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Evaluating Knowledge Management And Business Agility: A Research Of Insights Into Smes Innovation

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Abstract

This study aims to examine the relationship between Organizational Forgetting (OF), Knowledge Management (KM), Business Agility (BA), and Innovation Performance (IP) in SMEs in Batam's food and beverage sector. In Indonesia, SMEs play an important role in economic growth and community welfare, but SMEs players often face challenges in maintaining innovation amid rapidly changing market dynamics. This study uses a quantitative approach by distributing questionnaires to 270 food and beverage SMEs in Batam City. Data analysis was performed using Partial Least Squares-Structural Equation Modeling (PLS-SEM) with SmartPLS 4.0. The results of this study indicate that OF and BA have a significant effect on IP, while KM does not have a significant effect on IP. Furthermore, mediation analysis shows that BA also significantly mediates the relationship between OF and IP, while KM does not play a mediating role. This study emphasizes that the ability of SMEs to release outdated knowledge and adapt quickly to dynamic market changes is more effective than simply relying on the storage of knowledge practices. This study also provides theoretical and practical contributions to SMEs to strengthen competitiveness through the management of organizational forgetting and business agility, as well as to support sustainable innovation, while indicating the need for the development of a more practical role for knowledge management in the context of SMEs in the food and beverage sector.

INTRODUCTION

Small and Medium Enterprises (SMEs) are businesses that have significant potential to contribute to Indonesia's economic growth (Amartha, 2024). Not only in Indonesia, but SMEs are also considered dynamic businesses that play a crucial role in improving the welfare of people in both developed and developing countries (Gamage et al., 2020). SMEs play a vital role in contributing to the country's foreign exchange, a strategic step in overcoming economic and social disparities (Sentoso et al., 2024). The Coordinating Ministry for Economic Affairs said that with their vast numbers, Indonesian SMEs can create jobs and contribute to the national Gross Domestic Product (GDP) of up to 60.51%.

Innovation performance is important for businesses, including SMEs, to survive and grow. One is the food and beverage sector, the most popular type of SMEs. According to the Ministry of Trade, this franchise business is the largest in Indonesia (Wienanto, 2024). In the current digital economy era, businesses face both external and internal challenges in competing to maintain their market share (Cuandra & Candy, 2024). Delivered by Ismed Saputra, Director of the Government

Investment Center, despite facing challenges such as funding, legality, market trends, and rapidly changing consumer preferences, SMEs in this sector have enormous potential for development. Employees are one of the various assets owned by the company, encompassing not only employee productivity but also the quality of the employees' work. Therefore, employee performance deserves great attention in the company framework for its continuity (Sentoso & Muchsinati, 2024).

Batam City is a city of industry and trade, where the growth rate of food and beverage provision has fluctuated from 2019 to 2023. Based on data from BPS Batam City in the Food and Beverage Sector by the end of 2024, the Central Statistics Agency (BPS) of Riau Islands Province recorded 75,575 SMEs in Batam. This sector, which employs 156,997 workers and is primarily comprised of culinary businesses, is a key driver of Batam's economy. SMEs have significantly reduced unemployment, with the city's rate dropping by 3.50%. Despite challenges like declining purchasing power, high raw material prices, and limited financing, SMEs remain resilient. Their rapid adaptation to market changes is central to Batam's economic growth. Endang Suhara, Head of the SMEs Development Division of the Cooperatives and SMEs Office in Riau Islands Province, stated that Batam City is the area with the highest concentration of SMEs, accounting for 51% of the total number of SMEs in Riau Islands. The Batam City Government encourages SMEs through various programs, such as institutional development, human resource development, production, and marketing (Zeni, 2024), to promote business actors and increase their business growth, thereby penetrating the global market.

Loss of knowledge amid intense competition is one of the big challenges for SMEs. Knowledge loss or organizational forgetting is a condition where the organization loses its knowledge, either intentionally or unintentionally (Kavosi et al., 2021). Knowledge is an important resource (Di Vaio et al., 2021), so effective knowledge management is key for SMEs to maintain their business. Business agility helps accelerate innovation of products, services, and business models, thereby contributing to the growth of SMEs (Brand et al., 2021). SMEs can enhance their innovation performance by maintaining the relevance of their knowledge and effectively managing it, as innovation performance is closely tied to the ability to translate knowledge into concrete actions (Bongso et al., 2020).

