

The Mediating Role of Innovation Capability in the Relationship between Knowledge Sharing on SMEs' Performance

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Abstract

This study aims to determine the effect of knowledge sharing, innovation capability on SMEs' Performance. The sample in this study is a shoe business owner in Bogor. The questionnaires were distributed as many as 230 questionnaires, and returned as many as 177 questionnaires so that the sample in this study was 177 respondents. The method used is SEM analysis with AMOS Version 23 software. The results show that there was a positive and significant influence between knowledge sharing on innovation capability. There was a positive and significant effect between knowledge sharing and innovation capability on performance. In the future, the shoe industry in Bogor City needs to improve knowledge sharing and innovation capability in order to improve business performance.

Keywords

knowledge sharing; innovation capability; SME's performance



I. Introduction

Small and Medium Enterprises (SMEs) have an important role in national economic development, in addition to contributing to national economic growth, they can also absorb large numbers of workers (Ranto, 2015). One of SMEs which has big potential to be developed is SMEs for shoe product. Bogor is one of the areas in Indonesia which has a huge potential SMEs, making SMEs as one of the spearheads of the economy. One of the very potential SMEs is Shoe Industry (Nurendah & Rainanto, 2019). Referring to the 2019 World Footwear Yearbook report, Indonesia was the fourth largest footwear production center in the world with a total production of 1,271 million pairs of footwear. Indonesia is also the third-largest exporter of footwear products in the world, with a total of 406 million pairs of footwear (<http://ikft.kemenperin.go.id/industri-tekstil-dan-aneka/>). Bogor as one of the regions in Indonesia that has enormous potential for SMEs development, makes SMEs one of the spearheads of the regional economy. One of the SMEs with great potential is shoe industry (Mulyadi & Listari, 2019).

Currently, competitive pressure is a challenge faced in the world of work, it requires organizations to think about how the organization adapts and keeps up with dynamic environmental changes (Kartono et al., 2020). Many factors effect the company's performance. In this study, we examine the effect of knowledge sharing and innovation capability on the performance of SMEs in the shoe industry sector in Bogor City. Many previous studies have shown that knowledge sharing and innovation capability are predictors of SMEs performance. This study specifically examines the performance of SMEs in the shoe industry sector. According to Nham et al., (2020) knowledge sharing has a very important

role in innovation, the success of innovation of a company significantly relies on knowledge sources from employees of the firm. The research conducted by Siregar et al., (2020) shows the influence of knowledge management on innovation and also on firm's performance. Technological improvements make companies have to be able to adapt by implementing innovation in running their business(Siregar et al., 2019a). Yeşil et al., (2013) in their paper also said that knowledge sharing process can increase the innovation capability of the firms. The ability to innovate is also found to have an effect on innovation performance in a company.

Therefore, the objectives of this research are:

1. To examine the effect of knowledge sharing on innovation ability
2. To examine the effect of innovation capability on the performance of SMEs
3. To examine the effect of knowledge sharing on the performance of SMEs

II. Review of Literatures

2.1 SME's Performance

Firm performance is the achievement obtained by the company in a certain period. Seeing the company's performance can be seen from the firm growth, the company's financial condition (Parida et al., 2009). Performance can be defined as the level of achievement getting by employee in achieving the organizational goals (Siregar & Lubis, 2017). From an individual perspective, performance can be defined as an individual's achievement in doing a task (Niati et al., 2021). Angsoyiri, (2021) cited that earnings per share and share price as performance indicators.

The good performance of SME businesses shows a high level of growth and profitability (Alliyah & Nurhidayati, 2019). Richard, et al (in (Mulyadi & Listari, 2019) states that firm performance is the main dependent variable of interest to researchers with an interest in almost all areas of management. Market competition for customers, inputs, and capital makes corporate performance critical to the survival and success of modern businesses.

2.2 Knowledge Sharing

Knowledge sharing (donating and collecting) is a shared understanding related to providing access to information for employees by using knowledge networks within organizations that are considered capable of driving innovation. (Asegaff & Wasitowati, 2016). Šajeva, (2014) defines knowledge sharing as the transfer, dissemination, and exchange of knowledge, experience, skills, and valuable information from one individual to another within an organization.

