



How Does Knowledge Absorption Foster Performance? The Mediating Effect of Innovation Capability

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Abstract

This research aims to examine the impact of knowledge sharing and knowledge absorption on the innovation capability and the performance of Sharia banks. The rapid competition in banking industry among conventional and Sharia banks requires innovation capability in order to enhance the performance and achieve the sustainable competitive advantage. The development and performance of Sharia banks at the present still tend to be low. Innovation on product and service is one of the success keys of Sharia banks in enhancing the performance and competitiveness. Innovation capability can be developed if the employees within the organization are able to perform knowledge sharing or knowledge absorption. The sample of this research includes the employees of Sharia Banks in Semarang as many as 102 respondents. The sampling technique uses purposive sampling with criteria; permanent employees who have been working no less than 5 years. The data collection method is performed using questionnaire, while the data analysis technique uses SEM. The finding concludes that knowledge sharing and knowledge absorption significantly impact the innovation capability and performance.

Bagaimana Knowledge Absorption dapat Meningkatkan Kinerja? Efek Mediasi dari Innovation Capability

Abstrak

Tujuan penelitian ini adalah untuk menguji dan menganalisis pengaruh knowledge sharing dan penyerapan pengetahuan terhadap innovation capability dan kinerja Bank Islam. Persaingan industri perbankan antar Bank konvensional maupun bank Islam yang tinggi menuntut kemampuan inovasi agar dapat meningkatkan kinerja dan mencapai keunggulan bersaing yang berkelanjutan. Perkembangan dan kinerja Bank Islam saat ini masih relative rendah bila dibandingkan dengan bank konvensional. Inovasi produk dan jasa merupakan salah satu kunci keberhasilan Bank Islam dalam meningkatkan kinerja dan daya saing. Kemampuan inovasi dapat ditingkatkan bila karyawan dalam organisasi mampu memiliki knowledge sharing maupun penyerapan pengetahuan. Sampel dalam penelitian ini adalah karyawan Bank Mandiri syariah, Bank BNI Syariah, dan Bank BRI syariah Di Semarang sebanyak 102 responden. Teknik sampling menggunakan purposive sampling dengan kriteria karyawan tetap yang memiliki masa kerja lebih dari lima tahun. Metode pengumpulan data dengan menggunakan kuesioner dan teknik analisis data menggunakan SEM. Hasil penelitian menyimpulkan bahwa knowledge sharing dan penyerapan pengetahuan berpengaruh signifikan terhadap kapabilitas inovasi dan kinerja.

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INTRODUCTION

The growth of sharia banking industry in Indonesia is still facing several obstacles, such as the low quality of human resources who understand the sharia economics, perform less optimal service, and have low integrity and product innovation. Although the financial assets of sharia banks in Indonesia reach IDR 897.1 trillion in the financial services authority (OJK), the market share is only able to reach 5.18%. Based on OJK's data for the Quarter III 2016, the financing grows at around 14 each year while the third-party funds (DPK) grow above 20%. Human resources who understand banking are 21.80%. This indicates that sharia banking needs to improve the innovation capability of human resources in improving the performance and competitive advantage. Creation of innovation can facilitate and improve job or service. Liao et al. (2009) stated that innovation mostly focuses on development or technology upgrading, or information and product development. On the other side, Al. Othman and Sohaib (2016) stated that innovation is a new idea of recombination of old ideas, schemes, formulas or unique approaches which are then considered to be new by individuals involved and can be developed internally.

