

The Effect of Knowledge Sharing and Absorptive Capacity on Service Innovation Performance: A Study of Micro, Small and Medium Enterprises in Tarakan City

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Abstract

This study was conducted on micro, small and medium enterprises (MSMEs) in Tarakan City, North Kalimantan. To improve service innovation, micro, small and medium enterprises (MSMEs) in Tarakan City need knowledge sharing and absorption activities. This research involved a number of 150 workers engaged in small, micro, and medium enterprises (MSMEs) in Tarakan City. Data collection was carried out using a survey method with a set of questionnaire. Survey responses submitted by respondents in this study indicated that knowledge sharing and absorptive capacity activities positively affect service innovation performance in micro, small and medium enterprises (MSMEs) in Tarakan City.

1. INTRODUCTION

Along with the rapid development of economic globalization and the rapid development of information technology, it shows that the level of competition between companies is getting stronger to win the market. To survive, companies need to introduce new goods and services and find new ways of doing business (Lee & Hidayat, 2017). In facing competition, the company must be able to turn into an innovative company stated that innovation is a way for companies to have sustainable competitiveness (Zhao et al., 2020).

Businesses that currently have very high levels of competition and are able to face all challenges in the field are micro, small, and medium enterprises (MSMEs). Susanti (2017) explains that small, micro, and medium enterprises (MSMEs) have a very vital role in economic development and growth, not only in developing countries like Indonesia but also in developed countries. The growth of new micro, small, and medium enterprises (MSMEs) will apply fierce competition among MSME actors, which in turn requires companies or micro, small, and medium enterprises (MSMEs) to innovate continuously to survive and sustainably (Xuan, 2020). Management of micro, small and medium enterprises (MSMEs) is required to have the ability to hear and understand customer desires (Kotler & Keller, 2016). Therefore, compliance with the aspects of knowledge sharing and absorption capacity between management and

employees needs to be developed (Hidayat & Lee, 2018b).

Based on the explanation of the ability of organizational innovation, it needs to be supported by important factors of knowledge sharing and absorption capacity. This study works to examine the effect of knowledge sharing and absorption capacity on innovation performance in micro, small and medium enterprises (MSMEs) in Tarakan City. This research was conducted in the micro, small, and medium enterprises (MSMEs) sector for several reasons. The first reason is that micro, small, and medium enterprises (MSMEs) in their management control are usually held by one person who acts as owner and manager, and the business they run usually uses labor as employees to help run their business (Sarwoto, 2018). This owner or manager becomes the main actor in employee and company development (Shohibul, Sarjiyanto, & Sarwoto, 2019). Based on this opinion, it is hoped that it can test the role of knowledge sharing and absorptive capacity whether it would be better if it was done at the level of micro, small, and medium enterprises (MSMEs). Because usually the management of large companies is often constrained by an understanding of the company's operations from manager level to seniority in the organization or company (Kambey, Wuryaningrat, & Kumajas, 2018). The reason these two studies were conducted in the micro, small, and medium enterprises (MSMEs) sector was because several previous studies linking the sharing of knowledge and basic

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capacities of companies had not monitored the micro, small, and medium enterprises (MSMEs) sector (Singh et al., 2021).

This research was conducted in Tarakan City, North Kalimantan Province. Tarakan City Statistics in 2020 recorded as many as 13,427 well-known MSMEs in Tarakan City. From these data, it can be seen that the increase in the growth of micro, small, and medium enterprises (MSMEs) in Tarakan City has been very good, this needs to be balanced with the quality of service of each micro, small, and medium enterprise (MSMEs). The high interest of the public to switch professions to become businessmen is currently many business people who have started to enjoy it directly by starting an incoming business. However, with the current conditions, business actors are required to be able to survive the problem of the Covid 19 outbreak which has been running for quite a long time. Management and services in the micro, small, and medium enterprise (MSME) sector are seriously needed so that this increase in the number of customers can be maintained.

2. LITERATUR REVIEW

2.1 Knowledge sharing

Nonaka and Takeuchi (1995) say that in knowledge management the basic concept is that knowledge can be shared. The ability of companies to utilize knowledge is highly dependent on the individuals in it, who create knowledge, share, and use. Furthermore, Hidayat and Lee (2018) explains that utilizing knowledge is only possible when people can share the knowledge they have and build the knowledge of others.

