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A NEW METHOD TO EMPOWER ORGANIZATIONAL READINESS FOR CHANGE IN INDONESIAN SMEs*

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Abstract. As per newspapers and national news reports, small and medium-sized enterprises (SMEs) in Indonesia, currently 26,574 in number, are spreading widely. The transformation of SMEs to large, mature business entities is slow. This study investigates the sluggish transformation of SMEs in Indonesia and offers new explanations for the sluggishness, focusing on knowledge empowerment instead of financial aspects. A new development model was constructed with an aim to enhance SMEs. This study serves as research with a paradigm of constructivism, prioritizing knowledge empowerment. Executive officers of SMEs should aim for the construction of conceptual knowledge of social networks and social cognition in a sequential-ordered logic to achieve organizational readiness and readiness for change. They, moreover, internalize these concepts to transform SMEs into large, mature business entities with high levels of competitiveness, leadership engagement, dynamic capabilities, and profound sustainabilities.

Keywords: networking; social networks; social-cognitive; readiness for change; innovativeness; optimism; commitment; efficacy

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1. Introduction

First, this study investigates the sluggish transformation of SMEs in Indonesia, caused by Indonesian regulators' concentration on financial capabilities for SMEs. However, researchers argue that the sluggishness is due to a lack of knowledge empowerment. This study develops a model to explain how SMEs can efficiently transform using conceptual knowledge of social networks, social cognitive, organizational readiness, and change. To support the research model that could be used to deter the sluggishness, this research posits social network (Fatoki, 2011; Jones & Volpe, 2011; Lee et al., 2010; Zhou et al., 2007; Galaso, & Kovářik, 2018; Belz et al., 2019), social cognitive (Bandura, 1986, 1988, 1989, 2008), organizational readiness (Chen et al., 2019; Coleman et al., 2019; Dabholkar, 1996; Islam et al., 2019; Puklavec et al., 2014), and readiness for change (Heckmann et al., 2016; Weiner et al., 2008, 2009; Kuzmin, & Barbakov, 2015). All theories are constructed by this study into a sequentially ordered research model and conclude in organizational readiness for change.

This research offers a fresh perspective in several ways. First, it can explain the construction of the transformation of SMEs to achieve organizational readiness and change. The capability of SMEs to form social networks (Chen et al., 2019; Fatoki, 2011; Jones & Volpe, 2011; Lee et al., 2010; Zhou et al., 2007) and their social cognition (Bandura, 1986, 1988, 1989, 2008; Boudreaux et al., 2019; Majid et al., 2017) supports the development of SMEs in terms of organizational readiness and change. SMEs could achieve growth opportunities by expanding their network and capture social cognitive phenomena. Researchers argue that these SMEs could be sustainable because of their social capital. The social capital of SMEs is rooted in supply chain networks, which can reduce inter-dependencies on an individual supplier. Moreover, SME's social capital has the shape of cumulative knowledge, which is used to counter environmental uncertainties and pressures. In other words, SMEs have self-efficacies that are equivalent to knowledge capital to solve future problems.

Second, this research focuses on the constructivism paradigm, which emphasizes knowledge empowerment for owners and executive officers of SMEs rather than the financial aspect. The enhancement of Indonesian SMEs did not merely need financial capital, but also inducements of social network and social cognitive knowledge that could save them in the future. This study argues that knowledge supremacy is a strategic transformation process to empower SMEs. In the negation statement, this research disagrees with the concept of SME enhancement, which is centered on financial capital. The researchers argue that the tactical method for SME transformation is to use knowledge empowerment as a supreme strategy. We also suggest that knowledge empowerment is closed to technocracy, agreeing with McDonnell & Valbruzzi (2014) and Obar (2016).

Third, this study develops a new model to achieve organizational readiness and change for SMEs to enable them for high growth opportunities, competitiveness, and dynamic capabilities, as suggested by extant research. This research model developed new constructs—social network and social cognitive—to prepare SMEs for organizational readiness and change. Previous studies employed the constructs of business, financial, and innovator characteristics (Chelliah et al., 2010; Durrah et al., 2016; K. Li et al., 2016; Majocchi et al., 2015; Noori et al., 2017; Tongli et al., 2019) to explain the readiness of SMEs. The researchers arranged all constructs in ordered-sequential associations with nomological validity, ascertaining ordered-sequential structures for the new model. These associations were recommended by Kraus & Tan (2015) and Hamid et al. (2015) in relational constructivism.

This study used the assumption that SME owners and executive officers primarily run their business by considering costs and benefits and thus have beliefs, attitudes, and behaviors with high self-control (Timpano & Schmidt, 2013; Willems et al., 2018). The second assumption is that this study ignores the events of state-directed agenda to empower SMEs in all aspects of the Indonesian local government. This research could not take into account regional government agendas due to 34 Indonesian provinces that had governors. Therefore, it is *ceteris paribus* that provincial programs for SME empowerment are excluded from the discussion.

This study makes contributions to regulators of Indonesia's government consciousness to empower and control SME growth and transformation. The consciousness should be grounded in prioritizing knowledge empowerment in addition to financial capitals, which can enhance the abilities and capabilities of SMEs to transform themselves (McDonnell & Valbruzzi, 2014; Obar, 2016). Regulators should enhance cumulative knowledge for SME owners and executive officers, especially in social networks and social cognition, as these constructs could improve organizational readiness and change for SMEs. On the other hand, the Indonesian government should place the highest priority on knowledge dissemination to increase the dynamic capabilities of SMEs in the future (Fatoki, 2011; Jones & Volpe, 2011; Lee et al., 2010). The Indonesian government must disseminate information on social networks and social cognition to SME owners and executive officers to improve their organizational capabilities and provide them with growth opportunities, competitiveness, and robustness from environmental uncertainties.

This study specifies the core skills and competencies that SME owners and officers should be made aware of the needs. Skills and competencies derived from social networks are networking abilities. The acquisition of networking abilities could transform SMEs to enterprising their organization, thus reducing the firm's risk (Fatoki, 2011; Lee et al., 2010). On the other hand, skills and competencies derived from social cognition are forethought, self-reactiveness, self-reflectiveness, and proactiveness (Bandura, 1986, 1988, 1989, 2008). Acquisition traits of competencies derived from social cognition could enable SME owners and officers to be flexible and dynamic when facing future environmental uncertainties. The traits derived from social networks and social cognition could enhance the transformation of SMEs with organizational readiness and change.

