

# THE ROLE OF KNOWLEDGE SHARING IN ORDER TO INCREASE INNOVATION ABILITY AND EMPLOYEE PERFORMANCE IN INDUSTRY SECTOR OF SMALL-MEDIUM ENTERPRISE

*by Slamet Widodo*

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# PROCEEDING

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The 4<sup>th</sup> <sup>5</sup>Sebelas Maret International Conference  
on Business, Economics, and Social Sciences

# SMICBES

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**BUSINESS INNOVATION,  
GLOBAL MARKETS,  
AND SOCIAL CHANGES.**

”

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August 9 - 10<sup>th</sup>, 2017  
Solo, Indonesia

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## PREFACE

These refereed proceedings contains papers that have been accepted after anonymous review and their subsequent revisions by author(s) for presentation at the 4<sup>th</sup> Sebelas Maret International Conference on Economics, Business and Social Sciences on August 9-10, 2017 hosted by the Faculty of Economics and Business Universitas Sebelas Maret.

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In concluding, we hope that this international conference can be the forum for all of academics in Business, Economics and Social Sciences to discuss and disseminate new issues and findings to support the advancement on Business, Economics and Social Sciences.

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## THE ROLE OF KNOWLEDGE SHARING IN ORDER TO INCREASE INNOVATION ABILITY AND EMPLOYEE PERFORMANCE IN INDUSTRY SECTOR OF SMALL-MEDIUM ENTERPRISE

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### Abstract

The objectives of this study is to examine the effect of knowledge sharing and innovation ability on employee performance. In this study, it also analyzes the role of innovation ability as mediating variable of the relation of knowledge sharing and employee performance. The method in his study is survey method, the sample of study that is the respondent in this study is employees working on handicraft industry of SME in the Province of Bengkulu. The result of this study shows that knowledge sharing significantly affects positively toward employee performance, knowledge sharing does not affect positively toward corporate innovation ability. The characteristic of SME that is characterized with its limitation of knowledge available that is mostly only tacit causes the process of knowledge sharing does not run well so that it does not give significant effect on corporate performance. The innovation ability of employee positively and significantly affects corporate performance. The output of this study is expected to be able to give contribution on management scientific journals in international level.

Key words: knowledge sharing, SME, innovation, performance.

### INTRODUCTION

#### Background

The management of creative industry such as SME that has financial power, adequate resources, technological support, attractive interest rate, and good quality of service can be good input in increasing competitiveness. Business opportunity and fund distribution by banking in the form of credit for micro and medium groups is the segment that is desirable by banking industry currently. According to Neihm (2008), the business that prioritizes community support as well as resources governance advantage is the business that is more peka in facing competitive condition in fulfilling the needs of customers.

Jantunen (2005) stated that innovation that attracts attention and wakens the involvement of customer tends to be in the technology that is easy to be understood the way to use it and the effect of the technology use. Technology is an input for company to improve competing strategy and the ability to conduct innovation. In this matter, company is able to develop network, expand market share, introduce the newest product, and to conduct innovation, for example website network of corporate website to improve service online and menjaring community.

Personal and organizational characteristics, such mood, problem mapping, the presence of supervision, and performance evaluation are a psychological factor that can increase or decrease a behaviour in handling business risks. Cherry (2001) uses survey method and the subject of study is marketing managers who set business strategy conceptually.

To develop innovative ability in giving a good service to the customer, knowledge considered as important resources in a company is needed (Ho, 2008). Corporate awareness toward the importance

of knowledge resources as corporate intellectual capital to reach competitive superiority is becoming higher. Knowledge is assumed as strategic assets to help company in increasing its competitiveness in the global competition (Jantunen, 2005). Knowledge is also considered as the key to build an innovation process (Daroch and McNaughton, 2002).

According to Matsuo and Smith (2008), to obtain knowledge, company needs to acquire new knowledges that can be obtained from internal and external of the company (knowledge acquisition). The knowledge then is shared or spread into the company (knowledge sharing) so that the knowledge can be available widely and it can be generalized on new situation in the company (knowledge integration/institutionalization). From the three processes, knowledge sharing activity is considered an important process in knowledge management (Nonaka dan Takeuchi, 1995).

According to Lin (2007), the knowledge is very influential on the improvement of corporate innovation ability, product innovation, and the increase of corporate performance. The higher knowledge level owned by the company, the higher level of innovation and corporate financial performance. It relates to the acceptance of technology advantages felt by the customers of financial service company. Nevertheless, the degree of its effect on corporate performance still needs to be empirically examined, although the variable of corporate innovation level can be affected positively by variable of knowledge.

