

# ENHANCING BUSINESS PERFORMANCE THROUGH LEARNING ORGANIZATION AND KNOWLEDGE SHARING CAPABILITY: THE MEDIATING EFFECT OF INNOVATION CAPABILITY USING PLS METHOD

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## ABSTRACT

*This research aims to analyze descriptive condition of Learning Organization, Knowledge Sharing Capability, Innovation Capability, and Business Performance perceived by employees at PT SIT GLOBAL SYSTEMS, an IT consultant company. Besides, research is to analyze influence of Learning Organization and Knowledge Sharing Capability (exogenous variables) on Innovation Capability and Business Performance (endogenous variables) in the company. This research used descriptive statistics and associative methods, with primary and secondary data obtained from observation, interview, and questionnaire to 50 employees as respondents. The data then were analyzed with SmartPLS 2.0 software by measuring loading factor (convergent validity), cross loading (discriminant validity), and reliability for outer model, and interpretation of  $R^2$  value, path coefficient, and total effect for inner model. Research found that the descriptive condition of Learning Organization and Knowledge Sharing Capability was on average level, whereas the descriptive condition of Innovation Capability and Business Performance was perceived well by the employees. Research concluded that Learning Organization has positive and significant influence on Innovation Capability; Knowledge Sharing Capability has positive and significant influence on Innovation Capability; Innovation Capability has positive and significant influence on Business Performance; Learning Organization has positive and significant influence on Business Performance, directly and indirectly through Innovation Capability; and Knowledge Sharing Capability has positive and significant influence on Business Performance, directly and indirectly through Innovation Capability.*

**Keywords:** learning organization, knowledge sharing capability, innovation capability, business performance, PLS, mediating effect

## ABSTRAK

*Penelitian bertujuan untuk menganalisis kondisi deskriptif Learning Organization, Knowledge Sharing Capability, Innovation Capability, dan Business Performance yang dirasakan oleh karyawan PT SIT GLOBAL SYSTEMS, sebuah perusahaan konsultan IT. Selain itu, penelitian menganalisis pengaruh Learning Organization dan Knowledge Sharing Capability (variabel eksogen) pada Innovation Capability dan Business Performance (variabel endogen) perusahaan. Penelitian menggunakan metode statistik deskriptif dan asosiatif, dengan data primer dan sekunder yang diperoleh dari observasi, wawancara, dan kuesioner kepada 50 karyawan sebagai responden. Data yang diperoleh kemudian dianalisis menggunakan software SmartPLS 2.0 dengan mengukur loading factor (validitas konvergen), cross loading (validitas diskriminan) dan reliabilitas untuk model luar, serta interpretasi nilai  $R^2$ , koefisien jalur, dan jumlah efek untuk model dalam. Hasil penelitian menunjukkan bahwa kondisi deskriptif Learning Organization dan Knowledge Sharing Capability pada tingkat rata-rata, sedangkan kondisi deskriptif Innovation Capability dan Business Performance dianggap baik oleh karyawan. Penelitian menyimpulkan bahwa Learning Organization berpengaruh positif dan signifikan terhadap Innovation Capability; Knowledge Sharing Capability berpengaruh positif dan signifikan terhadap Innovation Capability; Innovation Capability berpengaruh positif dan signifikan terhadap Business Performance; Learning Organization berpengaruh positif dan signifikan terhadap Business Performance, baik secara langsung maupun tidak langsung melalui Innovation Capability; dan Knowledge Sharing Capability berpengaruh positif dan signifikan terhadap Business Performance, baik secara langsung maupun tidak langsung melalui Innovation Capability.*

**Kata kunci:** learning organization, knowledge sharing capability, innovation capability, business performance, PLS, pengaruh perantara