Therefore, this study aims to analyze the relationship between Organizational Forgetting, Knowledge Management, Business Agility, and Innovation performance in MSMEs in Batam's food and beverage sector. Similar research has been conducted by Budiono & Bongso. (2024), this study aims to expand and deepen the discussion of existing research models, particularly in food and beverage SMEs in Batam City, which still have gaps that require further exploration and development. The results of this study are expected to provide benefits for SMEs, enabling them to strengthen their business competitiveness and face the challenges posed by changing business dynamics.

LITERATURE REVIEW

Theoritical Background

Organizationl Forgetting

Organizational forgetting is the process of forgetting an organization's knowledge, beliefs, and routines (Qian & Oe, 2023). Like learning, organizational forgetting is a natural phenomenon occurring when data and information are no longer important, and we no longer use them for a long time in different situations (Kang et al., 2021). However, the impact of organizational

forgetting depends on its place. It can be harmful when it leads to losing organizational competencies with no purpose (unintentional forgetting). Still, when the organization needs to change, it can be considered the first important step to renewal (Ershadi & Dehdazzi, 2019).

In the scope of business, organizational forgetting is an interesting phenomenon to discuss. Business owners need to be open to new knowledge and let go of old knowledge or information to make it easier to innovate their business (Budiono & Bongso, 2024), Also to be able to adapt to new situations and take advantage of opportunities quickly, they must know the basic aspects that make up the learning process (Toubes et al., 2021). Those who find it difficult to let go of old knowledge, values, or beliefs tend to be rigid in thinking and acting, and this can hinder them in adapting to change (Klammer & Gueldenberg, 2020).

Innovation Performance

Innovation performance is a key to driving and facilitating sustainability in business (Cai et al., 2024), where the process covers various aspects, including social and environmental impacts of operational activities, stimulation of employee creativity, and partnerships with suppliers, customers, and other business partners in designing and developing innovative products and services (Susanty et al., 2019). In short, innovation performance reflects improvements in business operational processes, accuracy in decision-making processes, increased productivity, and related efficiency in spending costs (Zia, 2020). Several studies emphasize the significance of innovation performance in a business as a key factor in achieving a competitive advantage (Song et al., 2019). To achieve superior innovation performance, a business must carry out the innovation process efficiently and innovatively (Velazquez-Cazares et al., 2021). It must also continue to learn and develop leadership that can direct the business toward better innovation performance (Cui et al., 2022).

Knowledge Management

Knowledge management is a field that focuses on how knowledge is created, obtained, disseminated, structured, and utilized in a supportive work environment to improve innovation and organizational performance (Shujahat et al., 2019). This field is a topic that attracts considerable attention because it can enhance an organization's awareness of the value of knowledge for its survival (Migdadi, 2022) and serve as a benchmark for achieving a sustainable competitive advantage (Yin et al., 2020). Many companies rely on knowledge management to maintain their competitiveness and market position (Li et al., 2019). Knowledge management supports learning by collecting, processing, and disseminating knowledge to all members (Delshab et al., 2021).

Business Agility

Business agility is the ability to update strategies continuously, empower employees to make decisions, and quickly adapt to unexpected changes, turning them into business opportunities (Karafakioglu & Afacan Findikli, 2024). This also reflects the ability of businesses to navigate uncertain situations while achieving success by capitalizing on existing opportunities (Irfan et al., 2019), as well as making internal adjustments to be more prepared and responsive to changes in the external environment (Shukor et al., 2020). This agility is crucial in assessing a business's responsiveness to change (Zhen et al., 2021). Businesses that are not rigid will find it easier to thrive in the global environment because they can increase revenue and achieve excellence (Khalaf et al., 2024).

Development of Hypotheses

Organizational Forgetting and Innovation Performance

The relationship between organizational forgetting and innovation performance has been widely studied, and most conclude that organizational forgetting plays an important role in driving

the innovation process (Huang et al., 2018). Organizational forgetting encourages innovation and enables organizations to adapt and respond to environmental changes (Raisal et al., 2019). Research conducted by Wang et al. (2022), revealed a significant influence of organizational forgetting on innovation performance. Bongso et al. (2020) also conducted the same research, which found a significant influence. Therefore, this study assumes that:
H1. Organizational forgetting has a significant effect on innovation performance.