All types of knowledge sharing can occur at both levels, individuals (organizational members) and the organization itself. At the individual level, knowledge sharing is a communication activity for all co-workers to help each other to get better results and be faster or more efficient in performing organizational tasks. For organizations, knowledge sharing is a connected process between organizing, reusing, and transferring knowledge-based experiences within an organization and making knowledge accessible to all those who need it (Ranto, 2015). The knowledge-sharing behavior among employees within the organization has a strong effect on the process of post-knowledge collection and transfer. Personal knowledge, if not shared, can only become a personal wealth, can not constitute the enterprise's resources, and once the personal knowledge to participate in knowledge sharing, you can become internal knowledge of the organization, which constitute the enterprise's resources(Ji & Zou, 2017).

2.3 Innovation Capability

Innovation begins with a creative idea. This creative idea does not always have to be an effort to find or achieve something "big" but can also take the form of small change efforts to improve current practices (Ranto, 2015). According to (Siregar et al., 2020) innovation as the process of creating something new, whether in creating a new product, service, or marketing in a firm. Innovation is very important to achieve organizational goals (Siregar et al., 2019b). Organizations need to manage competencies to increasing the ability of the workforce to meet the challenges of technological and organizational change (Syamsuri et al., 2019).

Innovative organizations can improve individual and organizational performance, increasing competitive advantage (Liao and Wu, 2010). Hasil penelitian yang dilakukan oleh (Mulyana & Sutapa, 2014) creativity and innovation capability have a significant effect on competitive advantage and performance

2.4 Hypotheses Development

Organizations that want to progress must have innovative capabilities to improve innovation performance, both individuals and organizations, through the ability to share knowledge. Knowledge sharing among the people involved will be able to create mutually accepting and giving cooperation between employees so that it will encourage the ability to innovate (Asegaff & Wasitowati, 2016). Innovation capability has a significant effect on competitive advantage. The ability of MSMEs to innovate which is manifested in the form of always trying new ideas, trying new operating methods, product innovations, will be able to improve performance. The ability to try new ideas is done by increasing creativity to find ideas and manifested in the form of innovation. While innovation in the production process is carried out by trying new production process methods to get the most efficient production process system. Thus the company will try various innovations to improve the effectiveness and efficiency of the production process, in the hope of minimizing production costs so that it has an impact on price reductions and increasing competitive advantage and performance (Asegaff & Wasitowati, 2016). The results of research conducted by Pranowo et al., (2020) show that the success of a company is largely determined by the company's ability to innovate. Also added by Nasution et al., (2021) explains that an innovative person determines the success or development of a business. The use of innovative technology is useful for the progress of the company (Davronov, 2021). To achieve organizational goals, innovative human resources are needed (Siregar et al., 2021).

Based on the development of the hypothesis above, the following hypotheses can be described:

- H1: There is a positive and significant effect between knowledge sharing on innovation capability
- H2: There is a positive and significant effect between innovation capability on performance
- H3: There is a positive and significant influence between knowledge sharing on performance

III. Research Methods

This study uses a quantitative method approach. The sample in this study were SMEs entrepreneurs in the shoe industry sector in Bogor City. 230 questionnaires were distributed, and 177 questionnaires were returned. So that the sample in the study was 177 people. The data analysis technique used is Structural Equation Modeling using AMOS software version 23. In this study, three variables were observed, namely knowledge sharing, innovation capability, and performance. The performance uses 4 indicators, innovation capability uses 4 indicators and knowledge sharing uses 5 indicators. Performance indicators adopted from Darroch, (2005) namely (1) compared with the industry average, we have a greater market share ; (2) compared with the industry average; (3) we are growing more rapidly; (4) in general, our organization is performing better than it did 12 months ago. Innovation indicators consist of technological innovation, product innovation, market innovation, and service innovation (Tatiek, 2009). The knowledge sharing indicator was adopted from (Zaim et al., 2019) and (Ramayah et al., 2014).

IV. Results and Discussion

4.1 Results

a. Normality Testing

Conducting research using Structural Equation Modeling requires data that are normally distributed. For normality testing, it can be seen from the skewness and kurtosis value. The skewness, kurtosis, and cr of multivariate value must be -2.58 to 2.58 (Schumacker & Lomax, 2010). For more details related to the results of normality testing can be seen as follows:

Table 1. Assessment of Normality (Group number 1)