With knowledge sharing, company can receive advantages such as the increase of productivity, efficiency, quality, and innovation (Ismail and Yusof, 2009). Effective knowledge sharing activity is the main sources to increase corporate performance (Kang, Kim, and Chang, 2008). By conducting knowledge sharing, a company can increase its creativity and innovativeness that can be an additional value for the company.

However, currently, most of researches about innovation focus only on the process of knowledge sharing to gain new knowledge resources in order to increase corporate innovation ability (Liao, 2006; Lin, 2007) because basically the innovation activity is how to implement knowledge, idea, or new activity into the company (Pierce and Debecq, 1976). The study done by Miles (2005) stated that if the company wants to be innovative, the company must interact and exchange knowledge and idea to other parties in its environment. Industrial actors now are starting to realize that they must prioritize creative human resources more. Then, in 1990s, new economic era was begun that intensified the use of information and creativity, which was well known as creative economic that was initiated by industry sector named as creative industry. The definition of creative industry from the use of creativity, skill, and talent of individual to create welfare as well as job through creation and the use of creativity and inventiveness of the individual.

## LITERATURE REVIEW

### Employee Performance

According to Fisher and Lovell (2003), organization management currently demands the presence of change from traditional to modern. Modern means not only using new technology, but also involving ethical practices on managerial and operational levels, as well as on the practice and procedure related to the attitude of organization toward its employees.

Performance atau job performance is a work output the can be achieved by a person or a group of persons in an organization based on quality, efficiency, and effectiveness in accordance with each authority and responsibility in order to achieve the objective of organization legally, not againts the law and in accordance with moral and ethics (Gibson et

al. 2006). According to Bontis and Serenko (2007), job performance is defined as a management process planned to connect individual objective in such way, so both individual and corporate objectives can be consistent.

According to Ittner and Larcker (1998), the choice in measuring job performance is a challenge face by company because it plays an important role in developing corporate strategic plan, evaluating corporate objective, and as the base for manager compensation. However, performance is defined differently for each company (Ismail and Yusof, 2009). Generally, corporate performance is described as the extent to which company able to fulfill the expectation of stakeholders and owners of the company (Ismail and Yusof, 2009).

### Knowledge Sharing

Knowledge management is a strategy in organization used to accelerate a learning process collectively to create bigger customer satisfaction and to increase organization competitiveness toward market change in the era where the environment rapidly changes (Janz and Prasarnphanich, 2003). Knowledge is also said as capital that has effect in determining the development of an organization (Davenport and Prusak, 1998). Knowledge sharing according to Lee et al. (2005) is one of methods or steps in the cycle of knowledge management used to give opportunity to members of a group, organization, institution, or company to share the knowledge they have to other members.

Knowledge sharing is a wider concept focusing on social interaction to exchange knowledge (Kang, Kim, and Chang, 2008). Basically, the process of knowledge sharing is related to how interpret individual knowledge to be corporate knowledge (Van den Hooff and De Ridder, 2004). Knowledge sharing can be defined as a knowledge transferring process among parties in a company (Park et al., 2003). Knowledge sharing can be also defined as an action to create available knowledge for all parties in a company (Rashed, Azzem, and Halim, 2010).

The study of Daud and Yusuf (2010) tried to relate the relation between knowledge management and performance, and its result obtained that knowledge management has positive effect on performance. From the study result, Daud and Yusuf stated that the performance sustainability of a company is very affected by corporate ability in implementing knowledge management. Afterwards, Tseng and Fang (2011) developed knowledge management through several steps and levels involving individual to include in it which is by conducting knowledge acquisition at first, then, knowledge application that is obtained from learning process to solve problem, complete job better effectively and efficiently.

Wang and Noe (2010) stated that knowledge sharing can help organization to obtain, save, and use knowledge to conduct tasks such as learning dynamically, making strategy planning and making decision as well as solving problem. Moreover, according to Kurkani et al. (2007), knowledge sharing can also increase the competency of organization in innovating new product and service as well as harmonizing individual from various units to achieve skills.

### Innovation Ability

Innovation can be defined as an idea, practice, or object considered new (Rogers, 2003). According to Amabile et al., (1996), innovation is defined as a success of creative idea implementation in a company. Innovation capability or ability of company can be also defined as openness of company toward new ideas and to have willingness to try the new ideas, to search new ways in conducting something and to be creative on its operational method in introducing a new product (Calantone et al., 2002).