Knowledge Management and Innovation Performance

High knowledge management capabilities in a business can produce learning effects that accelerate competency improvement in dealing with business dynamics, reduce waste, and generate innovative ideas (Al-Tal & Emeagwali, 2019). Knowledge management is crucial in strengthening long-term customer relationships and enhancing their satisfaction, which can indirectly foster innovation (Chi, 2021). The appropriate implementation of knowledge management can strengthen a business's knowledge foundation, support the development of its structure, and foster business innovation (Zahedi & Khanachah, 2021). Several studies have demonstrated a positive relationship between knowledge management and innovation performance (Gürlek & Çemberci, 2020). This finding is also supported by the research of Sofiyabadi et al. (2022), which demonstrates a significant effect. Knowledge management is considered a crucial source for enhancing innovation-related activities and processes. Therefore, this study assumes that:
H2. Knowledge management has a significant effect on innovation performance.

Organizational Forgetting and Knowledge Management

Organizational forgetting encompasses changes in mindsets and beliefs and eliminating outdated and irrelevant knowledge and practices (Qu et al., 2022). In knowledge management practices, organizational forgetting is a crucial aspect for organizations to eliminate obsolete knowledge that can hinder the effectiveness of knowledge management (Ayduğ & Ağaoğlu, 2023). Knowledge management aims to create a process to learn and retain what is important and avoid knowing what is not important (Ershadi & Dehdazzi, 2019). According to Delshab et al. (2021), the process of unlearning, or letting go of knowledge, positively impacts knowledge management. Therefore, it is essential to delete or discard obsolete knowledge to improve knowledge management. Therefore, this study assumes that:
H3. Organizational forgetting has a significant effect on knowledge management.

Business Agility and Innovation Performance

Agility in business is widely recognized in the literature as a form of dynamic capability that is crucial and enables higher performance in a business (ZareRavasan, 2023). Business agility itself is a concept that encourages adaptability and effective response to issues in building a more positive environment for the future (Almazrouei et al., 2024). Clauss et al. (2021) state that business agility reflects a business's ability to continually update its strategies while maintaining efficiency. The study results from Aljawarneh. (2024) demonstrates a significant relationship between business agility and innovation performance. This is because business agility is considered an essential requirement for encouraging the success of innovation in business, according to research by Al-Qaralleh & Atan. (2022) also shows that business agility positively impacts innovation performance. Therefore, business agility is a crucial factor in achieving a competitive advantage. Thus, this study assumes that:
H4. Business Agility has a significant effect on innovation performance.

Organizational Forgetting and Business Agility

Organizational forgetting is important in driving business agility in the SME sector (Budiono & Bongso, 2024). Organizational forgetting refers to the process of eliminating irrelevant knowledge and outdated routines that can often lead to rigidity in business operations

(Zhao & Wang, 2020). Once the old knowledge is abandoned, a business must relearn to acquire new knowledge and establish more effective routines. A study suggests that organizational memory plays a strategic role in supporting performance and responding to changes or challenges in the business environment to achieve business agility (Navarro & Landroguez, 2020). Research conducted found a significant relationship between organizational agility and organizational forgetting. Therefore, this study assumes that:
H5. Organizational forgetting has a significant effect on business Agility.

Mediating Role of Organizational Forgetting and Innovation Performance

Knowledge management and business Agility play a mediating role in organizational forgetting and innovation performance. As a mediating role, knowledge management has no effect on innovation performance (Budiono & Bongso, 2024). However, organizational forgetting indirectly affects innovation performance through business Agility. Bongso et al. (2020) also conducted the same research, which provided results on the direct and indirect effects of organizational forgetting on innovation performance through knowledge management. Knowledge is very valuable for a company or business.
Therefore, this study assumes that:
H6. Organizational forgetting has a significant effect on innovation performance through knowledge management.
H7. Organizational forgetting has a significant effect on innovation performance through busines agility.