The same thing was conveyed by Chang, Liao, and Wu (2017) to determine the focus of knowledge management companies should focus on knowledge sharing. Furthermore, Hidayat and Lee (2018) explained that knowledge sharing is an important process in companies today. Knowledge sharing is successful in generating shared intellectual capital, a more important source. The use of the term knowledge sharing can be interpreted as the process of presenting individual knowledge into a form that can be used by others which involves several actions of individuals who have knowledge. When someone shares their knowledge, there is something important that becomes the basis for someone to share their knowledge. This is motivation. According Senda (2018), there are two motivations a person has when sharing knowledge, namely extrinsic motivation and intrinsic motivation.

Based on the explanation of knowledge sharing above, knowledge sharing in the context of this research can be defined as the process of interaction that occurs between team members to

share information or knowledge. This is done to increase innovation through (new) knowledge services within the company.

2.2 The effect of knowledge sharing on service innovation performance

Organizational ability in determining competitive advantage cannot be separated from the organization in creating knowledge which then carries out individual interactions in the organization (Dalkir, 2005). Furthermore, Dalkir (2005) explained that to determine the focus of knowledge management, companies must focus on knowledge sharing. Knowledge sharing is successful in generating shared intellectual capital, a more important source.

Davenport and Prusak (1998) define knowledge sharing as a process of voluntary sharing of expertise and experience needed throughout an organization. In line with this opinion, Dalkir (2005) concludes that knowledge sharing in society does not only consist of providing access to data and documents but there must be a connection into the social networks of the people that produce knowledge and who use knowledge. When someone shares his knowledge, there is something important that becomes the basis for someone to share his knowledge. This is motivation. According to (Nguyen, Nham, Froese, & Malik, 2019), there are two motivations a person has when sharing knowledge, namely extrinsic motivation and intrinsic motivation.

Previous research has had more impact on the impact of knowledge management in supporting, enhancing innovation, and the process of innovating across different business functions. Lee and Hidayat (2018) stated that team knowledge sharing activities have resulted in more coordinated team performance. Sharing knowledge can help employees with good and relevant information with fellow employees. Based on the above statement, it can be ignored that knowledge sharing activities can improve innovation performance in companies. This opinion occurs by research conducted by Lin (2007) that knowledge sharing has a positive effect on the innovation ability of the manufacturing industry. More specifically in the context of the service industry, proved that knowledge sharing activities have a positive effect on innovation performance in the hospitality sector (Monica Hu, et al., 2009). Based on this description, the first hypothesis can be drawn, namely:

H1: Knowledge sharing has a positive effect on service innovation performance

2.3 Effect of absorptive capacity on service innovation performance

Cohen (2000) define absorptive capacity as the ability of an organization to manage the value of new information, to assimilate it, and apply it to commercial purposes. Furthermore, Cohen & Levinthal (1990) explain that they assume that firm capacity tends to grow cumulatively, depending on the pathway and builds on existing knowledge: 'absorption capacity is more likely to be developed and maintained as a byproduct of routine activities when the new domain of knowledge is what the firm wants. exploit closely related to his current knowledge base. In addition, Wuryaningrat, Kindangen, Sendouw, & Lumanouw (2019) further explained that the power capacity is a construction level that indicates absorptive capacity is proportional to the firm-level build. Furthermore, Zahra (2016) in their research explain the reconceptualization of absorption capacity by proposing four dimensions, namely the ability to acquire, assimilate, transform, and exploit knowledge. The ability of organizational power also enables organizations to develop new ideas to solve existing problems by connecting the learning process and knowing knowledge. Furthermore, Zahra (2016) explain that absorption capacity is the intensity of effort and organization in identifying and obtaining the knowledge needed for operational activities obtained from the external environment. The ability of the organization to study or assess the prior knowledge that is owned, to synthesize knowledge, and to combine knowledge obtained from external sources. Organizational ability to develop and improve routines that facilitate combining existing knowledge with newly acquired knowledge. Organizational ability to improve, expand, and lift existing competencies or create new ones by combining acquired knowledge (Dalkir, 2005).

An empirical study by Wang et al. (2020) also shows that absorption is an important factor in predicting organizational innovation capabilities. On the other hand, Almulhim (2020) innovation the extent to which the company's existing internal capabilities and their interactions with external knowledge sources affect their level. Their research findings suggest that several possibilities result from a prolonged process of investment and knowledge accumulation within the firm and shape what has been discussed as a firm's absorptive capacity. Also, the results show that both internal capabilities and openness to knowledge sharing are important for enhancing innovative performance. In addition, analyzed the analysis of three variables related to industry structure (absorption capacity, technological opportunities, and abundance of knowledge) on innovative efforts developed by companies (Nieto & Quevedo, 2005). Based on

previous research, we argue that the level of ability and motivation of employees to work hard assesses company performance in developing technical and managerial innovation capabilities. Based on the above explanation, a second draw can be drawn:

H2: Absorption capacity has a positive effect on service innovation performance

2.4 Service innovation performance

Monica Hu et al. (2009) define service innovation performance as something new or something that is improved and done by companies to create added value directly for the company or directly for customers. The same thing was conveyed by Lee and Hidayat (2018) who said that innovation will improve performance, solve problems, add value, and create a competitive advantage for the company. Therefore, a deeper understanding of the nature of innovation is needed. Company management must ensure that innovation can be integrated into a corporate culture (Lee & Hidayat, 2018c). Furthermore, the innovation process relies heavily on knowledge (Dalkir, 2005).