Variable	min	max	skew	c.r.	kurtosis	c.r.
KnowS1	2.000	5.000	.108	.588	-.494	-1.342
KnowS2	2.000	5.000	.135	.731	-.184	-.500
KnowS3	1.000	5.000	-.200	-1.084	-.199	-.539
KnowS4	2.000	5.000	.006	.033	-.487	-1.322
KnowS5	1.000	5.000	-.024	-.132	-.474	-1.287
Perform4	2.000	5.000	.009	.051	-.416	-1.130
Perform3	2.000	5.000	.071	.387	-.376	-1.020
Perform2	2.000	5.000	-.030	-.161	-.522	-1.417
Perform1	2.000	5.000	.121	.659	-.381	-1.035
InoCap1	2.000	5.000	-.007	-.036	-.738	-2.004
InoCap2	1.000	5.000	.005	.026	-.577	-1.568
InoCap3	1.000	5.000	.092	.499	-.021	-.057
InoCap4	1.000	5.000	-.071	-.386	-.189	-.512
Multivariate					5.539	1.866

The table above shows that the multivariate c.r value is 1,866. This shows that the value is at 2.58 to 2.58. Thus it can be explained that the data in this study are normally distributed.

b. Goodness of Fit Test

There are several criteria to see whether this research has a good goodness of fit test, it can be seen from several criteria, including Adjusted GFI (AGFI) with value > 0.90 , Goodness_of Fit Index (GFI) with value > 0.90 , CFI $>$ with value 0.90 , TLI $>$ with value 0.90 , RMSEA with value < 0.08 , and RMR with value < 0.05 (Hair et al, 2017), (Schumacker & Lomax, 2010). The results of the goodness of fit test show that there are studies that meet the goodness of fit test. The results of the goodness of fit test for more details can be seen as follows:

Table 2. The Goodness_of Fit Test

The Goodness of Fit Index	Result	Decision
Cmin/DF	1.969	Good Fit
Adjusted Goodness of Fit (AGFI)	0.861	Marginal Fit
The goodness of Fit Index (GFI)	0.905	Good Fit
Comparative Fit Index (CFI)	0.944	Good Fit
Tucker Lewis Index (TLI)	0.929	Good Fit
Root Mean Square Error of Approximation (RMSEA)	0.074	Good Fit
Root Mean Square Residual (RMSR)	0.033	Good Fit

c. Hypotheses Testing

Hypothesis testing was carried out using the Structural Equation Modeling method and processed using Amos Version 23 software. To find out the results of hypothesis testing, it can be seen from the critical ratio value > 1.96 and a probability level of $.05$ (Byrne, 2010). The following table displays the results of hypothesis testing.

Table 3. Hypotheses Results

	Standardized Estimate	P-value	Decision
Innovation_Capability <--- Knowledge_Sharing	.764	.000	Supported
SMEs_Performance <--- Innovation_Capability	.496	.000	Supported
SMEs_Performance <--- Knowledge_Sharing	.321	.014	Supported

Table 3 shows that all hypotheses in this study are accepted. This can be seen from the probability value < 0.05 . Testing the knowledge sharing hypothesis on innovation capability obtained a P-value of 0.000 . This value is less than 0.05 . Thus it can be explained that there is a positive and significant influence between knowledge sharing on innovation capability. Innovation capability has a positive and significant impact on SMEs' Performance. This can be seen from the probability value of 0.000 , the p-value < 0.05 . Knowledge sharing on SMEs Performance has a probability value of 0.014 . The p-value is < 0.05 . Thus, there is a positive and significant effect between knowledge sharing on SMEs' performance.

4.2 Discussion

This study examines the effect of knowledge sharing, innovation capability on the performance of MSMEs in the shoe industry sector in Bogor City. Knowledge sharing is a culture that is owned by the company, each individual between employees, or between employees and leaders or creates an atmosphere of mutual knowledge. Innovation capability is related to the company's ability to innovate in increasing the company's competitiveness.

The results of hypothesis testing that have been carried out show that knowledge sharing has a positive and significant effect on innovation ability. This shows that the higher the application of knowledge sharing, the greater the innovation ability of shoe industry in Bogor City. On the other term, if the implementation of knowledge sharing is low, then the ability to innovate is also low. This result is in accordance with the opinion Abdallah et al., (2012) knowledge sharing in any organization is very important as this is the basis upon which ideas and processes are being implemented and that help management in decision making. An understanding of these knowledge sharing enablers will help organizations capitalize on them, to positively influence their innovation capability. The results of research conducted by (Asegaff & Wasitowati, 2016) found that there is an influence between knowledge sharing on innovation ability.

Furthermore, knowledge sharing also has an influence on performance of the firm. The findings of this study was supported by research findings by Ngah & Jusoff, (2009) concluded that there was a positive and significant influence between knowledge sharing on performance. SMEs should capitalize its internal knowledge which residing within its employees - tacit knowledge. Sharing this tacit knowledge would help SME to be creative and innovative thus enhancing its performance. Saragih & Harisno, (2015) concluded that knowledge sharing behavior effect on the level of innovation of information technology on employee performance. There was simultaneously a significant effect on knowledge sharing behavior and the level of technological innovation of information on employee performance.