Innovation capability is the ability to develop new products that meet market needs, develop and adopt new products and process technologies, as well as respond to unexpected activities performed by competitors (Tsai & Tsai, 2010). Innovation capability eases the improvement of work and service. A number of previous studies on factors affecting the capabilities of innovation have been conducted as follows; marketing and entrepreneurship capabilities (Sulistyو & Siyamtinah, 2016); knowledge sharing (Lin, 2007); customer relationship management (Lin et al., 2010); organizational culture and empowerment (Cakar & Ertürk, 2010); Islamic Work Ethic (Kumar & Rose, 2012); relationship management (Garrido-Morino et al., 2015); psychological empowerment (Ertürk, 2012); performance measurement (Saunila & Ukko, 2012); customer relationship

management (Battor & Battor, 2010); informal social interaction (Liu et al., 2015). One of the important factors in promoting innovation capability in sharia banking industry is the knowledge of human resources. Knowledge as a part of an organizational asset has a positive impact on innovation, superior performance and competitive advantage (Andreeva & Kianto, 2011).

A successful company should have the ability to collect, store and distribute specific knowledge to create and sustain a competitive advantage. Knowledge will not be able to encourage the creation of innovation if it cannot be absorbed or shared among employees. This is also happening in the sharia banking industry, where the majority of human resources do not have enough knowledge of Sharia products. Knowledge interaction among members of the organization always requires knowledge, mastery, and understanding of the concept, hence to facilitate the work of the organization. Knowledge sharing is considered to be the most important aspect of knowledge management (Almudallal et al., 2016; Elianto & Wulansari, 2016).

The study of knowledge sharing has done by Pai and Chang (2013); who found that knowledge absorption influences knowledge sharing activities. Knowledge sharing can drive improvements in innovation and organizational performance (Lin, 2007; Al-Hayaly & Alnajjar, 2016) The results of research conducted by Liao (2006) and Jaber (2016) concluded that knowledge sharing activities positively affect the improvement of organizational innovation. The study results of Andreeva and Kianto (2011) found a positive relationship between knowledge sharing and innovation. Akram (2017) also found that knowledge sharing has a positive effect on innovation. However, there are differences in the results of studies on the effect of knowledge sharing on innovation. Results of research conducted by Malkawi and Rumman (2016) found that knowledge sharing does not affect innovation. Therefore, this study aims to examine the effect of knowledge sharing and knowledge absorption on the capability and performance of sharia banking industry. Many

studies have been conducted (Findıklı et al., 2015) on manufacturing and bureaucratic sectors. However, it is still rarely used in service industries, such as sharia banks.

Hypothesis Development

Innovation Capability

Innovation capability is the implementation and creation of technology applied to new systems, policies, programs, products, processes and services to an organization (Iddris, 2016). Innovation capability is also an ability to absorb and use external information for then transfer it into new knowledge (Cohen & Levinthal, 1990). Innovation capability is a comprehensive set of characteristics of the organization that facilitates and drive innovation strategies. Innovation as a modification of products, processes, services, organizational systems, and marketing systems to create customer value (O’Cass & Weerawardena, 2009). Innovation capability consists of technical innovation and administrative innovation (Nisula & Kianto, 2013).

Innovation capability as a company’s performance through various types of innovation to achieve an overall improvement in innovation capability (Liao et al., 2009). Innovation must use the production and marketing of technology to produce new products or services to customers, or attribute new products to customers. Kashan and Mohannak (2015) suggests that organizational innovation involves generating or adopting new ideas or behaviors to become new products or services, new production technologies, operating procedures or new strategies or new management strategies.

Knowledge Sharing and Innovation Capability

Knowledge sharing (KS) is an integral component of knowledge management that helps in transforming individual knowledge into organizational knowledge and improving company performance (Foss et al., 2010). KS can improve the organization’s knowledge-based resources/ and lead to the improvement of work result through the use of information, experience, practice, insight, and understand-

ing that widely spread. The process of knowledge sharing is conceptualized in two dimensions: sharing the knowledge and collecting the knowledge (Hooff & Ridder, 2004). Knowledge sharing is defined as the individual process of communicating personal intellectual capital to others, while knowledge collecting is defined as the process of peer-to-peer interaction to encourage them to share their intellectual capital (Hooff & Ridder, 2004; Lin, 2007).