Schweisfurth and Raasch (2018) state that the center of the problem in management innovation is management's concern. Managing attention is more difficult, because of the individual's adaptation to their environment. Based on the development of innovation, there are important things that must be considered that innovative behavior. Ganguly et al. (2020) explain that innovative behavior has the behavior of generating new useful ideas. Furthermore, Cyr and Choo (2010) concluded that individuals who have innovative behavior try to find support for the ideas they create and seek to build cooperation on these new ideas.

Companies that are said to be successful are companies that have more differences in terms of products, services, and overall company reputation (Indarti, 2017). In this case, the order that the company has includes the advantages of new services in the market. The presence of new services is expected to have an impact on customer satisfaction, followed by customer loyalty (Kotler & Keller, 2016). Good customer loyalty will create entry barriers for competitors. From these opinions, Ibidunni, Iyiola, & Ibidunni (2014) concluded that the development of new services is a process of new ideas or those that have been adopted in order to be effective for competitive advantages for the company. In an innovation management company, it is necessary because to create and develop fresh ideas that must continue to flow as making as possible and at any time in anticipation of the development of a dynamic world.

Hidayat and Lee (2018a) found that hotel services, restaurants, and tourism businesses tended to increase the quality of their innovation.

Furthermore, Oyemomi, Liu, Neaga, Chen, & Nakpodia (2019) taught the need for a new quality approach by replacing old ways of service. The service sector is currently developing rapidly, with this development it is deemed necessary to develop studies on the performance of service innovation in this sector (Monica Hu et al., 2009; Hidayat & Lee, 2018b;)

3. METHODOLOGY

The population in this study were employees who worked at small, micro and medium enterprises (MSMEs). The sample size in this study was 150 employees. This amount has met the minimum sample size requirement in multiple regression analysis (Hair, Black, Babin, & Anderson, 2010). The research sample was taken using a non-probability sampling method with a purposive sampling technique. The criteria used are employees who work at micro, small and medium enterprises (MSMEs) and have at least 1 year of experience in their field. These criteria were chosen because it is assumed that employees who have at least 1 year of work experience in their field have experience in sharing knowledge and know the culture in the company where they work (Hidayat & Lee, 2018a).

This measurement aims to identify knowledge-sharing activities carried out within the

company based on the perceptions of employees of micro, small and medium enterprises (MSMEs). Furthermore, the service innovation performance variable has two dimensions, namely innovative behavior and the development of new services. The service innovation performance variable was measured using 14 statement items developed by Monica Hu et al., (2009). This measurement is intended to show the level of innovation in small, micro, and medium enterprises (MSMEs). Knowledge sharing variable is operationalized with 11 statement items developed by Monica Hu et al., (2009). The focus of this measurement is to find out the knowledge-sharing activities carried out within the company based on the perceptions of employees of small, micro, and medium enterprises (MSMEs). The absorption variable has two dimensions, namely the employee's learning ability and employee's learning motivation. The absorption capacity variable was measured using a 12-item statement developed by (Liao, Fei, & Chen, 2007). This measurement is intended to show how much labor absorption is in micro, small and medium enterprises (MSMEs). Statistical analysis tests were carried out using SPSS 22 software. Table 1 provides information on construct variable, dimensions, instruments used and the item numbers in the questionnaire.

Table 1.
Construct and their measurements

Variable	Dimensions and Item	Measurement	n item
Knowledge Sharing	Symbiosis and Reputation (KS) I respect the impression of others that I am willing to help people In a work setting, I am willing to share my knowledge to repay colleagues who have helped me I want to be a person who has professional knowledge in the eyes of my peers I believe that sharing knowledge among co-workers can help build my image as an expert Helping fellow co-workers in solving work problems will make me feel happy and satisfied I believe that fellow colleagues should help each other to encourage knowledge sharing I enjoy learning and sharing knowledge through teamwork	Monica Hu et al. (2009)	11
	Altruism (KS) I will personally help other co-workers regardless of whether they need it I am willing to help other coworkers I am willing to use my free time to help other coworkers I really want to exchange knowledge without asking for anything in return		