The results of our study also show that there is an influence between innovation capability on SME's Performance. This shows that the higher the level of innovation carried out by the company, it will improve the performance of the shoe sector SMEs in Bogor City. The results of this study are in accordance with previous research by Yeşil et al., (2013) who found that there was an influence between innovation capability on the performance of SMEs in Bogor City.

Based on the results of testing the direct and indirect effects, it is known that the direct effect of knowledge sharing on has a regression coefficient of 0.321, while the indirect effect of knowledge sharing on performance through innovation capability has a regression coefficient of 0.379. This shows that the indirect effect through knowledge sharing through innovation capability on the performance of SMEs in the shoe industry sector in Bogor City. Thus, innovation capability has a role as a mediation that forms the relationship between knowledge sharing and the performance of SMEs in the shoe industry sector in Bogor City.

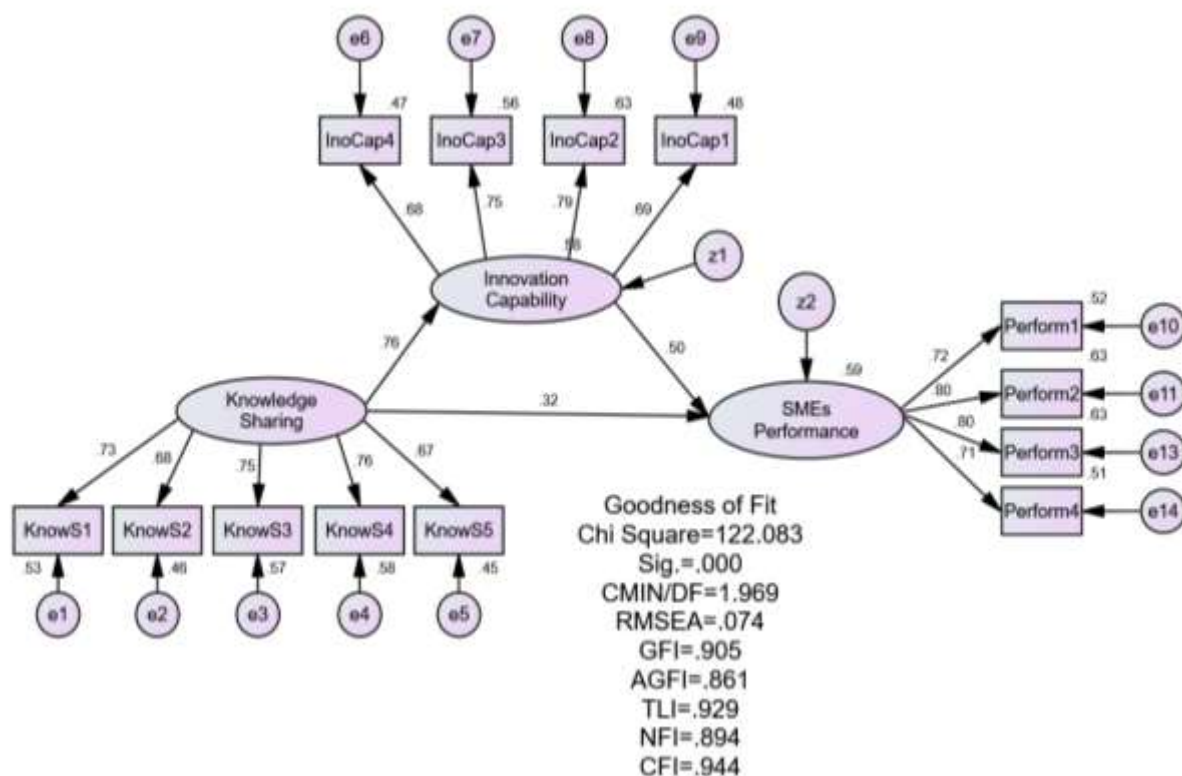


Figure 2. Direct Effect of Knowledge

V. Conclusion

The results of the study indicate that it is very important to implement or cultivate knowledge sharing to improve the performance of SMEs in the shoe industry sector in Bogor City. Knowledge sharing positively and significantly effect innovation capability. Innovation capability also has a positive influence on improving the performance of SMEs in Bogor. We also find that innovation capability can mediate the effect of knowledge sharing on SME performance. This shows that to improve the performance of SMEs in the shoe sector in Bogor City, innovation has a very important role to be improved.

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