Knowledge sharing is considered to be an important process of knowledge management. Knowledge sharing is defined as an act of transferring or disseminating knowledge from one person, group, and organization to another. In an individual perspective, Knowledge sharing means individual willingness to share what they have in an organization. Knowledge sharing has benefits both in individual and organizational levels. In individual level, opportunities for employees to develop their skills and performance will be provided by the knowledge management when these employees work together and share their knowledge. Knowledge sharing is one of the main processes of KMS (Knowledge Management System) of the organization (Yeşil & Dereli, 2013). Knowledge sharing allows both parties not only to store information but also to strengthen and expand through the exchange process.

The research conducted by (Yeşil & Dereli, 2013) found that knowledge collecting significantly has the positive relationship with innovation capability, while knowledge donating does not affect innovation capability. The results of a study conducted by (Liao, 2006) concluded that knowledge sharing activities have a positive effect on the improvement of organizational innovation. The results of the study by Andreeva and Kianto (2011) found a positive relationship between knowledge sharing and innovation. Akram (2017) also found that knowledge sharing has a positive effect on innovation. Knowledge sharing has a significant effect on innovation capability (Kumar and Rose, 2012; Byukusenge et al., 2016).

H1: Knowledge sharing significantly affects the innovation capability.

Knowledge Absorption and Innovation Capability

Knowledge absorption is one of the important issues in knowledge management which plays role in building knowledge-based system. Absorption refers to the process of gaining knowledge into an organization from external sources through any possible way. So it can be stated that knowledge absorption is an activity of seeking and gaining knowledge into knowledge-based resources Radovanić and Matović (2016), knowledge absorption is a way to acquire, change, and transfer expertise from knowledge sources to knowledge-based systems. Knowledge absorption and creation are first steps in knowledge development process (Liao et al., 2009).

Knowledge absorption is the first activity in series of activity of receiving knowledge from the external environment and transforming it into a representation that can be internalized and/or be used in an organization. Knowledge absorption means transferring knowledge resources among firms with the aim of acquiring knowledge for learning. knowledge absorption technique is a skilled method captured from knowledge sources and the source can be human, book, journal, database, report or computer system. The ability of knowledge absorption own by employees in the organization will facilitate the interaction and exchange of knowledge within the organization which then impact on improving innovation capability. Liao (2008) found that knowledge absorption significantly affects innovation.

The study by Liao (2008) suggests that knowledge absorption capacity has a significant and positive influence on innovation capability. Thus, the capacity of knowledge absorption plays an important role in improving the capabilities of innovation. The higher capacity of knowledge absorption will increase the company's innovation capability. Research conducted by Cohen and Levinthal (1990) found that increased absorption capacity (Nodari et al., 2016) of knowledge will have an impact on improving innovation. Similar research results also performed Muskat & Deery (2017) which concluded

that the capacity of knowledge absorption is very important in predicting organizational capability (Henttonen et al., 2016).

H2: Knowledge absorption significantly affects the innovation capability.

Knowledge Sharing and Performance

Employees in organizations willing to share information and knowledge with colleagues and work together will contribute to the improvement of organizational knowledge and organizational performance. Donation of knowledge among individuals within the organization generates group and organizational knowledge, thereby increasing the inventory of knowledge available to companies. Organizations that promote employees to contribute knowledge in groups and organizations tend to generate new ideas and develop new business opportunities, thus facilitating innovation activities and impacting performance improvements. Research conducted by Henttonen et al. (2016) concluded that knowledge sharing significantly affects the employee performance. Research conducted by Kwahk & Park (2016) found that knowledge sharing activities significantly affect the job performance. The research of Wang and Yang (2016); Arizqi (2017) concluded that innovation capability initiates the influence of knowledge sharing on performance.

H3: Knowledge sharing significantly affects the performance.

Knowledge Absorption and Performance

The capacity for knowledge absorption is the company's ability to utilize externally held knowledge through three consecutive processes of recognizing and understanding potentially valuable new knowledge outside the company through exploratory learning. The second process involves the assimilation of valuable new knowledge through transformative learning as well as and using assimilation of knowledge to create new knowledge and commercial outcomes through exploitative learning. The higher the level of absorption of employee knowledge in the organization, the higher the achievement of employee performance in the organization.

