee productivity and SME performance. In addition, organizational culture influences SME innovation because a positive organizational climate encourages employees to provide ideas and ideas so that they are able to produce products that meet customer expectations.

Innovation has a positive impact on improving the performance of SMEs because with the product innovations produced and improving their business processes, SMEs are able to improve their financial performance as well as expand their markets and increase the number of customers.

Innovation is able to mediate the influence of employee training on improving SME performance because the knowledge and skills gained by employees during the training process are applied in daily work processes and employees find ideas and ideas to be able to work better according to SME needs. This change in the way employees work is what drives increased SME performance.

Innovation is able to mediate the influence of organizational culture on SME performance because ideas and ideas that emerge from employees in a conducive work environment are able to produce new product variations that suit customer tastes, thereby having an impact on improving SME performance.

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