## INTRODUCTION

Every established organization must have an objective to be successful and maintain the business success under whatever circumstances it is in by improving its performance. These days during the globalization and era of high technology advancement, to succeed in business, competition exists everywhere and impossible to be put off. Therefore in this fierce competitive business environment, there is a need for companies to have distinctive capabilities in order to distinguish them to other companies. In order to keep improving organizational performance, one of the capabilities that companies must have is innovation. To foster firm's innovation capability, which has always been linked and resulted to higher business performance, is not an easy task to be done. Human resources are crucial nowadays and employees are considered to be essential assets to an organization. The firm's capability of doing innovation depends on each individual's knowledge within the companies. Knowledge sharing is an important issue for companies to develop new knowledge, which bring about innovation to occur when employee knowledge is shared in organization. Beside knowledge sharing capability, innovation within firm can be fostered through learning process, in which, the firm turns into learning organization. It is crucial that organizations must continuously learn to anticipate the high uncertainty of competitive business environment because the level of performance and improvement needed today requires learning.

PT SIT GLOBAL SYSTEMS is a consulting firm, which provides IT and tax consulting service. It was established in 1997 by Mr. Park Hyung Dong (박형동) and is located in Kebayoran Baru, South Jakarta. Mr. Park originally came from South Jeolla Province (전라남도) in South Korea. He first came to Indonesia as a foreign worker for a South Korean company in 1988. Not until the year of 1997, he first started establishing his own company called "Sol-IT", which is the stepping stone of PT SIT GLOBAL SYSTEMS. Having the advantage of being a South Korean and understanding business system in Indonesia, Mr. Park attracts most of the clients from South Korean companies, which expanding their business in Indonesia and PT SIT GLOBAL SYSTEMS' main target of customer is South Korean companies. According to South Korean Embassy for Indonesia (2013), the number of South Korean companies established in Indonesia has been growing significantly from year to year and even more since 한류 (Korean Wave) in 2000s. As of now, there are approximately 31.000 South Korean people and 1.200 South Korean companies in Indonesia. Despite the prospective opportunity of increasing number of South Korean clients and networking with South Korean companies, which have been popular for technological advancement, PT SIT GLOBAL SYSTEMS has been struggling to improve its performance to expand the business success further, which is shown from the company's total revenue stagnant within these last five years, which only grows less than 4%.

In an interview with Mr. Park, he stated that the problem takes its focus on financial, as the company is going to expand its business to trading (import and export), however revenue growth within these past years does not support the idea. With less than 4% revenue growth is considered low, in comparison to other IT consulting in the industry. Mr. Park also stated the employees do not engage in their work for the company, for example concerning employee loyalty to the company leads to the high turnover rate. From the observation and interview with employees at the company, some stated that they were quite unhappy with the work environment, felt like no further learning opportunities, no opportunity for communication or participation, career advancement and felt misfit in the company as Mr. Park has to consistently control everything and order for each employees on what they have to do in their work. Whereas it has been noticed that the employees are left behind for having no opportunity of active participation and no further learning opportunities either as an individual or as a team, leaving the employees feel the need to speak up their ideas, share their minds, and utilize their knowledge. PT SIT GLOBAL SYSTEMS is in IT industry, which is a fast-growing industry, in order to generate high business performance, innovation is crucially needed. There should be a support that

enhances innovation within the company to generate higher innovation capability. Therefore, based on the phenomenon occurred, the problem that sparks stagnancy of business performance basically comes from the lack of support to innovation and open participation for new ideas and lack of support of learning to obtain new knowledge and sharing opportunities among members within the company.