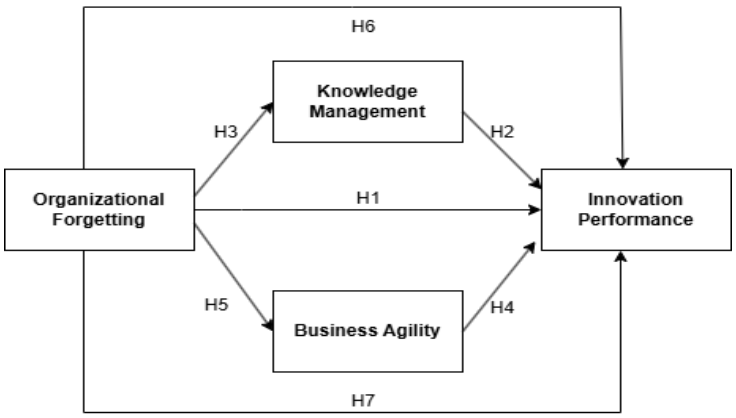

Figure 1. Conceptual Framework

METHODS

This research is quantitative; quantitative methods include experimental and survey research methods, which are characterized as quantitative because the research data are in the form of numbers and are analyzed using statistics (Sugiyono, 2020). The sample is obtained through a series of collection procedures using a method called non-probability sampling, as the sample size and diversity vary, and the sample selected is huge and unknown due to limited information. The target respondents are several SME owners in the food and beverage sector in Batam City. Determining the sample size meets the standard by following the guidelines from Hair et al. (2022), which recommend a sample size multiplied by 10, given that there are 26 questions. Then, the recommended sample size is 260. However, researchers collected 270 responses by distributing the questionnaire to avoid invalid answers.

This research uses four variables: Organizational Forgetting (OF), Knowledge Management (KM), Business Agility (BA), and Innovation Performance (IP). The questionnaire was distributed in the form of respondents identities and answers to questions regarding the

research variables and was made available online via Google Forms from November 2024 to January 2025. Each variable was measured using a 5-point Likert scale: strongly disagree, disagree, neutral, agree, and strongly agree. The data was then processed using SmartPLS 4.0 software and the Partial Least Squares-Structural Equation Modeling (PLS-SEM) method. PLS-SEM is a causal-predictive approach to Structural Equation Modeling (SEM) that emphasizes prediction in estimating statistical models, whose structure is designed to provide causal explanations (Hair et al., 2019).

Table 1. Respondent's demographic charateristics

Characteristics	Types	n	Percentage
Gender	Male	118	**43,7%**
	Female	152	**56,3%**
Age	18-25 years old	49	**18,1%**
	26-35 years old	95	**35,2%**
	36-45 years old	85	**31,5%**
	46-55 years old	24	**8,9%**
	>55 years old	17	**6,3%**
Educational Background	Senior High	59	**21,9%**
	Diploma	54	**20,0%**
	Bachelor	131	**48,5%**
	Postgraduate	26	**9,6%**

Source: Data processing results (2025)

Table 2. The operational variables and survey indicators

Variables	Code	Indicator Items	Sources
Organizational Forgetting	OF1	Our business introduces new ideas rather than relying on previous experience and skills.	**(Budiono & Bongso, 2024)**
	OF2	Our business can adapt to product development by adapting to the development of the surrounding environment.	
	OF3	Our business continuously improves and enhances appropriate decision-making processes.	
	OF4	Our business can change the information-sharing mechanism to improve communication.	
	OF5	We always strive to develop our business by being willing to obtain new and modern technology from various sources.	
Knowledge Management	KM1	The strategies in our business are continuously updated and developed based on our knowledge and capabilities.	**(Sofiyabadi et al., 2022)**
	KM2	In our business, someone is responsible for managing and maintaining	

		knowledge and strategies related to our business.	
	KM3	Our business has a clear plan for developing strategies.	
	KM4	We recognize that managing our knowledge can be a competitive advantage, such as in understanding market trends and consumer preferences..	
	KM5	Our business has its way of utilizing the new knowledge we gain.	
	KM6	Every employee is responsible and committed to maintaining knowledge and information related to the business.	
Business Agility	BA1	Our business can respond quickly to customer needs.	**(Navarro & Landroguez, 2020)**
	BA2	We can adjust production quickly to meet market demand.	
	BA3	Our business can resolve problems with suppliers quickly.	
	BA4	Our business quickly implements decisions to deal with market changes.	
	BA5	We are always looking for ways to update or redesign our business.	
	BA6	We see changes in the market as an opportunity for our business to gain profits quickly.	
Innovation Performance	IP1	Our businesses are often the first to launch new products or services.	**(Al-Tal & Emeagwali, 2019)**
	IP2	The products and services we offer often impress customers with their uniqueness.	
	IP3	Every time we launch a new product or service, we often compet with and face new competitors.	
	IP4	Our businesses deliver products and services that are more innovative than those of our competitors.	
	IP5	We always emphasize the importance of developing specialized products so that patents can protect them.	
	IP6	Our business can meet market demands and can develop new products quickly.	
	IP7	We frequently modify our product designs and quickly enter new emerging markets.	