Innovation consists of a process through many stages with various activities that are different in each stage (Scote and Bruce, 1994). Innovation in company is complex matter and consists of some phases, which are started from initiation phase, adoption phase, and implementation phase (Pielce and Debecq, 1976). According to Rogers (2003), in innovation diffusion process, there are 4 (four) main elements, which are:

- a) Innovation: an idea, action, or object considered new by an individual. In this matter, innovation newness is measured subjectively based on perspective of an individual who receives it. If an idea is considered new by an individual, it is an innovation to the individual.
- b) Communication channel: the means to deliver innovation messages from source to receiver. In choosing a communication channel, the party that is innovation source needs to pay attention on the goal of having communication and the characteristics of its receiver.
- c) Time Period: When the innovation decision needs to be done<sup>17</sup> There are 5 stages of innovation process in a company divided into 2 main stages, which are initiation and implementation. In initiation stage, it consists of agenda-setting and matching activities. Between initiation and implementation activities, there is decision stage before the innovation being implemented. In implementation stage, it consists of redefining/restructuring, clarifying, and routinizing activities.
- d) Social System: A group of units that are different functionally and attached in a cooperation to solve problem in order to achieve common goal.

To see<sup>12</sup> what innovation is conducted by company, it can be seen based on 2 aspects, which are the level of innovation done and the coverage of innovation that is done (Lin, Chen, and Chiu, 2009). The level of innovation done is differentiated into radical innovation and incremental innovation (Salavou and Lioukas, 2003). Meanwhile, based on the coverage of innovation done is differentiated into technical innovation and administrative innovation (Afuah, 2003). Technical innovation is viewed from product, service, marketing, and technology used to produce product and service that are the main activities of the company. Administrative innovation is viewed from the innovation done on organization structure and administrative process of the company.

However, for this study, it is focused on the coverage of innovation done, which is based on product/service innovation and process innovation done by company. It is because the one that is the object of this study is a small and medium enterprise sector on creative industry where on small and medium enterprise sector it tends to conduct product/service innovation or process innovation (Forsman and Rantanen, 2011).

## Hypothesis and Research Model

### <sup>19</sup> The Effect of Knowledge Sharing on Employee Performance

Tseng and Fan (2011) stated that knowledge management consisting of various knowledges positively and significantly affects performance. If knowledge management is applied well, it will create organization environment that supports in increasing individual performance.

Individual or employee in a company is a source of information and knowledge for organization (Brown and Woodlan, 1999). A company has many kinds of employees that can give value or contribution to the company so that it also will affect positively to the corporate performance (Collin and Smith, 2006). Therefore, company needs to interpret the individual knowledge in order to be useful knowledge for company.

According to Co et al. (2007), the importance of knowledge sharing for company is because it can develop ability, competency, and increase corporate values so eventually it gives positive effect on corporate performance. It is also supported by the study done by Van

Wijk et al. (2008) and Weber and Weber (2010) stating that there is positive effect of knowledge sharing on corporate performance.

The importance of knowledge sharing for company is that knowledge sharing can develop corporate ability, competency, and increase corporate values so that eventually it positively affects corporate performance (Co, Li, and Su, 2007). By creating more active knowledge sharing process and the party that receives knowledge, it will result higher corporate performance (Monteiro et al., 2008). Based on the study review, hypothesis is arranged in this study, which is as the following.

H1: Knowledge sharing positively and significantly affects employee performance.

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### **The Effect of Knowledge Sharing on Innovation**

Company that is able to collect and integrate knowledge that is unique, rare, and difficult to be replicated by its competitor, has potential to improve its innovation ability, so knowledge sharing is very influential toward the increase of corporate innovation ability. According to Lin (2007), the ability of company to transform and exploit knowledge will very determine the level of innovativeness done by the company, such as the ability in solving problem and reacting toward new information.

From the result of study done by Kamasak and Bulutlar (2010), it is also known that knowledge sharing is very indispensable to increase the innovation ability of company. Experience and creativity owned by individual in a company need to be distributed and integrated each other with the knowledge owned by other individuals so that the company can develop new process, service, and product. The company that encourages its employee to contribute knowledge sharing in group or company tends to obtain new ideas and develop new business opportunity through an innovation activity (Darroch and McNaughton, 2002).

The ability of company to obtain new knowledge is needed for company to innovate because with the new knowledge, company can obtain new information that is then integrated with the existing knowledge and applied in the company (Liao, 2006). The study result from Krizman (2009) also showed positive result on the effect of knowledge sharing and innovation done by company. Therefore, it can be said that knowledge sharing is the main requirement in innovating (Kokacova and Mala, 2009). Based on the study, hypothesis is arranged in this study as the following:

H2: Knowledge sharing positively and significantly affects innovation ability.

