

**THE EFFECTS OF COMMUNITY ROLE ON INNOVATION AND
BUSINESS PERFORMANCE OF SMALL MEDIUM ENTERPRISE (SME)
IN REGIONAL MALANG : *STRUCTURAL EQUATION MODELLING
ANALYSIS***

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Abstract

The purpose of this study is to determine the effects of community role as local community on innovation and business performance improvement of small medium enterprise (SME). In this study the community role also play as a moderator variable and innovation play as a mediation variable.

The population and sample used in this study are small and medium-sized food and beverage industries in Regional Malang , which is registered as a member of community. The data was collected using online questionnaire and distributed to 201 of registered member of community. In the end, the data were collected in amount of 150 data. The data was analysed using Structural Equation Modelling-Partial Least Square (SEM-PLS).

The results show the community role has significant effect on innovation improvement and also has direct significant effect on business performance improvement. In addition, the innovation of SME has significant effect on business performance improvement as well as innovation here acting as a partial mediating variable of the relationship between the community role on business performance. Furthermore, the community role here is also able to moderate the relationship between innovation and business performance improvement of SME.

Keywords: *Local Comunnity, Community Role, Small Medium Enterprise (SME), Business Performance, Innovation, Structural Equation Modelling, Partial Least Square*