From the first and second contributions, this study refers to economic and political consequences (Commerford et al., 2018; Koenig & Eagly, 2014) for which the Indonesian government must formulate policies to enhance organizational readiness and change (Heckmann et al., 2016; Lizar et al., 2015). The first policy should relate to the inter-sharing and communication of knowledge among SMEs in other industrial types and provinces to improve the social network of SMEs (Ali et al., 2019; Chen et al., 2019; Mehreen et al., 2019; Yamin & Kurt, 2018) and their social cognition (Arraya & Porfirio, 2017; Riley et al., 2016), especially in networking abilities around Indonesia. Moreover, this policy could create a potential demand for SME products and services with market shares across all areas of Indonesia. Meanwhile, inter-knowledge sharing and communication could educate and train SME owners and officers on how to internalize social cognition (H. Li et al., 2015; Pacillo, 2016) so that they may improve their foresight.

Section 2 presents the theoretical background, specifically, the motivation behind the intention of SMEs to conduct social networks, social cognitive, organizational readiness, and change. Section 3 presents research designs along with data collection and statistical tests for the reliability and validity of the models. Chapter 4 discusses the statistical results. This section also discusses the logic of statistical results and research findings and their inferences. Part 5 discloses conclusions, limitations, and designs for future research.

2. Theoretical Backgrounds and Hypotheses Development

Social Network Theory and Networking

Social network theory (SNT) explains an individual's or organization's need to construct relationships with those who have resources (Chen et al., 2019; Mehreen et al., 2019; Yamin & Kurt, 2018; Zhou et al., 2007). This connection usually has the motivation to maintain individuals' continuance to live in their environment. Meanwhile, business organizations make numerous connections to reduce dependencies on suppliers and improve future sustainabilities. This study infers that individuals or organizations consider the social network through networking to increase social capital (Leask & Parker, 2006; Liu et al., 2017). With the primary motivation of increasing knowledge, most SMEs conduct networking with knowledge dissemination internally and externally with others.

Organizations are generally keen to increase collaboration, which is used to create their innovation potentially (Leask & Parker, 2006) to gain benefits from connections with other firms. The most significant advantage is innovation (Ali et al., 2019; Chen et al., 2019; Fatoki, 2011; Yamin & Kurt, 2018). Researchers argue that SMEs could increase their relationships with others to make sustainable improvements (Rajala & Westerlund, 2010), alternative resource choices (Leask & Parker, 2006), and a repository of problem-solving techniques (Applegate et al., 2006; Bjelland & Wood, 2008). This study, therefore, infers that SME owners or executive officers have invisible colleges (Crane, 1972) as they conduct networking. The SMEs could thus help such firms solve business problems, run operating activities, and achieve their missions with others.

This study associates SMEs conducting social networks and organizational readiness because SMEs have active networking; they are organizations with abilities, capabilities, and the power to solve business problems, efficiently run operating activities and profoundly achieve missions and goals. These SMEs are highlighted as firms whose dynamic capability is high, business capacities are transformable, and competitiveness level is high. This research, therefore, concluded that SMEs have high organizational readiness and need for change, as they could be transformed (Applegate et al., 2006; Philip & McKeown, 2004; Yamin & Kurt, 2018). Moreover, these SMEs are firms where owners and executive officers have appropriate cumulative knowledge.

Social-Cognitive Theory

The social cognitive theory (SCT) states that individuals study and learn social phenomena to collect knowledge from societies. People tend to seek additional knowledge to justify their abilities and capabilities and use these to improve their lives and maintain sustainability. These individuals thus practice the SCT (Bandura, 1986, 2008; Boudreaux et al., 2019; Oo et al., 2018; Wang et al., 2019). This study likens human behavior with SCT from the perspective of organizations like SMEs that accumulate knowledge as they seek new business opportunities to conglomerate the firm's activities. Consequently, these SMEs maintain their operations and improve their operational, marketing, financial, and administrative powers.

The SCT argues that learning is crucial to acquire skills, methods, and strategies for a better life. Through learning, individuals and organizations identify and strengthen their beliefs (Bandura, 1988, 1989; Boudreaux et al., 2019; Wang et al., 2019). This study proposes that organizations may enhance their self-efficacy due to highly acquisitive pieces of knowledge. Furthermore, these organizations are expected to outdo other firms in terms of business. In other words, SMEs could improve their self-efficacy by learning how other firms conduct their business. In the identification perspective, SMEs learn social phenomena and use opportunities to develop new procedures, methods, and business.

This study proposes that the capabilities of SMEs employ social cognition to develop organizational readiness and enable change. Thus is supported by the argument that SMEs acquire motivation because they have new expectations for future business due to self-efficacy. This study agrees with Bandura (2008) that SMEs acquiring social cognition would have self-reflective, self-regulation, and vicarious capabilities. These SMEs, therefore, could adopt skills and knowledge that develop cognition and affection to change future directions. Researchers argue that the acquisition of social cognition is useful to SMEs as it supports the business transformation process. The conclusion affirms that such SMEs could transform with their capacities of organizational readiness and readiness for change significantly.

Business Characteristics

This study discusses business characteristics from three perspectives—firms, finances, and innovators. It associates these business characteristics with the performance of SMEs, which are measured with organizational readiness and capacity for change Tongli et al. (2019), Durrah et al. (2016), and Noori et al. (2017) suggested that business characteristics play a determinate role in SMEs' financial and non-financial performance. Researchers argue that the type of firm, financial situation, and innovator's knowledge are resources that could be used by SME management to generalize profits in their business. This study proposes that organizational readiness and capacity for change for SMEs are developed by these characteristics, as suggested by extant research concerning business performance.

The first type is the firm characteristic that measures SME profitability, firm-size, market share, social responsibility, and economic value (Chelliah et al., 2010; Noori et al., 2017; Wincent, 2005). The second type is the financial characteristic, including liquidity, solvability, financing method, turnovers of inventory, receivable, and cash, and default probability (Li et al., 2015; Li et al., 2016; Majocchi et al., 2015). The third type is innovator characteristic arising from future potential benefit, strength, opportunity, weakness, threats, skill, expertise, and environmental fit, which are imbibed in SME cognition of its owners and executive officers (Cant et al., 2014; Chittithaworn et al., 2011). Researchers took into account these three types of characteristics that extant studies have handled mainly as indicators of business performance (Durrah et al., 2016; Noori et al., 2017; Tongli et al., 2019).

This study argues critical reasoning of the association between business characteristics and their organizational readiness and adaptability for change. It believes that the bundling of the firm, financial, and innovator knowledge are a combination of tangible and intangible assets used to generate future cash inflows. These characteristics are also used to enable SME management to be more significant and ready for change (Coleman et al., 2019; Puklavec et al., 2014, 2018). SMEs thus benefit from the existence of these characteristics to capture future potential business by acting on their forward-looking capabilities. This study concludes that such SMEs are those that have the organizational readiness and readiness for change because they have anticipated future environmental pressures and uncertainties.