	IP8	Our business can flexibly meet customers special requests according to their needs.	
	IP9	We are committed to constantly improving the quality of our products, both our existing products and our new products.	

RESULTS AND DISCUSSION

Outer loading is used to measure the validity of indicators in explaining latent variables, and AVE is used to measure the results of convergent validity tests. Both ensure that the latent variable can be adequately measured by its indicators. Meanwhile, cross-loading is a test of discriminant validity. Table 3 shows the results of the SmartPLS test on outer loading and AVE data. Then, in Table 4 are the results of cross-loading. The outer loading requirement is above 0.6, at AVE a value of more than 0.5, and cross loading of more than 0.7 for each variable. Tables 3 and 4 show that all variables are acceptable and meet the convergent requirements and discriminant validity test requirements.

Table 3. Outer Loading and AVE

Variable	Code	Loading	AVE
Organizational forgetting (OF)	OF1	0,889	**0,743**
	OF2	0,786	
	OF3	0,866	
	OF4	0,880	
	OF5	0,885	
Knowledge management (KM)	KM1	0,890	**0,746**
	KM2	0,877	
	KM3	0,851	
	KM4	0,821	
	KM5	0,860	
	KM6	0,882	
Business Agility (BA)	BA1	0,889	
	BA2	0,832	**0,735**
	BA3	0,837	
	BA4	0,854	
	BA5	0,859	
	BA6	0,871	
Innovation performance (IP)	IP1	0,856	
	IP2	0,833	

	IP3	0,850	**0,728**
	IP4	0,862	
	IP5	0,839	
	IP6	0,854	
	IP7	0,856	
	IP8	0,863	
	IP9	0,864	

Table 4. Descriminant Validity (Cross Loading)

Code	BA	IP	KM	OF
BA1	**0,889**	0,845	0,832	**0,829**
BA2	**0,832**	0,836	0,814	**0,809**
BA3	**0,837**	0,821	0,804	**0,786**
BA4	**0,854**	0,831	0,804	**0,798**
BA5	**0,859**	0,845	0,841	**0,834**
BA6	**0,871**	0,829	0,818	**0,810**
IP1	0,808	**0,856**	0,775	**0,805**
IP2	0,822	**0,833**	0,822	**0,811**
IP3	0,830	**0,850**	0,823	**0,806**
IP4	0,845	**0,862**	0,808	**0,810**
IP5	0,832	**0,839**	0,831	**0,825**
IP6	0,831	**0,854**	0,803	**0,791**
IP7	0,822	**0,856**	0,783	**0,789**
IP8	0,836	**0,863**	0,831	**0,822**
IP9	0,847	**0,864**	0,847	**0,848**
KM1	0,842	0,832	**0,890**	**0,851**
KM2	0,844	0,840	**0,877**	**0,865**
KM3	0,811	0,807	**0,851**	**0,811**
KM4	0,778	0,787	**0,821**	**0,802**
KM5	0,836	0,842	**0,860**	**0,846**
KM6	0,838	0,836	**0,882**	**0,844**
OF1	0,818	0,821	0,843	**0,889**
OF2	0,782	0,793	0,802	**0,786**
OF3	0,807	0,813	0,833	**0,866**
OF4	0,837	0,838	0,850	**0,880**
OF5	0,833	0,838	0,846	**0,885**

Source: Data processing results (2025)

Reliability testing is carried out to prove that the instruments used in research can provide consistent and accurate results. The reliability test was carried out in two ways: Cronbach's Alpha and Composite Reliability. This test requires the Cronbach's Alpha and Composite Reliability values to be> 0.6. The table below shows the reliability test result with a Cronbach's alpha and

composite reliability value of> 0.7. The test results can conclude that the variables meet the requirements for value and are reliable.