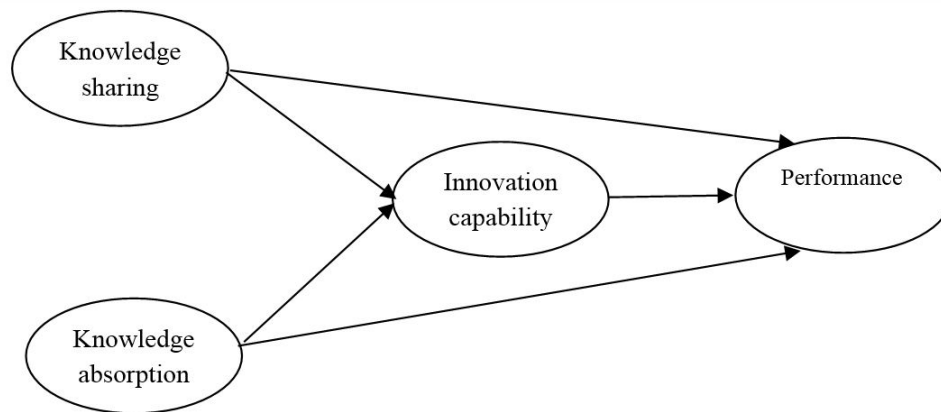


Figure 1. Research Model

The results of the study found that the higher absorption capacity of employees in the organization to knowledge will increase the ideas, new ideas of employees to product innovations and processes that impact on performance improvement.

The results of research conducted Li et al. (2011) found that higher knowledge absorption capacity will improve innovation performance. Liu et al. (2015) examine the effect of the decreased absorption capacity of knowledge on performance degradation. The results show that the higher the rate of the decreased absorption capacity of knowledge will increase the performance degradation. Nodari et al. (2016) also found that high knowledge absorption capacity will improve performance.

H4: Knowledge absorption significantly affects the performance.

Innovation Capability and Performance

The ability of innovation is an important driving force in improving performance. Companies that want to improve innovation performance, it must have innovation capability. The capability of innovation is the ability to develop and respond to the development of new products in accordance with market demand and respond to technological activities undertaken by competitors. Thus the capabilities of innovation as an important driving force in improving performance. The study by Tsai and Tsai (2010) found that high innovation capabilities

within the company will improve business performance. The research conducted by Sulistyono and Siyamtinah (2016) found that innovation capability affects the improvement of employee performance. Battor and Battor (2010) also found the same results, the higher the company's innovation will improve performance.

H5: Innovation capability affects the performance.

METHOD

Sample

The sample of this research is employees of three Bank Mandiri sharia, Bank BNI Sharia, and Bank BRI sharia In Semarang as many as 102 respondents. The sampling technique uses purposive sampling with criteria of permanent employees who have the working period of more than five years. The selection of purposive sampling techniques to ensure the selected sample is a permanent employee who has a working period of more than five years has sufficient experience in gaining various knowledge from both external and internal sourced organizations, so that knowledge sharing process will take place within the organization and impact on capability innovation and performance will be visible. Data collection using questionnaires distributed with the help of human resources staff in each Bank for 1 month. Subsequently, the collected questionnaires have verified the eligibility for data analysis.

Measurement

Knowledge sharing was measured by four item adapted from Liao et al. (2007). A Sample item is “I often share with my colleagues the new information”. Knowledge absorption was measured by three item adapted from Liao et al. (2009). A Sample item is “I actively use various sources of information to support the completion of work. Innovation capabilities were measured by four item adapted from Andreeva and Kianto (2011). A sample item is “I often use new ideas to get things done”. The Performance was measured by four item adapted from Janssen (2001). A Sample item is “I am able to complete the quantity of work assigned by the company.” Participants provided their responses on five-point Likert-type scales (1 = Strongly disagree; 5 = Strongly agree).