Organizational Readiness

A person's readiness is highlighted by the positive-additional motivation to lead missions, goals, and direction (Coleman et al., 2019; Liljander et al., 2006; Pruitt, 2015; Puklavec et al., 2018). An organization or person uses the motivation to achieve missions, goals, and directions as a resource to solve organizational problems and control all activities aligned with management requirements. Using motivation, researchers propose that SMEs can create behavioral optimism that supports individuals and organizations with dynamical skills and abilities (Liljander et al., 2006; Loyd & Gressard, 1984; Munger & Loyd, 1989; Scheier & Carver, 1987). Studies have also suggested that individuals or organizations that utilize their optimism are also highly creative (Puklavec et al., 2018). It has been found that SMEs with organizational optimism is highly sustainable and can achieve their organizational mission and goals due to this optimistic commitment (Coleman et al., 2019; Puklavec et al., 2018). On the other hand, an organization's creativity has consequences on its innovativeness (Chen et al., 2019; Coleman et al., 2019; Norman, 1999; Pratibha Dabholkar, 1996; Walker et al., 2016). This study thus concludes that SMEs with innovativeness have the organizational skills and readiness to transform into a higher business class.

SMEs that intend to expand their business should thus have the qualities of optimism as well as innovativeness (Chen et al., 2019; Coleman et al., 2019). With these qualities, SMEs are ready to be transformed using the intangible capital of knowledge. An SME's resources in intangible capitals are used by owners or executive officers to shift business at the industrial level or for conglomerate enlargement. Finally, this study evinces that knowledge is a tool for SMEs to prepare for higher organizational readiness and concludes that whether

organizational readiness is achieved or not depends on whether the management of these SMEs considered knowledge as primarily important.

Organizational Readiness for Change

Organizational readiness for change refers to the transformational capacity of an entity for enhanced levels of operation or scalability (Heckmann et al., 2016; Lizar et al., 2015). Researchers argue that SMEs may or may not be transformed. The organizationally cumulative knowledge, as well as owners' and executive officers' capacities, support the contingency of the transformation process. According to Heckmann et al. (2016), Lizar et al. (2015), Weiner (2009), Weiner et al. (2008), the transformation process for a business organization depends on the "change commitment" and "change efficacy." Therefore, we argue that SME owners and executive officers who have cumulative knowledge support the process of "change commitment" and "change efficacy" development. This study proposes that organizational readiness for change depends on whether the SMEs possessed "change commitment" and "change efficacy." In other words, "change commitment" and "change efficacy" function as intangible assets for the SME. This intangible asset, therefore, is used to transform the business of SMEs to become more significant dynamic capabilities.

3. Hypotheses Developments

Researchers argue that the networking abilities of SME owners could improve their organizational performance. Thus, as innovators, SME owners perpetually seek new relationships in supply chains and customers. SME owners and executive officers expand their connections to diminish dependencies on limited resources by practicing social network concepts with learning and communication. Due to an expansion in their connectivities, SMEs can prepare for organizational readiness and can easily transform into higher capacities. Therefore, the following hypotheses H1a and b were formulated.

H1a: Social networks positively influence organizational readiness for SMEs.

H1b: Social networks positively influence organizational readiness for change for SMEs.

Similar to the logical reasoning of hypotheses H1a and b, this research argues that SMEs' abilities to capture and internalize social cognition would make them precautionous, self-reflective, self-reactive, and proactive. If owners or executive officers of SMEs internalize social cognition, they can achieve organizational transformation as desired. This study argues that SMEs have organizational readiness and can change as they spread their beliefs, products, or services to societies. Therefore, research hypotheses H2a and b were developed.

H2a: Social cognitions positively influence organizational readiness for SMEs.

H2b: Social cognitions positively influence organizational readiness for change for SMEs.

Firm characteristics refer to an organization's ability and performance with regard to gaining profits, increasing inventory turnover, servicing customers, and conducting social responsibilities, and are associated with managerial skill and competencies. This study argues that SMEs work like regular firms. Consequently, SMEs operate to achieve optimal performance, which varies among them. The variation of SME performance determines their organizational readiness and readiness for change. This study proposes that the firm characteristics of SMEs influence their readiness to be transformed to an advanced level. Therefore, hypotheses H3a and b were constructed.

H3a: Firm characteristics of SMEs positively influence their organizational readiness.

H3b: Firm characteristics of SMEs positively influence their organizational readiness for change.

Expanding on the development of hypotheses H3, this study argues that the financial characteristics of SMEs are akin to their firm characteristics. SMEs specify financial characteristics in their loan policy, probability of default,

credit policy, and the others. This study takes into account that the financial characteristics of SMEs determine their organizational readiness and readiness for change. It is argued that financial characteristics empower the dynamic capabilities and competitiveness of SMEs to expand their level of business. Therefore, hypotheses H4a and b were developed.

H4a: Financial characteristics of SMEs positively influence organizational readiness.

H4b: Financial characteristics of SMEs positively influence organizational readiness for change.

Innovators and entrepreneurs of SMEs lead businesses with the necessary knowledge to manage missions and goals, the expertise to identify and analyze the relevant and future potential business, and avoid environmental and business uncertainties. This study argues that entrepreneur characteristics profoundly develop organizational competencies of SMEs. These competencies enhance organizational readiness and readiness for change for SMEs. Thus innovators and entrepreneurs protect and guarantee business continuity. Therefore, hypotheses H5a and b were constructed.

H5a: Innovator characteristics of SMEs positively influence organizational readiness.

H5b: Innovator characteristics influence their organizational readiness for change positively.

Researchers argue that SMEs with organizational readiness have optimism and innovative ways to improve their businesses. If SME owners and executive officers embed their capabilities and competencies motivated by change, they can easily achieve organizational readiness for change. These motivations to change particularly stem from commitment and efficacy, and in turn, allow SMEs to transform. In other words, SMEs take into account organizational motivations and spirits, which are used to enhance their dynamic capabilities and competitiveness levels in facing future challenges. However, this study argues that SMEs with high organizational readiness are already changed. In other words, they do not require readiness for change organizationally because they are already in the changing process. Therefore, hypothesis H6 was formulated.

H6: Organizational readiness of SMEs negatively influences organizational readiness for change.

This research bundled all associations of these constructs into ordered-sequential logic reasoning in the Study Model, as seen in Figure 1 and Figure 2. These models explain and predict SME organizational readiness and readiness for change, influenced by their business characteristics and capabilities of SMEs in social networks and social cognition. Figure 1 presents the Research Model - 1. Model -1 is split into two models to precaution the collinearity between social concepts (social networks and cognition) and characteristics (firm, finance, and innovator). It, then, named the split model with Model -1 Split -1. It also presents another perspective, a second-order model, and then investigates robustness associations in Research Model – 2, to account for characteristics that changed into unidimensional ones. In other words, this study role all types of SMEs characteristics as a second-order model because of their business reflection.

