



Impact of Knowledge Sharing and Innovation on Small Business Performance

Yuni Utami¹✉, Mochamad Rofik², Niken Wahyu Cahyaningtyas¹,
and Dwi Prastowo Darminto³

¹ Universitas Pancasakti Tegal, Kota Tegal, Indonesia
yuvickachandra@gmail.com, nikenwahyu@upstegal.ac.id

² Universitas Muhammadiyah Malang, Malang, Indonesia
mochamadrofik81@gmail.com

³ Universitas Pancasila Jakarta, Jakarta, Indonesia
dwiprastowo81@yahoo.co.id

Abstract. This study aims to strengthen the literature, which claims that knowledge sharing has a vital role in the performance of small businesses. This study uses data from small businesses in East Java, Indonesia, and analyzes it using path analysis. The results of this study indicate; first, knowledge sharing has a direct positive effect on performance; second, the ability of innovation proves to mediate knowledge sharing and small business performance positively.

1 Introduction

There is a strong relationship between knowledge sharing and innovation capability with the business performance [1–4]. Literature also revealed, every time employees share real organizational experience and accumulated knowledge with others, innovation can also be improved [5]. Several researchers found that there was a significant positive influence between innovation capability and firm performance [1, 3]. Besides, knowledge sharing has a direct positive impact on the performance of the firm [1, 6].

Small business in Indonesia supports 60% of the national economy [7]. Also, small businesses can be a driver of diversification of labor absorption, for example, an area based on the mining sector with the development of small business will absorb more labor. Furthermore, the region's economy will be more resilient to shocks [8]. With a significant contribution, especially in labor absorption, small business still has problems in the quality of management and funding [9, 10].

Therefore, it is essential to giving attention to all aspects of small businesses, including intangible assets such as knowledge sharing, and innovation. This research contributes to providing a better understanding of people in business and government actors regarding knowledge sharing and innovation management. For small businesses, this research can be used as a foundation that the importance of investment costs and time to continue to improve the quality of knowledge sharing and innovation management. For the government, this research can be used as a reference for mentoring small businesses.

2 Research Method

This study used a sample of 57 small businesses in East Java, Indonesia. Data tabulation was carried out by distributing questionnaires. The research use path analysis which aims to show direct and indirect relationships between knowledge sharing and small business performances. The structural equation model of this research such as Fig. 1.

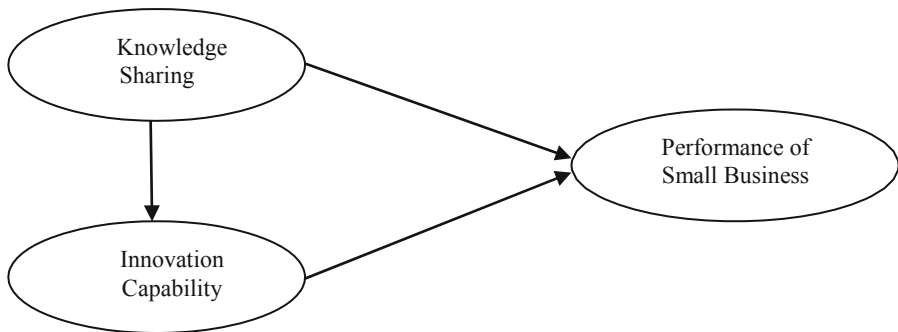


Fig. 1. Structural equation model of the research

3 Result and Discussion

The findings of this study indicate that each independent variable has a positive influence on the dependent variable (see Table 1). Knowledge sharing has a significant effect on the ability of innovation; the finding indicates that knowledge sharing can transform the essential experience [11, 12]. Subsequently, the small business accommodates ideas and brings up it at the beginning of innovation. Indeed, we cannot be sure that every knowledge sharing always raises innovation, at least knowledge sharing can encourage individual creativity before the advent of innovation at the management level [13].

The literature also shows that knowledge sharing will be more effective if the understanding is clear for all firm's elements, ranging from the owner, top management, and labor [4]. Besides, the success of knowledge sharing is also determined by the leader in an organization. A dynamic leader who is challenging with innovation shows more a positive indicator for firm performance [14].

The findings of this study also show that direct knowledge sharing has a positive influence on the performance of small businesses. We can quickly analyze, the existence of knowledge sharing activities makes the transfer of information and knowledge work, even if there is no innovation, at least there is knowledge transform. Knowledge sharing can open the way to face various problems, so solving problems, especially in non-routine issues, will be more efficient and effective [12, 15]. A small business does not need to solve the problem from the bottom line but cutting the process by mentoring from their colleagues or supervisors. Furthermore, knowledge sharing can increase efficiency and effectiveness, and small businesses can pass the time and budget to get better performance.

Table 1. Direct and indirect effect of variables.

Variable independent	Variable dependent	Direct effect	Indirect effect	Total effect	<i>p</i> -value	Information
Knowledge sharing	Innovation capability	0.244	0	0.244	.002	Significant
Innovation capability	Performance of small business	0.398	0	0.398	.000	Significant
Knowledge sharing	Performance of small business	0.268	0.097	0.365	.003	Significant

Note: the effect is significant when *p*-value $\leq .05$.

The innovation capability mediates knowledge sharing positively to the performance of small businesses. The result is supported by some literature which shows that innovation can mediate knowledge sharing on the performance of the small business [1, 3, 6]. If previously, the innovation capability was not created, knowledge sharing still had a positive influence on the performance of the small business. It can be ascertained that when knowledge sharing can improve innovation capability, it will be directly proportional to performance. However, it should be noted, innovation is generally disruptive so that not all changes have an immediate impact. Typically, it takes time delay before performance will look significantly better [5].

This research and several empirical studies show that knowledge sharing can increase small businesses' performance. Moreover, if knowledge sharing can be managed well through a learning organization, knowledge sharing may be a trigger for the beginning of innovation. However, this study reminds us that every innovation does not get immediate results; every change always takes time. Kind of studies also recommends using information technology such as social media and websites to increase the effectiveness of knowledge sharing [16, 17].

4 Conclusion

The findings of this study indicate that knowledge sharing has a vital role in improving the performance of small businesses both directly and through intermediaries of innovation ability. This finding reinforces the existing literature that business owners and small business practitioners should pay more attention to the role of knowledge sharing. The government also can contribute to pushing the performance of small businesses through strengthening knowledge sharing based on technology. For example, give small business free online workshops or build the database of the supply chain.

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