

## **ABSTRACT**

*This study aims to examine the effect of knowledge management, innovation product, and competitive advantage, on business performance. The problem of this research is how knowledge management and product innovation can influence competitive advantage in improving business performance.*

*In this study, a model improvement was carried out by using outlier and composite indicator evaluations, so that the results of the study found that could interpret the conditions of the small medium enterprises of Ikat Troso Jepara Weaving. The sample of this study was the owner and manager of the tie weaving business in Troso, Jepara with 120 respondents, from 436 populations. This study uses a Structural Equation Model (SEM) which is run with AMOS 20.0 software to analyze data. The sampling technique used in this study was purposive sampling. The results of processing SEM data for the full model have met the goodness of fit as follows, Chi-square value = 21,024; df: 13; probability = 0.072; CMIN/DF = 1,617; GFI = 0.956; AGFI = 0.905; TLI = 0.962; CFI = 0.976; RMSEA = 0.072. Thus it can be said that this model is feasible to use.*

*The empirical findings in this study indicate that knowledge management has a significant positive effect on competitive advantage, innovation products have a positive effect on competitive advantage, competitive advantage has a positive effect on business performance, knowledge management has a positive effect on business performance, innovation products have a positive effect on business performance.*

***Keywords: knowledge management, product innovation, competitive advantage, business performance.***