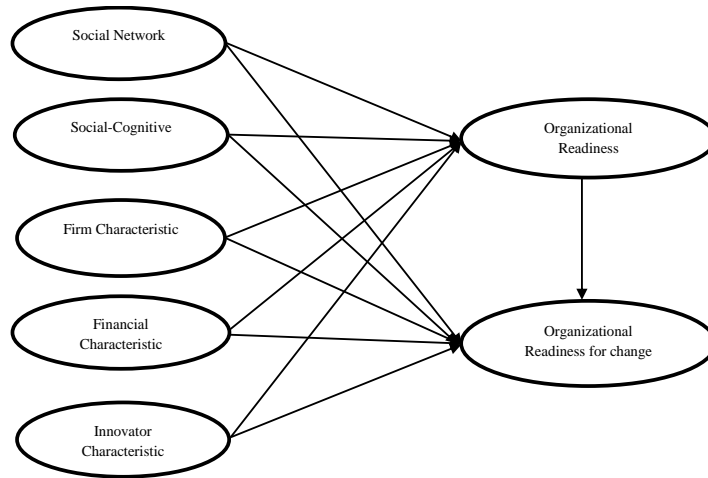


Figure 1: Research Model 1

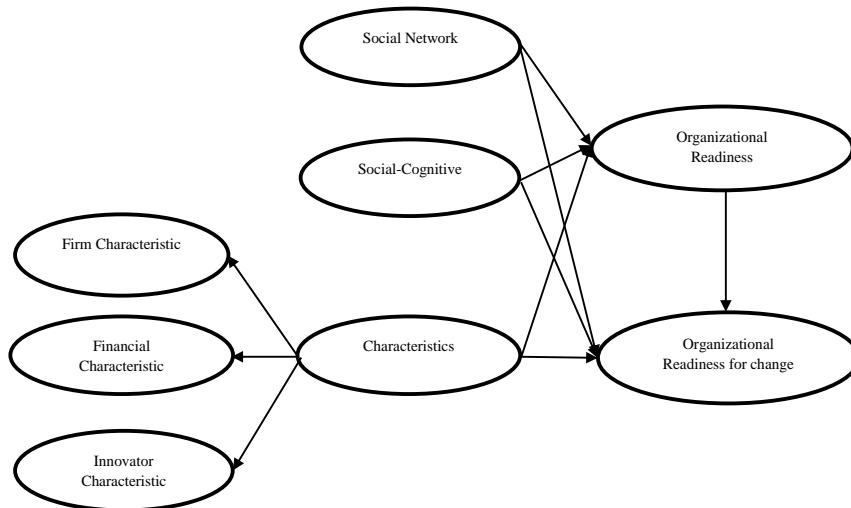


Figure 2: Research Model 2

4. Research Method

Sample and Measurement

Using physical survey methods, data were taken from SME firms across Indonesia from May to October 2019. This method is intended to improve the accuracy of data responses. We believe that this method is used to capture the real phenomena of SME firms in Indonesia. The data collection was based on a purposive sampling technique. Teddlie & Yu (2007) suggested defining the criteria to select data samples that support the missions and goals of the research. Therefore, this study specifies certain criteria as below.

1. This study selected SMEs that gain either operating profits or total comprehensive profits.
2. It also selected SMEs that have account payables or long-term debts that are used for long-term investments. Researchers did not differentiate between sources of debts such as banks, the government, or rural credit.
3. The study chose SMEs with total assets equal to or above IDR 500 million. It considers those SMEs which had related to either commercial banks or credit institutions.

4. Finally, SMEs that are financial institutions—conventional and sharia—were excluded. Researchers argue that these SMEs did not entirely depend on production costs, which were material resources or labor costs.

First, this study adopted variable measurements of social networks and networking from Chen et al. (2019); Fatoki (2011); Horak et al. (2019); Jones & Volpe (2011); Lee et al. (2010); Mehreen et al. (2019); Wasserman & Galaskiewicz (1994); Yamin & Kurt (2018); and Zhou et al. (2007). This variable comprised questions regarding experience, involvement in the profession, relationship with the governmental institution, disclosure of financial reporting, customer relationship, and post-sale services. Second, this study took into account Bandura (1986, 1988, 1989, 2008). This study considered all variables in these extant research of social cognition. The indicator of SME owners' and officers' knowledge was used to justify their capabilities, competencies, and self-efficacy. Third, it posits Chelliah et al. (2010); Durrah et al. (2016); Moreno et al. (2010); Noori et al. (2017); Stanwick & Stanwick (1998); Tongli et al. (2019); and Wincent (2005). This study considered the measurements of the firm's financial profits, return on invested capital, market share, and business size. Fourth, this study refers to Beck & Demircuc-Kunt (2006), who use the financial characteristics of SMEs, including debt-to-equity ratio, interest rate, turnover, and probability to be bankrupt. Fifth, this research examines innovator or entrepreneur characteristics. This variable measures their potential benefits, strength, weaknesses, opportunities, threats, skills and expertise, methods for searching debts, and environmental fit. Sixth, the study considered organizational readiness of SMEs by using variables suggested by Coleman et al. (2019); Pruitt (2015); Puklavec et al. (2018); and Walker et al. (2016), specifically, endowment capitals of optimism and innovativeness. Comfort and security can help SMEs face environmental uncertainties and pressure. Seventh, this study builds on work by Armenakis et al. (1993, 1999); Cunningham et al. (2002); Heckmann et al. (2016); Helfrich et al. (2009); Holt, Armenakis, Feild, et al. (2007); Holt, Armenakis, Harris, et al. (2007); Lizar et al. (2015); Shea et al. (2014); and Weiner (2009) to develop the variable of organizational readiness for change with two leading indicators—the SME's internal beliefs for changing commitments, and efficacy for change. Finally, this study designed all variables with ordinal choices in questioners with answers ranging from Strongly Agree (SA), Agree (A), Neither Agree nor Disagree (N), Disagree (D), to Strongly Disagree (SD).