Based on the problem stated above, the problem identification of this research is as follows. How is the descriptive condition of Learning Organization, Knowledge Sharing Capability, Innovation Capability and Business Performance at PT SIT GLOBAL SYSTEMS? How is the influence of Learning Organization on Innovation Capability at PT SIT GLOBAL SYSTEMS? How is the influence of Knowledge Sharing Capability on Innovation Capability at PT SIT GLOBAL SYSTEMS? How is the influence of Innovation Capability on Business Performance at PT SIT GLOBAL SYSTEMS? How is the influence of Learning Organization on Business Performance at PT SIT GLOBAL SYSTEMS directly and indirectly through Innovation Capability? How is the influence of Knowledge Sharing Capability on Business Performance at PT SIT GLOBAL SYSTEMS directly and indirectly through Innovation Capability? Therefore, purpose of research is (1) to understand the descriptive condition of Learning Organization, Knowledge Sharing Capability, Innovation Capability and Business Performance at PT SIT GLOBAL SYSTEMS (T-1); (2) to analyze how is the influence of Learning Organization on Innovation Capability at PT SIT GLOBAL SYSTEMS (T-2); (3) to analyze how is the influence of Knowledge Sharing Capability on Innovation Capability at PT SIT GLOBAL SYSTEMS (T-3); (4) to analyze how is the influence of Innovation Capability on Business Performance at PT SIT GLOBAL SYSTEMS (T-4); (5) to analyze how the influence of Learning Organization on Business Performance is at PT SIT GLOBAL SYSTEMS directly and indirectly through Innovation Capability (T-5); (6) to analyze how is the influence of Knowledge Sharing Capability on Business Performance at PT SIT GLOBAL SYSTEMS directly and indirectly through Innovation Capability (T-6).

Kolb (1976) stated: "learning is the process whereby knowledge is created through the transformation of experience." Learning is not solely what we do when we are in school or college, learning is crucial too during work life, when we transfer our basic knowledge obtained from formal education into practical in life of work. Learning happens throughout our lives. The world is changing quickly, thus, aside from learning as an individual, organizations must learn too, in order to survive and grow (Michael, 1985). All organizations learn, whether they consciously choose to or not, because learning is a fundamental requirement for their sustained existence (Kim, 1993).

Peter Senge is considered to be the "father" of learning organization (Dumaine, 1994). The learning organization concept gained broad recognition when Senge published his best-selling "*The Fifth Discipline*" book in 1990. Learning Organization is organization where people continually expand their ability and continuously learn (Senge, 1990:3). According to Maryani, Donna and Hapsari (2010), these are the reasons why to the need of learning organization: (1) intense business competition, (2) synergy among members, (3) rapid changes, (4) future and uncertainty anticipation.

Senge (1990), who popularized the concept of learning organization, stated that in order to build a learning organization, five dimensions are necessary. The five dimensions of learning organization are system thinking, shared vision, personal mastery, mental methods, and team learning. System thinking is described as understanding the inter-relationships and to act more in tune with the larger system in organization. It is expected that members must see the organization as a whole, not as collection of a few individuals. Systems thinking describes the understanding of interdependence. When members start to see the larger system in which they are a part of, they can take supportive actions to work together in order to support coordination of work within an organization.

The leaders must have their vision, which set for the goals of the organization to lead and direct where the organization is going to go. To build the synergy among leaders and employees about the vision of the organization by developing shared images of the future the organizations seek to

create, and the strategies and guiding practices by which they hope to get there. By having well-communicated vision, it helps planning for the future, determining reaction to current events and guiding at moments of decision (Calantone, Cavusgil and Zhao, 2002).

Personal mastery explains the willingness of members within organization to learn, in order to grow both as an individual and as member in the organization. Personal mastery explains individual learning to expand our personal ability to create the results we most desire. Organizations are needed to be flexible and open to new methods. Organization must be willing to learn new methods, which are appropriate to replace the unwanted or previous methods. Every member has their own knowledge and experience that has to be shared and learned together in order to build a team with learning concept within the organization. Transforming individual learning into collective learning, so that groups of people can develop intelligence and ability greater than the sum of individual members' talents.

Knowledge is defined by The Oxford English Dictionary as (i) expertise and skills acquired by a person through experience or education whether the theoretical or practical understanding of a subject, (ii) accumulation of information is known in a particular field. Knowledge management consists of four main processes, which are the process of capturing, storing, sharing, and using knowledge within an organization (Nonaka and Konno, 1998). There are some characteristics of knowledge (Halal, 2008) and one of them is that "knowledge increases when shared". Knowledge sharing is a process of interpersonal interaction in which knowledge is exchanged (Fatt and Khin, 2010). Knowledge sharing capability is the ability of members to share their work-related experience, expertise, know-how, and knowledge with other members through interactions within or across units (Kim and Lee 2006).