Table 1.
Construct and their measurements

Variable	Dimensions and Item	Measurement	n item
Absorbitive capacity	<p>Employees' Ability (AC) I often share with my colleagues the new working skills that I learn. My colleagues often share with me the new working skills that they learn. I often share with my colleagues the new information I acquire. My colleagues often share with me the new information they acquire. Sharing knowledge with my colleagues is regarded as something normal in my company.</p> <p>Employees' motivation (AC) My colleagues often share with me the working skills they know when I ask them. I often share with my colleagues the working skills I know when they ask me. My colleagues often share with me the information they know when I ask them. I often share with my colleagues the information I know when they ask me. My colleagues often exchanges knowledge of working skills and information.</p>	Liao, Fei, & Chen (2007)	10
Service Innovation Performance	<p>Employee service innovation behavior (ESIB-SIP) At work, I come up with innovative and creative notions At work, I try to propose my own creative ideas and convince others At work, I seek new service techniques, methods, or techniques At work, I provide a suitable plan for developing new ideas At work, I try to secure the funding and resources needed to implement innovations Overall, I consider myself a creative member of my team</p> <p>New service development (NSD-SIP) This MSMEs would be willing to dedicate some resources to the development of new services The employees in MSME's current manpower is sufficient to handle the new services that need to be developed The employees in MSME's has a professional attitude toward developing new businesses or new product launches This MSMEs would be happy to offer incentives or promotions to members involved in the development of new businesses, upon the successful completion of the project The new services developed by this team are effective with respect to timing, resources and processes This MSMEs provides a suitable environment for developing new services The employees in MSME's are able to interact effectively in developing new businesses In developing new service projects, owners and all personnel in MSMEs collaborate closely</p>	Monica Hu et al. (2009)	14

4. RESULTS AND DISCUSSION

4.1 Profile of Respondents

Based on data from 150 workers who work at micro, small and medium enterprises (MSMEs) in Tarakan City who have been counted as respondents in this study, all of them are in accordance with the criteria for selecting respondents that have been determined by the researcher. Based on Table 2, most of the 68% of respondents in this study were women. Most of them are at a mature age, namely 24-29 years, with 24% of respondents. Respondents who work for micro, small, and medium enterprises (MSMEs) in Tarakan City who are responsible for this research mostly have a work experience ranging from 4-6 years as many as 18% of respondents. From these data, it can be interpreted that the respondents who work in the micro, small, and medium enterprises (MSMEs) sector in Tarakan City are female workers. Women are currently actively involved in the world of work, this defies the perception of society that only men should work

to fulfill their daily needs because men are the backbone of the family who has the obligation to support their families, while women only live in serving the household only, as if not allowed to work to help meet the needs of daily life. Furthermore, the education level of respondents in this study were respondents who came or graduated from Senior High School of 45.33% of respondents. From these data, it indicates that the education level of most workers in the MSMEs sector in Tarakan City. Furthermore, respondents in marital status, respondents who are involved in filling out the questionnaire data in this study who have the largest percentage are those who are married as much as 70.67%. From the description, it shows that workers at MSMEs in Tarakan City are married workers. Furthermore, the most dominant type of business in this study is the type of culinary business as much as 84.67%. This may imply that the type of culinary business in Tarakan City is still classified as very attractive to SMEs players in Tarakan City.

Table 2.
Respondent Profile

Dimension	Category	Respondent Total	Percentage
Gender	a. Man	48	32,00%
	b. Women	105	68,00%
Age	a. 17-23 Year	35	23,33%
	b. 24-29 Year	39	26,00%
	c. 30-35 Year	32	21,33%
	d. 36-39 Year	25	16,67%
	e. > 40 Year	19	12,67%
Length of working	a. 1-3 Year	22	14,67%
	b. 4-6 Year	27	18,00%
	c. 7-9 Year	23	15,33%
	d. 10-12 Year	25	16,67%
	e. 13-15 Year	11	7,33%
	f. 16-18 Year	19	12,67%
	g. 19-21 Year	13	8,67%
	h. >22 Year	10	6,67%
Level of education	a. Primary school	12	8,00%
	b. Junior high school	52	34,67%
	c. Senior High School	68	45,33%
	d. Diploma	15	10,00%
	e. Bachelor	3	2,00%
Marital status	a. Married	106	70,67%
	b. Single	35	23,33%
	c. Etc	9	6,00%
Type of business	a. Culinary	127	84,67%
	b. Seafood Processing	9	6,00%
	c. Tailor	3	2,00%
	d. Workshop	5	3,33%
	e. Mining Results	6	4,00%