Statistical Tests

After data were collected, the variables were tested for reliability using Cronbach's alpha, and the model was tested for validity (Cooper & Schindler, 2014; Hair et al., 2014). Thus, this study investigates the regularity of data that was collected using proper measurement instruments. After the initial stage, convergent and discriminant validities were simultaneously examined, and it was found that each indicator instrument could differentiate within-construct and cross-construct. In other words, it could achieve convergent and discriminant validities that could be manipulated by deleting indicators that were not optimally reliable or valid. This study, therefore, infers that all variables are eligible to be used to accomplish the research objectives due to the absence of data bias. Regardless of whether the examination results of reliability and validity tests fulfill standard values, this research continues to investigate nomological validity (Kline, 2015; Teddlie & Yu, 2007). The model's goodness-of-fit was examined using Chi-Square- X^2 , CMIN/DF or Relative X^2 , Comparative Fit Index (CFI), Tucker Lewis Index (TLI), and Root Mean Square Error of Approximation (RMSEA). This study took into account normative standards used to determine the goodness-of-fit level, as suggested by Hancock & Mueller (2013); Kaplan (2008); Kline (2015); and Teddlie & Yu (2007).

5. Statistical Result and Discussion

Demography and Descriptive Statistics

This study was conducted on 711 respondents, of whom seven were eliminated due to incomplete data fulfillment. The final sample of 704 represented all regencies in the Indonesia area and was collected using a direct-physical survey by visiting each respondent. The authors explain that the selected provinces are randomly due to easiness

in transportation. Table 1 reports the data arrays. The authors acknowledged that Indonesia is spread over 34 provinces and comprises almost 64 big cities, of which 18 cities (regencies) common to SMEs were chosen. It was noted that Pontianak city supported this research data as 52 SMEs or 7.39%. Table 1 shows others at 204 (28.98%). The data on others' are from many cities that contribute no more than ten SMEs.

Table 1 Research Data and Demography

Categories	Explanations	Numbers	Percentage
Regions (Provinces)	Banjarnegara	45	6.39%
	Magelang	26	3.69%
	Karanganyar	11	1.56%
	Klaten	16	2.27%
	Kebumen	22	3.13%
	Kudus	43	6.11%
	Purworejo	19	2.70%
	Sukoharjo	38	5.40%
	Surakarta	23	3.27%
	Temanggung	21	2.98%
	Wonosobo	22	3.13%
	Madura – Bangkalan	48	6.82%
	West Kalimantan – Pontianak	52	7.39%
	North Sulawesi – Manado	19	2.70%
	North Sumatera – Medan	25	3.55%
	Yogyakarta – Bantul	13	1.85%
	Yogyakarta – Yogyakarta	31	4.40%
	Yogyakarta – Sleman	26	3.69%
	Others	204	28.98%
	Ages of Business	1–3 years	98
4–6 years		137	19.46%
7–9 years		78	11.08%
More than ten years		300	42.61%
Others		91	12.93%
Business Legal-Form	Co-Operation	12	1.70%
	Limited Company	49	6.96%
	Limited Partnership	105	14.91%
	Personal Firm	3	0.43%
	Others	535	75.99%
Positions of Respondent	Owners (Innovators)	518	73.58%
	Top Executive officers	112	15.91%
	Others	74	10.51%

This research took into account 300 SMEs (42.61%) than had existed for at least ten years, indicating that they had long struggled to sustain and maintain their businesses. This data was considered attractive because some SMEs did not shape their business as per Indonesian law. In all, 535 (75.99%) SMEs did not manage their business as per legal regulations. This study documented 518 (73.58%) SME owners who were interested in this research. SME owners profoundly respected all kinds of studies due to their appreciation of science and knowledge. From another perspective, the higher proportion of SME owners responding to questionnaires indicated that they still managed their business and were completely responsible for improving themselves.

Data collection was followed by data analysis. Table 2 reports the descriptive statistics for 704 respondents with all variables that had mean values not dominated by differences. The median values were approximately 4.00. Moreover, standard deviations of these variables were relatively similar, with 0.437 as the lowest value in the innovator characteristics and 0.593 as the highest in social networks. This study, therefore, inferred that mean, median, and standard deviations among those variables are likely identical, except for the variable of financial characteristics.

Table 2 Data Descriptives

Variables	Min.	Max.	Mean	Median	Std. Dev.
Social Networks	1.00	5.00	3.987	4.00	0.593
Social Cognitive	1.00	5.00	3.721	3.80	0.587
Firm Characteristics	1.00	5.00	3.639	3.67	0.583
Financial Characteristics	1.00	5.00	3.403	3.33	0.564
Innovator Characteristics	1.00	5.00	3.927	4.00	0.473
Organizational Readiness	1.00	5.00	3.784	3.86	0.522
Organizational Readiness for Change	1.00	5.00	3.942	4.00	0.517

Note: n: 704 respondents

Validity and Reliability Test Results

This study examined the collected data to measure its validity and reliability. The statistical analysis showed that KMO values for all variables exceeded 0.500 and were close to 1.000. Thus statistical results found that each variable has a distinct value, and each variable loaded each item question proposed by the research. The lowest KMO value, at 0.733, is the variable of social networks. However, this KMO value fulfilled that standard (Cooper & Schindler, 2014; Hair et al., 2014). Thus, this research data fulfilled the convergent and discriminant validities. This study also measures sampling adequacy with the column of MSA values. Table 3 indicates that MSA values for all variables resulted in more than 0.500. This research concluded that all variables had set their values without errors, which were influenced by others (Cooper & Schindler, 2014; Hair et al., 2014). Thus, this study met the convergent and discriminant validities.

Table 3 Results of Validity and Reliability Tests

Variables	Items	Corrected Item - Correlation	KMO	MSA	Factor Loading	Cronbach's Alpha
Social Networks (SN)	SN2	0.770	0.733	0.772	0.767	0.749
	SN4	0.825		0.688	0.828	
	SN5	0.813		0.716	0.817	
	SN7	0.589		0.826	0.584	
Social Cognitive (SC)	SC1	0.756	0.911	0.922	0.767	0.896
	SC2	0.772		0.878	0.771	
	SC3	0.812		0.910	0.834	
	SC4	0.726		0.913	0.747	
	SC5	0.764		0.930	0.784	
	SC6	0.690		0.926	0.667	
	SC8	0.461		0.920	0.390	
	SC9	0.793		0.924	0.805	
	SC10	0.705		0.877	0.707	
	SC11	0.771		0.914	0.765	
Organizational Readiness (OR)	OR1	0.755	0.858	0.889	0.762	0.874
	OR2	0.766		0.861	0.771	
	OR3	0.728		0.882	0.730	
	OR4	0.777		0.891	0.778	
	OR5	0.764		0.857	0.766	
	OR6	0.777		0.807	0.775	
	OR7	0.719		0.827	0.704	
Organizational Readiness for Change (ORC)	ORC2	0.671	0.920	0.942	0.659	0.926
	ORC6	0.700		0.951	0.694	
	ORC8	0.749		0.946	0.756	
	ORC9	0.750		0.941	0.755	