According to Mathuramaytha (2012), there are three dimensions for knowledge sharing capability. Firstly, willingness to share knowledge, the willingness to learn new things is an initial for the development of knowledge management. Many employees are unaware of the importance of sharing knowledge. Cabrera et al. (2006) discovered that openness is a main predictor of knowledge sharing. Secondly, capability to learn, learning can come from various sources, mainly experience from other members within the organizations. In this study, capability to learn is defined as the ability of employees to learn through experience. Thirdly, capability to transfer knowledge, firms can encourage and give opportunities to employees to think freely, to communicate ideas openly and to utilize knowledge to formulate innovation (Jaw and Liu, 2003). In this study, capability to transfer knowledge is defined as the ability to utilize knowledge for the benefit of firms.

As previously explained knowledge sharing is positively related to firm innovation capability and enhances organizational performance (Collins and Smith, 2006). Connelly and Kelloway (2003) investigated a number of factors that impact employees perceptions of knowledge sharing. The identified factors can be broadly categorized into groups: organizational factors (management support, organizational climate, organization size), individual factors (gender, age, employee relation).

Gopalakrishnan and Damanpour (1997:16) argued that innovation means "something new". In this rapid change of business environment, nothing is ever certain. Change is usually considered as a threat. A firm must be responsive to see the changes in business environment by exploiting the change into opportunities by doing innovation. Innovation capability is defined as comprehensive set of characteristics of an organization that support innovation activities (Burgelman *et al.*, 2004). According to Kasim and Noh (2012), there are three dimensions to identify innovation capability of organizations, which are innovativeness, capacity to innovate, and willingness to change.

Innovativeness is the readiness of organizations to adopt new ideas and transform them into new products or services, which supported by characteristics of organizations. The degree of innovativeness is examined through characteristic of open participation and risk taking in organizations. Hurley and Hult (1998:44) explained the open participation is openness for new ideas

as important aspect of organizational innovativeness. Organizational climate is crucial to support the condition of openness for new ideas. Opportunity must be given by organizations for every voice to be heard (Ahmed, 1998). Aside for open participation, risk taking is indeed crucial for innovativeness. Organizations can enhance its readiness for implementing new innovation by encouraging employees of risk taking. Despite the uncertainty condition of new innovation, risk tasking behavior must be encouraged.

Kasim and Noh (2012) argued it is not enough for organizations to encourage risk taking behavior, but they must be willing and able to do innovation. Organizations' capacity to innovate can be identified through commitment and implementation of new innovation. Business environment nowadays is volatile and uncertain, customer becomes dynamic, and therefore, organizations must be able to continuously respond to the change immediately in order to stay competitive. Failure to cope with the changes in business makes organizations definitely left behind by competitors (Kasim and Noh, 2012).

Organizational performance defines as the degree of accomplishment (Keban, 1995). This technically means that performance of an organization can be seen through how far an organization accomplishes objectives it set before. Indicator for business performance measurement needs to be linked to the objectives of the organization. According to Ho (2011), suitable indicators of business performance in IT industry are financial performance, market performance, and technology performance. Financial performance refers to the extent to which the organization performs financially. Mostly it is indicated by total sales growth. Market performance refers to the extent to which the organization performs in market. It is indicated by growth of new market. Technology performance refers to the extent to which the organization performs technologically. It is indicated by technological advancement to learn new methods within organization.

Hence, Figure 1 describes the conceptual framework of this research. Hypotheses of this research are below the figure.