Table 3.
Hypothesis Testing Results Using Regression

Variabel	Model 1		
	β	T	Sig.
Knowledge Sharing	0,616	5,890	0,00**
Absorptive Capacity	0,607	5,852	0,00**
F	168.697		0,00
R^2			0,618
Adjusted R^2			0,685

4.2 Results of First Hypothesis

Based on the results of statistical analysis that has been carried out, it shows that knowledge sharing has a positive and significant effect on service innovation performance in micro, small, and medium enterprises (MSMEs) in Tarakan City. Based on a significance level of 1%, it shows that knowledge sharing is a good variable to be used to predict service innovation performance. The level of confidence in this variable in predicting service innovation performance is very high. This is indicated by the error rate of the knowledge sharing variable in explaining service innovation performance is very small, namely 1%.

In the context of micro, small, and medium enterprises (MSMEs) in Tarakan City, sharing knowledge with service innovation performance has a unidirectional relationship. This means that when micro, small, and medium enterprises (MSMEs) in Tarakan City have a high level of knowledge sharing, it will make it easier for micro, small and medium enterprises (MSMEs) in Tarakan City to innovate in services provided to customers. The implementation of knowledge sharing will provide the creation of new knowledge within the company (Nonaka, 2008). Existing knowledge is a very valuable asset to be able to innovate in a company (Davenport & Prusak, 1998). Thus, support for the first hypothesis in this study is in line with the theories referred to (Davenport & Prusak, 1998; Nonaka, 2008) and the results of previous studies (Monica Hu et al., 2009; Hidayat & Lee, 2018b; Wuryaningrat, Nikolas, Kindengan, Sendouw, & Lumanouw, 2018).

In the context of employees at micro, small, and medium enterprises (MSMEs) in Tarakan City, the culture of togetherness is still closely related to the work culture in the business world, especially MSMEs. The character of Indonesian society that promotes mutual respect, respect, and cooperation makes it easier for them to share knowledge in the implementation of work. With this attitude, it will trigger the emergence of ideas or knowledge among micro, small and medium enterprises (MSMEs) in Tarakan City to make innovations in providing services to customers.

4.3 Results of Second Hypothesis

Based on the results of statistical analysis, it shows that absorptive capacity has a positive and significant effect on the performance of service innovation in micro, small, and medium enterprises (MSMEs) in Tarakan City. Absorptive capacity's ability to predict service innovation performance also has high confidence with an error rate of 1%. The positive coefficient value in the effect of absorptive capacity on service innovation performance shows that absorptive capacity has a direct relationship with service innovation performance in micro, small, and medium enterprises (MSMEs) in Tarakan City. This means that for micro, small, and medium enterprises (MSMEs) in Tarakan City, which prioritizes absorptive capacity in group operations, the company will find it easier to innovate in providing services to its customers.

In the context of micro, small, and medium enterprises (MSMEs) in Tarakan City, the culture of kinship and togetherness is woven into a culture and is highly respected in organizational and community life. An attitude of tolerance is a very strong basic asset in many ways, including in sharing knowledge and the absorptive capacity they live. This is in line with the research conducted by (Wuryaningrat, 2013; Lee & Hidayat, 2018) which explains that a good work environment will be able to facilitate the absorptive capacity process of each employee which will then be able to encourage innovation in the company.

5. CONCLUSION

This study aims to obtain empirical evidence of the effect of knowledge sharing and absorption capacity on the service innovation performance of micro, small and medium enterprises (MSMEs) in the city of Tarakan. Sharing knowledge and absorption in this study shows a positive and significant influence on the performance of service innovation for micro, small, and medium enterprises (MSMEs) in Tarakan City.

The conclusions of the research results can be presented in the following description:

1. This research can prove that knowledge sharing has an effect on innovation performance in

micro, small, and medium enterprises (MSMEs) in Tarakan City.

2. This research can prove that absorptive capacity has a positive effect on innovation performance in micro, small, and medium enterprises (MSMEs) in Tarakan City.

The implementation of this research has several limitations which are expected to be material in providing improvements for further research with relevant topics. Limitations and suggestions in this study are:

1. This study uses a cross-sectional study so that it is only able to explain a phenomenon at one time, the consequence is that there is no known effect of changing time. Service innovation is a diffusion process that can change over time, so that research can use service innovation with longitudinal studies.
2. Future research can be carried out in the context of different organizational cultures so that it can be seen that there is an influence of organizational culture on the performance of MSMEs service innovations (for example by comparing the management of micro, small, and medium enterprises (MSMEs) in Tarakan City (local) with small business management and medium (MSMEs) outside the State of Indonesia.

6. CONCLUSION

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