Variables	Items	Corrected Item - Correlation	KMO	MSA	Factor Loading	Cronbach's Alpha
	ORC10	0.779		0.904	0.780	
	ORC11	0.815		0.867	0.817	
	ORC12	0.803		0.926	0.805	
	ORC14	0.724		0.964	0.725	
	ORC15	0.763		0.886	0.765	
	ORC16	0.707		0.899	0.709	
	ORC20	0.700		0.917	0.693	
	ORC21	0.755		0.929	0.758	
Firm Characteristics (FCh.)	FCh.1	0.776	0.841	0.832	0.784	0.844
	FCh.2	0.773		0.838	0.781	
	FCh.3	0.754		0.826	0.764	
	FCh.4	0.784		0.813	0.792	
	FCh.5	0.658		0.881	0.635	
	FCh.6	0.754		0.882	0.742	
Innovator Characteristics (ICh.)	ICh.1	0.683	0.835	0.851	0.686	0.817
	ICh.2	0.552		0.843	0.528	
	ICh.3	0.712		0.895	0.715	
	ICh.4	0.716		0.893	0.723	
	ICh.5	0.746		0.764	0.757	
	ICh.6	0.763		0.773	0.774	
	ICh.7	0.651		0.902	0.636	
Financial Characteristics (FnCh.)	FnCh.1	0.680	0.800	0.851	0.681	0.816
	FnCh.2	0.782		0.758	0.783	
	FnCh.3	0.783		0.780	0.790	
	FnCh.4	0.735		0.783	0.748	
	FnCh.5	0.724		0.817	0.735	
	FnCh.6	0.628		0.872	0.592	

Note: Kaiser Mayer Olkin (KMO); Measure of Sampling Adequacy (MSA)

This data achieved standard reliability because all values of Cronbach Alpha were more than 0.600 (Cooper & Schindler, 2014; Hair et al., 2014). The lowest value of the reliability test was 0.749, which is the variable of social networks. It meant that the collected data were equivalent to what this study proposed to measure all variables. It also meant that this research got high data reliability. Further analysis was conducted after the fulfillment of validity and reliability.

Statistical Results

Table 4 shows statistical results for all causality tests of the hypotheses. All hypotheses were supported at a 1.00% significance level, except for hypotheses H3a and H3b in Research Model -1. Hypotheses H4a in Research Model -1 is not supported, but it is supported in the Research Model -1; Split -2. Hypothesis H1a proposed that social networks positively affect organizational readiness. Statistical results supported this hypothesis with the coefficient value of 0.713 and the CR-value of 10.068. Hypothesis H1b suggested that social networks positively affect organizational readiness for change. It is positively supported by the coefficient value of 1.509 and the CR-value of 9.158. Both hypotheses are statistically significant at the level of 1.00%. Hypothesis H2a is positively supported by the coefficient and the CR-value, which is 0.394 (12.413). Hypothesis H2b is also positively supported by the coefficient and the CR-value, which is 0.388 (5.994). This study concluded that social networks positively associated with either organizational readiness or efficacy for change.

Table 4 Statistical Results

Hypotheses	Causality	Model -1		Model -1; Split -1		Model -1; Split -2	
		Coeff.	CR	Coeff.	CR	Coeff.	CR
H1a	(+) SN → OR	0.713	10.068***	0.766	10.602***		
H1b	(+) SN → ORC	1.509	9.158***	1.597	9.278***		
H2a	(+) SC → OR	0.394	12.413***	0.425	12.972***		
H2b	(+) SC → ORC	0.388	5.994***	0.439	6.234***		
H3a	(+) FCh. → OR	-0.023	-0.964			-0.206	-7.620
H3b	(+) FCh. → ORC	-0.007	-0.227			-0.581	-4.903
H4a	(+) FiCh. → OR	0.046	1.464			0.044	1.351***
H4b	(+) FiCh. → ORC	0.018	0.443***			0.100	1.092***
H5a	(+) ICh. → OR	0.189	4.629***			1.570	12.209***
H5b	(+) ICh. → ORC	0.384	6.049***			4.840	6.112***
H6	(-) OR → ORC	-0.742	-5.376***	-0.733	-5.237***	-2.256	-4.954***

Note: Social Networks (SN); Social Cognitive (SC); Firm Characteristics (FCh.); Financial Characteristics (FiCh.); Innovator Characteristics (ICh.); Organizational Readiness (OR); Organizational Readiness for Change (ORC). ***, **, *: statistically significant at levels of 1%, 5%, and 10%, respectively.

This study failed to support hypotheses H3a, H3b, and H4a. It inferred those firm characteristics did not influence either organizational readiness or change. It also failed to support the hypothesis H4a in Research Model -1 but succeeded that H4a in Research Model -1; Split -2. Thus, SMEs' financial characteristics somehow influence organizational readiness for change. It, therefore, inferred that financial characteristics affected the SMEs' readiness for change even if they were not needed. The remaining hypotheses are supported as expected and statistically significant at the level of 1.00%. This study highlighted hypothesis H6 that stated the negatively associated SME's organizational readiness and change with the coefficient value of -0.742, -0.713, and -2.256, respectively, and significant at the level of 1.00%. It raised an argument as to whether these SMEs had been effective in their organizational readiness; they did not intend to change their behavior due to creativity and innovativeness. In other words, these SMEs had done their learning to internalize both optimism and innovativeness when they want to enlarge their business (Chen et al., 2019; Coleman et al., 2019). Due to internalization, they had low motivation to adjust their readiness for change.

Table 5 Goodness-of-Fit Results

Criteria	Cut-off Standards	Model -1	Model -1; Split -1	Model -1; Split -2	Model -2
Chi-square	-	5443.257	3285.500	3032.866	3921.947
Probability	≥0.05	0.000	0.000	0.000	0.000
CMIN/DF	≤5.00	4.306	5.588	6.177	5.951
RMSEA	≤0.08	0.069	0.081	0.086	0.084
TLI	≥0.90	0.780	0.792	0.794	0.740
CFI	≥0.90	0.779	0.806	0.809	0.756
AIC	-	5671.257	3441.500	3172.866	4085.947

Statistical results for models' nomological validities are presented in Table 5. This study met all criteria that are almost close to a high goodness-of-fit. Statistical results showed that CMIN/DF for Research Model -1, which are split, are 4.306, 5.588, and 6.177, respectively, almost meeting the standard value. This table also showed for the transformed model in Research Model -2, which has a value of 5.951. It posits Revelle (2018) that the goodness-of-fit would be marvelous, meritorious, middling, mediocre, and miserable. The research models are in the meritorious level of goodness-of-fit. The values of RMSEA, CFI, and TLI were similar to standard values. Overall, the goodness-of-fit of all research model almost fulfilled the standard values at a meritorious level.