Data analysis

Data analysis is done by using descriptive analysis and partial least squares analysis (PLS) is used to test the structural equation of influence among variables (inner model) either knowledge sharing management, knowledge absorption, innovation or performance and to test the validity and reliability of research instrument (Outer model).

RESULT AND DISCUSSION

Based on the respondents’ answers, it is acquiring the mean value and standard deviation elaborated in Table 1. Based on the descriptive data (Table 1), it can be concluded that all variables are included in the category of high, which means that knowledge sharing, knowled-

Table 1. Mean Value and Standard Deviation

Variable	Mean	Standard Deviation
Knowledge Sharing	3.81	0.48
Knowledge Absorption	3.82	0.41
Innovation Capability	3.91	0.45
Performance	3.87	0.52

Table 2. Validity and Reliability

Variable/indicator	Original Sample estimate	Standard deviation	T-Statistic	Composite Reliability
KNOWLEDGE SHARING				0.818
KS1	0.534	0.094	5.670	
KS2	0.795	0.050	15.944	
KS3	0.818	0.065	12.536	
KS4	0.743	0.094	7.909	
KNOWLEDGE ABSORPTION				0.805
KA1	0.707	0.086	8.243	
KA2	0.832	0.049	16.859	
KA3	0.741	0.092	8.100	
INNOVATION CAPABILITY				0.765
IC1	0.488	0.209	2.340	
IC2	0.726	0.113	6.406	
IC3	0.710	0.062	11.527	
IC4	0.741	0.057	13.119	
PERFORMANCE				0.873
P1	0.696	0.104	6.688	
P2	0.854	0.070	12.198	
P3	0.843	0.071	11.882	
P4	0.781	0.055	14.071	

Structural Equation (Inner Model)

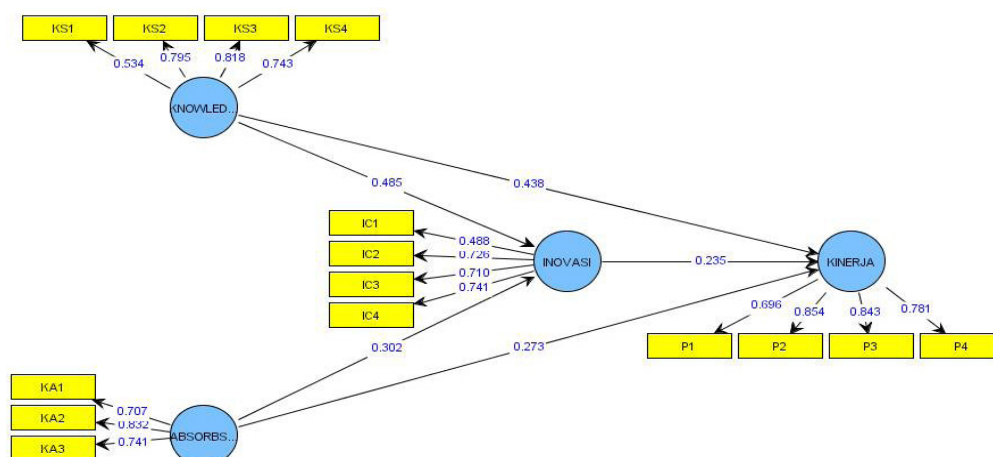


Figure 2. The Result of Structural Equation Model

Tabel 3. The Result of an Inner Model

	Original Sample Estimate	Mean of Subsamples	Standard Deviation	T-Statistic
Knowledge -> Innovation	0.485	0.508	0.111	4.386
Absorption -> Innovation	0.302	0.306	0.114	2.643
Knowledge -> Performance	0.438	0.383	0.110	3.994
Absorption -> Performance	0.273	0.324	0.178	1.535
Innovation -> Performance	0.235	0.255	0.119	1.970

ge absorption, innovation capability and performance have been well implemented in sharia banks.

Validity and Reliability

All indicators of each variable are valid with T statistic > T table (1.96). Reliability test results also show that all variables are reliable which is shown with composite reliability value that is higher than 0.70 (Table 2).