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### **The Effect of Innovation Ability on Employee Performance**

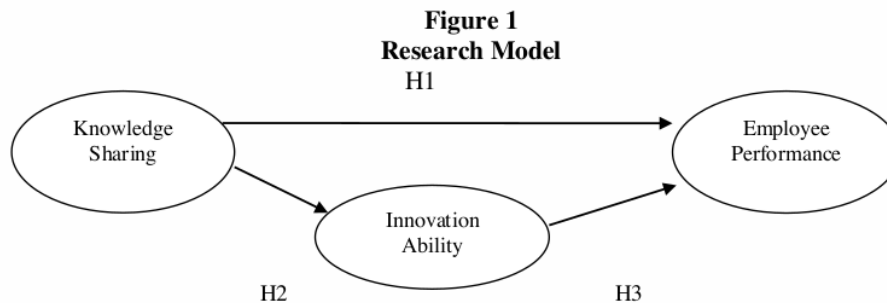
According to Kurkani et al. (2007), a strong teamwork will make individual able to share knowledge in order to increase organization competency to conduct product innovation or new service as well as to harmonize performance of each individual from various units. The innovation related to process in a company can increase corporate performance because innovation is viewed as an important ability that must be had to create values that can encourage better competency of company (Lee and Sukoco, 2007).

The study done by Hull and Rothenberg (2008) showed that innovation is considered as a strong predictor in predicting performance. The company that is able to introduce new products to the market will be able to keep growing and surviving in tight market competitive condition. Terziovski (2010) also showed the presence of positive relation between corporate innovation toward corporate performance in small and medium enterprise sector.

The result of study done by Tsai and Tsai (2010) stated that there is a positive effect of corporate innovation ability on corporate performance. Corporate innovation ability viewed based on the number of new products introduced every year also can increase corporate

performance (Artz, et al., 2010). When company is able to manage its innovation ability well, the company will be able to respond better toward the change of its market condition so it can achieve better performance as well. Based on the study, the hypothesis arranged in this study is as the following:

H3: Innovation ability positively and significantly affects performance.



Source: adapted from Lin (2007); and Calantone *et al.*, (2002).

The model in this study is a development from the study by Lin (2007); and Calantone *et al.*, (2002). Lin (2007) examining that the factors affecting corporate innovation capability, its finding result discovered that corporate ability in applying the concept of knowledge sharing and transforming knowledge can determine the level of corporate innovation ability.

### Research Method

This study is done by survey method using questionnaire to obtain data directly. The setting of this study is done in the Province of Bengkulu with individual sample of employees in handicraft industry and SME industry. Sampling method in this study is done in non-probability with purposive sampling.

The number of respondent used in this study is as many as 146 respondents and the size of sample is the sample size that can be used for Structural Equation Modelling (SEM) method. It also uses maximum likelihood estimation technique.

## DATA ANALYSIS AND DISCUSSION

### Characteristics of Respondents

General description on the profile of respondents in this study is explained on Table 4.1. Respondents in this study are employees from handicraft SMEs in the Province of Bengkulu. In general, respondent majority is male, which is 81.5%. From all handicraft industries that are the sample, the most types of handicraft done is the one made of wooden or natural fiber material, which is 28.1%, then it is followed by fabric handicraft which is 21.9%, rattan and bamboo handicraft which is 20.5%. The summary of respondent characteristics is shown on Table 1 below.

**Tabel 1**  
**Respondent Characteristics**

Characteristics	Total	Percentage
<b>Gender:</b>		
-Male	119	81.5%
-Femal	27	18.5%
<b>Form of Handicraft:</b>		
-Fabrics	32	21.9%
-Stone	27	18.5%
-Rattan and Bamboo	30	20.5%
-Wood/natural fiber	41	28.1%
-Leather	16	11.0%

Source: 2016 processed data

#### **Result of Validity Test**

The result of instrument validity test shows that almost all items of questions have factor loading bigger than 0.5. However, as shown on Table 2, for item BP2, K2, and 12, they must be dropped because factor loading of those items are below 0.5.

#### **Result of Reliability Test**

Table 3 shows that the instrument used in this study is reliable. It is shown by the value of Cronbach's alpha that has the value more than 0.7.

From the results of validity test and reliability test, there are 3 items dropped from the analysis, which are BP2, K2, and 12, so those three items are not included in the measurement model. On Figure 4.1, it can be seen that the result of measurement model shows that the value of Chi-square is 259.629, df= 94, with p= 0,000.

# THE ROLE OF KNOWLEDGE SHARING IN ORDER TO INCREASE INNOVATION ABILITY AND EMPLOYEE PERFORMANCE IN INDUSTRY SECTOR OF SMALL-MEDIUM ENTERPRISE

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