Table 5. Cronbach's Alpha and Composite Reliability (CR)

Variable	Cronbach's Alpha	Composite Reliability	Description
Organizational forgetting (OF)	0,913	0,914	**Reliable**
Knowledge management (KM)	0,932	0,932	**Reliable**
Business Agility (BA)	0,928	0,928	**Reliable**
Innovation Performance (IP)	0,953	0,953	**Reliable**

Source: Data processing results (2025)

Table 6 shows that the results of hypothesis testing have a T-Statistic value> 1.96 and a P-value <0.05, meaning that it has a significant effect except for the relationship between knowledge management and innovation performance, which has a P-value of 0.393, higher than the substantial level of 0.05.

Table 6. Path Coefficient

Variable	Sample Mean	T-statistics	P-Value	Results
Organizational forgetting -> Innovation performance	0,239	2,340	0,019	**Significant**
Knowledge management -> Innovation performance	0,144	0,854	0,393	**Not Significant**
Organizational forgetting -> Knowledge Management	0,969	172,168	0,000	**Significant**
Business Agility -> Innovation performance	0,609	4,888	0,000	**Significant**
Organizational forgetting -> Business Agility	0,946	48,222	0,000	**Significant**

Source: Data processing results (2025)

Effect of Organizational Forgetting on Innovation Performance

In the first hypothesis, there is a significant relationship between organizational forgetting and innovation performance, with a value of 0.019, which means the value is below 0.05. This finding confirms that OF plays an important role in improving IP. OF is not interpreted as the loss of all knowledge within an organization, but rather as a selective process of discarding information, routines, and old knowledge that is no longer relevant. The results of this research test are supported by research conducted by Bongso et al. (2020) and Wang et al. (2022). This case shows that forgetting or leaving obsolete methods or knowledge can improve innovation performance. When running a business, it continues to remember knowledge or ways that are no

longer relevant, making it difficult for employees and ineffective for innovation. Adopting faster and more relevant expertise or methods will help a business stay competitive and appropriate in the market.

Effect of Knowledge Management on Innovation Performance

The second hypothesis shows an insignificant relationship between knowledge management and innovation performance. This can be seen in the table showing a t-statistic value of 0.854 (<1.96) and a p-value of 0.393 (>0.05). This value indicates that statistically, KM has not been able to provide a meaningful influence on IP improvement. Although it has a sample mean value of 0.144, indicating a positive relationship, the magnitude of this influence is relatively small and not strong enough to be considered significant. The test results align with research conducted by Budiono and Bongso. (2024). Although many respondents have a reasonably high education level, knowledge management is more focused on storing and maintaining knowledge rather than using that knowledge to create innovations. Many businesses are still unable to convert this knowledge into concrete actions in the form of products or services. Limited time, costs, and manpower mean that SME players can only focus on daily operations, such as production and sales. As a result, important aspects such as KM are not a priority for them. In addition, the responsibility for knowledge management is usually only held by one person, so knowledge is not well distributed throughout the business. Thus, knowledge management has not significantly impacted innovation in food and beverage SMEs in Batam.

However, these findings differ from those of a study conducted (Sofiyabadi *et al*., 2022) hich found that KM had a positive and significant effect on IP, as KM is considered an important source for strengthening activities and processes related to innovation, such as idea generation, product development, and work process improvement. These differences are caused by differences in research context, the level of maturity of a business in implementing KM, and the characteristics of the business or organization being studied. In businesses that have implemented KM in a structured manner and integrated it with innovation strategies, KM tends to have a significant positive impact on IP. The differences in these findings indicate that the impact of KM on IP is highly dependent on the quality of its implementation. In food and beverage SMEs in Batam, KM has not yet been utilized as a strategic tool to drive innovation performance, so its impact has not been significant. More systematic, collaborative, and knowledge-oriented KM practices are needed so that KM can contribute significantly to IP improvement.