Table 3 shown the result of testing the relationship among variables using Partial Least Square shows that knowledge sharing significantly affects the innovation capability, hence H1 is supported, with T statistic value 4.386 > 1.96. The value of original sample estimate is 0.485 which means that the higher the knowledge sharing in the organization, the higher the innovation capability will be. Knowledge absorption has a significant effect on innovation

capability, so H2 is supported, T statistic value 2.643 > 1.96. The value of original sample estimate is 0.302 which means that the higher the knowledge absorption in the organization, the higher the innovation capability will be.

The results also show that knowledge sharing significantly affects the performance, so that H3 is supported, with T statistic value 3.994 > 1.96. The value of original sample estimate is 0.438 which means that the higher the knowledge sharing in the organization, the higher the performance will be. Knowledge absorption has no effect on performance, so H4 is rejected, this is shown by T statistic value 1.535 < 1.96. Innovation capability has the significant effect on the performance, so H5 is supported, with a T statistic value of 1.97 > 1.96. The original value of sample estimate is 0.235 which means that the higher the innovation capability, the higher the performance will be.

The R Square value of innovation capability is 0.52, which means 52% variation of innovation capability can be explained by the variation of knowledge sharing and knowledge absorption. 48% is explained by other variables which are not included in the model. Based on R square performance, 70% performance variation can be explained by knowledge sharing, knowledge absorption, and innovation capability.

The results showed that knowledge sharing had a significant effect on the improvement of innovation capability. Employees who are always active share their knowledge gained from various training, volunteering experience to co-workers will encourage the process of dissemination and absorption of knowledge in the organization. The knowledge that has been absorbed will encourage employees to improve the capabilities of innovation, both product innovation, process. In a knowledge-based economy, the ability of sharia banks to compete and achieve competitive advantage depends on sustainable product and service innovation. Innovation capability can be created if the bank has knowledge of both explicit knowledge and tacit knowledge. The results show that the more the employees of sharia bank share knowledge through training, work experience, and sharing, the more the innovation capability will be. Through interaction and transfer of knowledge (knowledge donating and knowledge collecting) among employees in the organization, it will develop knowledge to create ideas or improve working method, so it will impact on performance improvement.

The results support the findings of Liao (2006) that knowledge sharing activities have the positive effect on the improvement of organizational innovation. The results also support the findings of Andreeva and Kianto (2011) and Akram (2017) who found that knowledge sharing positively affects innovation. The results of the study also support the findings of the research conducted by Yeşil and Dereli (2013) found that knowledge collecting has a positive relationship with innovation capability, while

knowledge donating does not affect innovation capability. Usman and Mat (2017) also found that knowledge sharing has a positive effect on innovation. Research conducted Kumar and Rose (2012) found that knowledge sharing has a significant effect on innovation capability.

The absorption of knowledge has a significant effect on innovation capability. A good knowledge absorption by employees as a capital for sharing knowledge among them will enhance their innovation capability. Employees who are always active using a variety of information sources, new knowledge and new information will easily absorb new knowledge which impacts on innovation capability either product innovation, process, service, and administration. The results support the findings of Muskat and Deery (2017) that knowledge absorption has a significant effect on innovation. However, the research results are not in line with the findings of Liao et al. (2011) that knowledge absorption is insignificant to innovation.

The argument of Liao et al. (2011) is profound knowledge, especially when knowledge is gained through interaction with external organizations, thinking ability will increase. Knowledge can be obtained from inter-organization or intra-organization, the existence of the mutual trust, interaction among members, and from the mental capital that is needed to achieve innovation. The research results on knowledge sharing behavior also cannot affect human resource innovation by finding creative ideas, developing creative ideas and new technologies. Knowledge sharing activities with dimensions of ability to share knowledge and motivation to share knowledge can only be acquired from knowledge sharing activity through motivation which significantly affects innovation, while knowledge sharing activity through knowledge sharing ability does not affect innovation.