Therefore, it was concluded that this study achieved its nomological validity; statistical results were further interpreted.

Robustness Test Results: Re-Modelling on A Second-Order Factor

Failing to support hypotheses H3a and H3b, this study transformed Research Model -1 to Model -2. This transformation also intended to check the robustness results of the other hypotheses. When firm, financial, and innovator characteristics were employed as second-order factors, this study succeeded in supporting the association between characteristics and both organizational readiness and readiness for change. Statistical results showed that this association has coefficient values of 0.290 and 0.656, with the CR values of 6.486 and 5.334. Thus, characteristics, as a union of the SMEs' firm, finance, and innovator, affected organizational readiness and readiness for change. Some parts of SME characteristics somehow have collinearity with either social networks or social cognition. Nevertheless, variables of the firm, financial, or innovator characteristics have the possibility of collinearity with each other.

Table 6 Statistical Results of the Research Model -2

Hypotheses	Causality	Model -2	
		Coeff.	CR
H1a	(+) SN → OR	0.200	6.585***
H1b	(+) SN → ORC	0.577	7.056***
H2a	(+) SC → OR	0.395	12.200***
H2b	(+) SC → ORC	0.582	4.894***
H1,2,3(a)	(+) Chr. → OR	0.290	6.486***
H1,2,3(b)	(+) Chr. → ORC	0.656	5.334***
Refl.0	FCh. ← Chr.	1.000	
Refl.1	FiCh. ← Chr.	1.047	5.116***
Refl.2	ICh. ← Chr.	1.647	6.303***
H6	(-) OR → ORC	-1.187	-4.302***

Note: Social Networks (SN); Social Cognitive (SC); Firm Characteristics (FCh.); Financial Characteristics (FiCh.); Innovator Characteristics (ICh.); Characteristics (Chr.); Organizational Readiness (OR); Organizational Readiness for Change (ORC). ***, **, *: statistically significant at the levels of 1%, 5%, and 10% consecutively.

The remaining associations are robust in the statistical results of the Research Model -2. This study also found that the association between organizational readiness and readiness for change for SMEs is consistent with previous findings in Research Model -1. Therefore, it was concluded that the SMEs' social networks and social cognition influenced either organizational readiness or readiness for change. The transformed model offered a more detailed explanation than the previous one. In other words, the model with the second-order factor could guide executive officers and owners of SMEs in enhancing and predicting organizational readiness and readiness for change.

6. Analysis and Discussion

First, this study found that most Indonesian SMEs were considerate of recommendations of social networks. Indonesian SMEs practiced networking and used it to enterprise their firm on both sides of the supply chain and customer relationship. By enterprising relationships, SMEs expanded their connectivity to reduce business risks as they could undoubtedly finance production or render services to customers. By these means, SMEs developed their organizational readiness. From another perspective, this study concluded that Indonesian SMEs conducted learning to support their enterprising processes. They enhanced intangible assets by capitalizing on their networking (Leask & Parker, 2006; Liu et al., 2017). Thus, this study evinced that most Indonesian SMEs remained sustainable through social networks and by networking (Chen et al., 2019; Mehreen et al., 2019; Yamin

& Kurt, 2018; Zhou et al., 2007). Thus, most Indonesian SMEs intensively pursued organizational readiness. Indonesian large enterprises, otherwise, have high organizational readiness and readiness for change due to their capital intensive and multinational corporation. However, all these SMEs contributed to Indonesia's GDP, which is approximately 57.8%.

Considering social networks and networking, most Indonesian SMEs are already at a state of organizational readiness as they possessed commitment and efficacy from their experiences facing competition and had achieved sustainability. Indonesian SMEs had thus actualized business with intangible capitals in the form of self-organizational commitment and self-organizational efficacy (Heckmann et al., 2016; Lizar et al., 2015). Therefore, Indonesian SMEs were committed to enhancing learning, networking, and enterprising in maintaining their ongoing concerns. By improving their learning and networking, Indonesian SMEs acquired efficacies that helped them withstand economic and environmental pressures. Because of withstanding pressures, most Indonesian SMEs possessed organizational readiness for change. Thus, they had intangible resources in the form of knowledge capital, which could be used as a strategic endowment to transform themselves into a higher business class.

In terms of social cognition, most Indonesian SMEs learned through social phenomena and improved knowledge through the learning process of capturing business opportunities. This study found the following shreds of logical evidence that most Indonesian SMEs conducted the act of learning (Bandura, 1988, 1989; Boudreaux et al., 2019; Wang et al., 2019). Most Indonesian SMEs produce their products and services in regional areas and sell them across Indonesia, capturing future potential business by considering areas. They also include the magnitude of demanded products or services, which are not over-production as well as shortage-productions, indicating that they measured their capacities in fulfilling customer demands. They controlled what was needed in terms of production inputs and utilized these inputs efficiently. This study concluded that most Indonesian SMEs managed their business organizationally due to the inducement of social phenomena (Bandura, 1988, 1989; Boudreaux et al., 2019; Wang et al., 2019). If they did not take into account the existing social phenomena, they failed to maintain their sustainabilities and ongoing concerns.

As a consequence of inducing social phenomena, most Indonesian SMEs constructed their organizational readiness and then readiness for change (Chen et al., 2019; Coleman et al., 2019; Norman, 1999; Pratibha Dabholkar, 1996; Walker et al., 2016). This study concluded that most Indonesia SMEs had developed and enhanced their capabilities, especially in self-regulation, self-reflectiveness, and vicariousness (Bandura, 2008). Thus, most Indonesian SMEs had taken into account the fact that social phenomena and problems had been induced by them organizationally. Continuously, Indonesian SMEs reflected their social learning to regulate themselves organizationally. They learned social phenomena to brainstorm new ideas, develop a new product, internalize knowledge, and achieve their mission and agendas. On the other hand, Indonesian SMEs largely practice what they have learned among other SMEs. This study, therefore, concluded that most Indonesian SMEs placed knowledge and learning as managerial preferences along with debts and capitals.

In another perspective of SME characteristics, this study highlighted that these characteristics somehow determined their organizational readiness and readiness for change. The characteristics of SMEs were defined using three dimensions of firm, finance, and innovator, which were combined into a unidimensional. The characteristics of SMEs did not precisely influence their readiness organizationally. This study argued that the business characteristics of SMEs were reflected in their social networks and social cognition (Coleman et al., 2019; Puklavec et al., 2014). It was highlighted that most forward-looking Indonesian SMEs possessed organizational readiness and that capturing both social networks and cognition is the spirit that motivates SMEs to reduce business risks. In other words, those SMEs acquired knowledge with their learning and enterprising that is useful to maintain sustainability (Durrah et al., 2016; Noori et al., 2017; Tongli et al., 2019). This study found that most Indonesian SMEs are not always motivated to reduce their business risks (C. Cant et al., 2014; Chittithaworn

et al., 2011) because they want to avoid environmental uncertainty and competitive pressures. This study took into account what SMEs lookout for as foresight.