Effect of Organizational Forgetting on Knowledge Management

There is a significant relationship between organizational forgetting and knowledge management. Judging from the sample mean of 0.969, which indicates a strong relationship, the relationship between organizational forgetting (OF) and innovation performance (IP) shows a significant effect. The research test results align with the research of Ayduğ and Ağaoğlu. (2023), which states that the ability of businesses to abandon outdated knowledge and routines can strengthen the knowledge management process. Similar research was also conducted by Delshab et al. (2021), which stated that adaptive businesses tend to strengthen the relationship between OF and KM, which not only recognizes the importance of forgetting old knowledge but also actively manages the transfer of knowledge from the old to the new. This is because KM helps facilitate learning by capturing content and process knowledge and providing knowledge to all employees. Forgetting obsolete knowledge will open up space to adopt new knowledge. Adaptive businesses tend to strengthen the relationship between organizational forgetting and knowledge management to be more active in managing knowledge transitions. Conduct periodic evaluations to maximize strategic forgetting, then provide relevant knowledge updates. When outdated knowledge is no longer retained, the KM process becomes more focused and targeted, as a business can concentrate on knowledge that is truly strategically valuable.

Effect of Business Agility on Innovation Performance

The fourth hypothesis found a significant relationship between business agility and innovation performance. This can be seen from the sample mean value of 0.609, which indicates a positive relationship, the t-statistics value of 4.888 (>1.96), and the p-value of 0.000 (< 0.05). These results indicate that BA has a strong and significant influence on improving IP. The results of this study are supported by the research of Almazrouei et al. (2024), Al-Qaralleh and Atan. (2022), and Aljawarneh. (2024), all of which concluded that business agility affects innovation performance. BA reflects businesses' ability to respond quickly to the market, adjust strategies, and adopt new opportunities. SMEs with high BA tend to be more capable of experimenting, modifying products or services, and continuously improving operational processes. With a relatively simple organizational structure, agile SMEs can make decisions more quickly to accelerate the innovation process, from identifying opportunities to implementing new ideas. For business actors, especially in SMEs, business agility is the key to encouraging innovation capabilities. In the context of SMEs, business agility offers a competitive advantage in the face of rapidly changing market dynamics. These significant results show that BA not only plays a role as an operational capability, but also as a source of competitive advantage for SMEs, especially those operating in a dynamic and competitive business environment. The ability to adapt quickly and appropriately to changes in the business environment allows SMEs to remain relevant in the market and sustainably improve their IP.

Effect of Organizational Forgetting on Business Agility

Based on Table 6 (path coefficient), the fifth hypothesis shows that organizational forgetting (OF) has a significant effect on business agility (BA). This is evidenced by a sample mean value of 0.946, which indicates a positive and very strong relationship, a t-statistics value of 48.222 (>1.96), and a p-value of 0.000 (< 0.05). These test results indicate that the higher a business's ability to perform OF, the higher its level of business agility. Research by Kavosi et al. (2021) indicates a substantial relationship between organizational forgetting and business agility. A business must discard outdated knowledge and habits that are no longer relevant, hindering business agility. The better the business's ability to leave obsolete knowledge behind, the more effective its ability to adapt flexibly to change.

This finding is in line with research (Budiono & Bongso, 2024) which states that OF is an important factor in encouraging BA in the SME sector. OF is the process of letting go of old knowledge that is no longer relevant in facilitating a business to release their old knowledge and routines that are no longer needed and cause rigidity in the business (Zhao & Wang, 2020). When a business continues to maintain its old knowledge and ways, its ability to respond to changes in the business environment becomes limited. Based on the research data, the high influence of OF on BA shows that the ability to abandon old practices opens up space for learning and business renewal. Once old knowledge is abandoned, SME players will be encouraged to acquire new knowledge, adjust their work patterns, and build more effective and efficient routines.

Table 7 is the result of the indirect effect hypothesis test, which has significant requirements, namely T statistic> 1.96 and P-Value <0.05, which means that it has a significant effect (Hair et al., 2019).

Table 7. Indirect Effect Results

Variable	Sample Mean	T-Statistic	P-Value	Result
Organizational forgetting -> Knowledge management -> Innovation performance	0,139	0,853	0,393	Not Significant

Organizational forgetting -> Business Agility -> Innovation performance	0,574	5,218	0,000	Significant

Source: Data processing results (2025)

The influence of Knowledge Management as mediation on Organizational Forgetting and Innovation Performance