An organization needs a rapid development of new knowledge that employees can absorb well, making it difficult to imitate by competitors. The high ability of knowledge absorption will encourage the emergence of new ideas, unique ideas that have an impact on

performance improvement. Nevertheless, the results show that a good knowledge absorption will increase the innovation capability, yet not significant on performance. This is either because the knowledge of absorption can produce innovation or not. When employees are able to improve the absorption, it will impact the performance. Without taking action to acquire knowledge and information, the ability to absorb knowledge does not facilitate innovation, resulting in no significant performance. The results indicate that the ability to use new information and knowledge has no impact on performance improvement if the innovation capability does not increase. This means that high knowledge absorption capability has the opportunity to increase innovation capability, as long as the knowledge possesses generate ideas, new ideas to improve performance. If the knowledge mastered does not support the completion of work with new ideas and ideas, then performance will not increase.

The results of the study contradict the findings of Nodari et al. (2016), that the capability of knowledge absorption has a significant effect on Performance. Knowledge sharing has a significant effect on employee performance. The results also support the findings of Henttonen et al. (2016) where knowledge sharing has a significant effect on employee performance. The research findings also support the research of Kwah and Park (2016) that knowledge sharing activities significantly affect job performance and significantly affect innovation.

Research conducted by Sulistyono and Siyamtinah (2016) found that innovation capability affects the improvement of employee performance. The process of sharing knowledge involves two dimensions that help disseminate information and knowledge in the organization, namely knowledge donating and knowledge collecting. Knowledge of employees from external and internal sources is a knowledge asset for the organization. When knowledge is shared with everyone in the organization, knowledge and knowledge acquisition will occur and will result in increased knowledge that is useful for

the completion of work more efficiently and effectively, the quantity of work can be completed according to the standard that has been set and can be completed in a timely manner. Organizations need to encourage and motivate the creation of knowledge dissemination process between works in organizations, both in formal and informal situations.

The results showed that innovation capability has a significant effect on performance. Organizations that always find and use new ideas, new methods, new ways and new techniques will completion of work on new processes and products that impact on employee performance and organizational performance. In the context of individual employees, the higher the capability to generate new ideas, new methods and techniques will produce quantities of work according to established standards, more efficient and effective, achieving the standard and timely quality. The results support the findings of Sulistyono and Siyamtinah (2016) and Battor and Battor (2010) found that the innovation capability affects the improvement of employee performance. The findings do not support the findings of Byukusenge (2016), that finding innovation has no effect on performance improvements.

CONCLUSION AND RECOMMENDATION

The success of organizations to compete in the globalization era, especially in sharia banking industry, innovation is one of the key success factors in improving performance and competitive advantage. Through the improvement of innovation capability, employees will be easier to improve their performance and organizational performance. The results show that high innovation capability and performance will be able to be implemented properly if employees within the organization do knowledge sharing both from knowledge donating and knowledge collecting. Therefore, the ability to share knowledge, interaction among employees in knowledge sharing will be effective when the knowledge absorption is also better through

searching for various information and knowledge. Good knowledge management capability will drive innovation capability and performance capability.

Knowledge is the main key for an organization to improve innovation capability and performance, especially in sharia banking industry. Thus, sharia bank organizations need to improve and facilitate various knowledge activities through various training to share with other employees, regularly hold meetings with employees either once a week or once a month, invite experts to gain the latest information and create an atmosphere in the organization to support employee's interaction in sharing the knowledge. Sharia banking organizations need to prepare good information technology to provide access for employees in obtaining new information and knowledge, so better knowledge absorption can ultimately help knowledge sharing activities and enhance innovation capability.

This study has limitations in the number of samples that relatively small, the scope is still narrow and less varied, because it only focuses on sharia banks, while banks that have status as sharia business units and sharia credit banks have not been represented in this study. Therefore, the future research agenda needs to expand a larger and more varied sample of sharia bank categories in order to generalize the research to be well-dressed.

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