Regardless of the different business characteristics and knowledge acquisition of Indonesian SMEs, it is inferred that most SMEs like to improve their social networks and cognitions. Thus, they searched and internalized social phenomena and problems chiefly (Coleman et al., 2019; Puklavec et al., 2018) without neglecting their needs of debts and capitals. In other words, this study inferred that most Indonesian SMEs primarily focused on innovativeness due to adaptability enhancements. With considering adaptative capabilities, most Indonesian SMEs could manage to maintain or slightly expand the business. This research, finally, inferred that most Indonesian SMEs had been developing and dynamically seizing then organizations dynamically. Most Indonesian SMEs had conducted organizational learning in their either managers, owners, or innovators.

7. Research Finding

This study found that the empowerment of Indonesian SMEs should be primarily focused on knowledge acquisitions without neglecting the needs of debts and equity capital for these SMEs. In this case, knowledge is related to all traits of social networks and social cognition. This study implied that knowledge acquisition would be useful for Indonesia SMEs to enhance their organizational readiness and readiness for change (Chen et al., 2019; Coleman et al., 2019). From another perspective, social networks and cognition recommend that learning is the supremacy for either individual or organizational capabilities. The capabilities of SMEs, which are improved by learning, are innovativeness stemming from social networks and searching opportunities as pieces of advice of social cognition.

The position of knowledge acquisition in the highest priority and has implications for regulators to facilitate most Indonesian SMEs when they want to accentuate business. These types of knowledge can guide SMEs to achieve their readiness and help them change organizationally. This study was restricted to two grand knowledge, which are a social network and social cognitive theories. Meanwhile, it invited knowledge that could enhance and broaden SMEs' organization in enlarging or conglomerating their business. This study concluded that Indonesian regulators must facilitate SMEs in relating to all dimensional traits of social networks and social cognition.

The Indonesian regulator, based on a social network, should provide the learning curriculum for all SMEs. In the curriculum, Indonesian SMEs could learn from each other (Mehreen et al., 2019; Yamin & Kurt, 2018; Zhou et al., 2007) when another SME had achieved its engineering, emergence, and transformation. The Indonesian regulator would better facilitate and serve these learning mechanisms. First, the Indonesian regulator should provide tools, media, and procedures for all SMEs to perform knowledge dissemination, communication, innovation, training, and management activity nationally. Second, with the first facilitation, the Indonesian regulator could capture SMEs' organizational cognition and social relationship and facilitate all SMEs, which are explained as an epistemic community or invisible college.

Meanwhile, based on SCT, the Indonesian regulator had to prepare a learning curriculum for all SMEs. First, the curriculum should facilitate all SMEs to improve their behaviors and make necessary adjustments. Each SME could learn how others had conducted business and achieved their goals. Most Indonesian SMEs, therefore, could gain insights into how they had to build and broaden their business organizationally (Bandura, 1988, 1989; Boudreaux et al., 2019; Wang et al., 2019). Second, the curriculum should allow all Indonesian SMEs to develop as an agency with self-regulating, self-reflective, self-proactive, and vicarious abilities. Thus, each SME could improve their organizational cognition, which is useful to resolve business problems.

If Indonesian regulators made an epistemic community that was accompanied by a learning curriculum, they could increase local and national capabilities simultaneously. In other words, most Indonesian SMEs already

possessed organizational readiness (Chen et al., 2019; Coleman et al., 2019; Norman, 1999; Pratibha Dabholkar, 1996; Walker et al., 2016) and readiness for change (Heckmann et al., 2016; Lizar et al., 2015). However, most Indonesia SMEs had some endowment knowledge, which helped improve the management of their business with high commitment and efficiency. It implied to the Indonesian government that economic transformation for SMEs is strategically defined as empowerment with knowledge supremacy. Therefore, an Indonesian regulator could play a strategic role in determining how SMEs solve problems, run their organizations, and accomplish their missions and goals successfully.

8. Conclusions, Limitations, and Future Research

This research investigated the sluggish transformation of SMEs in Indonesia. It succeeded in identifying and finding the cause of this sluggishness. It was argued that the transformation of SMEs needs empowerment of knowledge acquisition for executive officers and innovators. Most institutions in Indonesia focus on the financial perspective, which is not recommended. This research constructed a new model for SME transformation, which highlights the supremacy of knowledge empowerment. The authors put forward social networks, social cognition, and SMEs' readiness as well as readiness for change. These concepts are employed to highlight that most Indonesian SMEs need intangible capital, especially for organizational cognition.

This study evinced nomological validities in the Research Model -1. This model concluded that social networks, social cognition, firm, financial, and innovator characteristics could explain SMEs' readiness and readiness for change. This study found that the Research Model -1 is low goodness-of-fit. It, therefore, transformed into a new model—Research Model -2. The Model -2 constructed firm, finance, and innovator as second-order factors of unidimensional characteristics. This latest model showed that social networks, social cognition, and characteristics determined SMEs' readiness as well as readiness for change. This study concluded that the second model resulted in robustness. Therefore, it was concluded that the constructivism of SME organizational readiness had its validity.

From both sides of the research design and statistical conclusions, this study implied the needs of a new conceptual regulation from Indonesian regulators. The new theoretical regulation is a policy that could empower social networks and social cognition for all SMEs in Indonesia. This regulation did not only enhance social-intangible capitals but also developed SME readiness and readiness for change. In short, this new conceptual regulation controlled the empowerment of knowledge supremacy for all Indonesian SMEs, which could transform into large, mature business entities. Thus, the empowerment of SMEs through knowledge supremacy is a national-strategic role that could provide these Indonesian SMEs to run their business with high competitiveness levels and support the mission and goals of Indonesia's economic development.

The authors acknowledge that this study had high external and low internal validities. This research opens opportunities for further investigations. The first potential research is the use of experimental designs when executive officers and owners of SMEs are treated with problematic or beneficial cases accompanying either social networks or cognition. Another aspect that future potential research could explore is experimental designs for executive officers and owners of SMEs who in shock or facing a chaotic event. This treatment is used to measure differential behaviors due to a shock directed at reducing or increasing readiness levels. New research could be developed with qualitative research, focusing on what aspects of the SME's organizational cognition drive their commitment to change into a big, mature business. In other words, this new research investigated organizational cognition for executive officers and innovators at SMEs who have a strong motivation to transform their business or not.

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