Based on the results of the mediation role test, it is known that knowledge management does not significantly mediate the relationship between organizational forgetting and innovation performance. This is indicated by a T-statistic value of 0.853 and a P-value of 0.393, which is above the significance threshold ($p>0.05$). These results indicate that although KM theoretically plays an important role in managing the knowledge of an organization or business, in the case of food and beverage SMEs in Batam City, this role has not been able to bridge the OF process in increasing IP. This study's test results align with research conducted by Budiono and Bongso. (2024). This happens because the organizational forgetting process is carried out without developing new relevant knowledge or information, thus causing a knowledge vacuum and reducing innovation performance. Although respondents are of productive age and have a relatively high level of education, the application of KM in food and beverage SMEs in Batam City tends to be informal and unstructured. Knowledge is mostly stored in the form of individual experience rather than well-documented business systems or procedures. A relatively high level of education does not necessarily translate into a deep understanding of strategic KM practices. In this situation, the OF process, which involves abandoning old habits or irrelevant work methods, is not balanced with the systematic creation, storage, and distribution of new knowledge. There are also many other factors, such as business agility, that can have a more substantial influence, making knowledge management's role less visible.

The influence of Business Agility as mediation on Organizational Forgetting and Innovation Performance

The seventh hypothesis states that there is a significant relationship between organizational forgetting and innovation performance through business agility. This is evidenced by a T-statistic value of 5.218 and a P-value of 0.000, which is well below the significance threshold ($p < 0.05$). Thus, the seventh hypothesis is declared significant. The test results of this study are in line with research conducted by Budiono and Bongso. (2024). The ability to release old knowledge or information that is no longer relevant and then provide space to update and adapt to new knowledge can increase business agility. A business can more easily adapt to dynamic markets and become more flexible and responsive. Such business agility can lead a business to improve innovation performance. This shows that a business's ability to let go of knowledge, routines, and old practices that are no longer relevant can create space for the business to become more agile.

R square is a statistical test that shows the extent to which the independent variable affects the dependent variable (Hair et al., 2021). Based on the test results shown in the table, it appears that 93.9% of knowledge management can be explained by the variable of organizational forgetting. This indicates that an organization's ability to abandon old knowledge and routines that are no longer relevant greatly determines the effectiveness of new knowledge management. In business agility, 89.55% can be explained by OF, KM, and IP. Business agility in SMEs is greatly influenced by the organization's ability to abandon old practices, manage knowledge effectively, and encourage innovation performance. The combination of these three variables enables SMEs to adapt quickly to changes in the business environment. Then, 95.7% of innovation performance can be explained by the variables OF, KM, and BA. This shows that SME innovation performance is highly dependent on the organization's ability to abandon outdated knowledge, manage knowledge optimally, and have the agility to respond to market changes.

Table 8. R Square Adjusted Test Result

Variable	R2	Percentage
Knowledge Management	0,939	**93,9%**
Business Agility	0,895	**89,5%**
Innovation Performance	0,957	**95,7%**

Source: Data processing results (2025)

CONCLUSION

This study aims to examine the influence of organizational forgetting, knowledge management, and business agility on innovation performance in SMEs in Batam City. SMEs play an important role in improving the country's economic conditions, which can help make people's lives prosperous. It is important for SME owners, especially in the food and beverage sector, to adapt quickly to a dynamic market environment, leave old irrelevant information or knowledge, which can be the cause of rigidity in business, and ensure that the knowledge they have is always maintained and always updated as needed so as not to hinder innovation in business. The results of this study indicate that organizational forgetting and business agility have a significant impact on innovation performance, whereas knowledge management does not exhibit a similar effect. This research provides helpful understanding for SMEs to apply regarding the role of organizational forgetting, knowledge management, and business agility in improving innovation performance.

This study provides insights into highlighting the relationship between organizational forgetting (OF), knowledge management (KM), business agility (BA), and innovation performance (IP) in food and beverage SMEs. However, some limitations can be an opportunity for future research. The limitations of this research are geographically only conducted in food and beverage SMEs in Batam City, the results of which cannot necessarily be generalized to other sectors or regions. There are market dynamics, cultural differences, environment, and regulations that can affect the relationship between OF, KM, BA, and IP. Future research is expected to develop SMEs in other regions or in different sectors to see the consistency of the results. Future research can also include other additional variables in this study to increase a deeper understanding of what factors can affect IP. Through various efforts to overcome these limitations, future researchers are expected to be able to develop the results of this study in order to understand further the factors that affect innovation performance in the food and beverage sector and can contribute more significantly to the development of theory and practice.

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