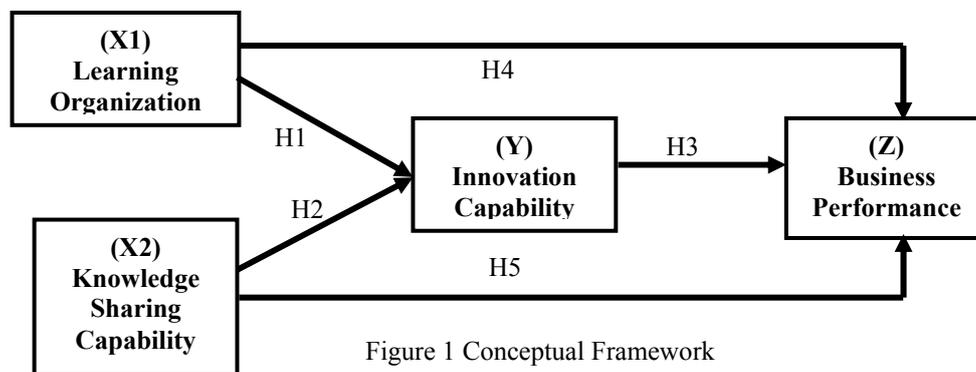


Figure 1 Conceptual Framework

**Hypotheses:**

- H1: There is influence of learning organization on innovation capability.
- H2: There is influence of knowledge sharing capability on innovation capability.
- H3: There is influence of innovation capability on business performance.
- H4: There is influence of learning organization on business performance directly and indirectly through innovation capability.
- H5: There is influence of knowledge sharing capability on business performance directly and indirectly through innovation capability.

## RESEARCH METHODS

The type of this research is descriptive and associative. Descriptive research was conducted to describe general condition of each variable. Associative research was conducted to understand the relationship among independent variables and dependent variable. In this research to understand and analyze the influence of Learning Organization and Knowledge Sharing Capability on Innovation Capability and the impact to Business Performance at PT SIT GLOBAL SYSTEMS, survey must be conducted. Survey is a method of research done within a population, but the data taken for the research is based on sample of the population (Sugiyono, 2006:7). Due to the limitation of amount of object, every population was included in this research without sampling method, which is called census. Population in this research was all of the employees in total of 50, excluding CEO, at PT SIT GLOBAL SYSTEMS. Time horizon used is cross-sectional, a study conducted by collecting data only once in a certain period, to answer questions related to the topic of this research (Sekaran, 2007:177).

In this research, type of data used is qualitative, which was obtained from the questionnaire to employees of PT SIT GLOBAL SYSTEMS. There are two types of source of data, which are primary and secondary data. Primary data was obtained from interview with CEO of PT SIT GLOBAL SYSTEMS, doing observation, and through questionnaire to all employees of PT SIT GLOBAL SYSTEMS, in total of 50 employees as unit analysis. Meanwhile, secondary data was obtained from existing information and gathered to complete primary data. The data obtained from questionnaire to the employees of PT SIT GLOBAL SYSTEMS was processed with SmartPLS 2.0 software. First testing was outer test or measurement model for validity and reliability construct test. Then, inner model test would be done to find influence or effect among each construct based on each hypotheses.

## RESULTS AND DISCUSSION

Research findings for respondent profile show from the total of 50 respondents, the majority is male (84%) with the total of 42 respondents, whereas female makes up 16% (8 people). While according to aspect of age, there are 4 respondents (8%) in the category of less than 20 years old. Class of 20s makes up for 32% with 16 respondents, whereas 4 respondents (4%) are in the 30s age and the highest percentage of 52% (26 respondents) are in the age span of 40 to 49. The youngest respondent is 18 years old (2 people), while 44 years old being the oldest (2 people). According to duration of employment, it is known that 16 respondents (32%) have been working at PT SIT GLOBAL SYSTEMS for less than a year, while 10 respondents (20%) have been working within span of 1 to 2 years. 6 respondents (12%) have been working for 2 to 3 years, and 2 respondents (4%) have been working for 3 to 4 years and 4 to 5 years each. Respondents who have been working for more than 5 years make up for 28% (14 people). It is known that there is a big gap between employment duration, where the highest percentage are in the early year category (<1 and 1 to 2 years) and late year category (> 5 years).

As purpose of research as being described as T-1 to give insight on descriptive condition of learning organization, knowledge sharing capability, innovation capability, and business performance as they are perceived by all respondents (employees) at PT SIT GLOBAL SYSTEMS, questionnaire was conducted. Data obtained from the 4-point likert scale questionnaire is tabulated and analyzed in descriptive statistics through the value of mean and standard deviation. To interpret and give category of label to the value of mean of each variables is divided into 4 categories: poor (1-1.75), average (1.76-2.5), good (2.51-3.25) and excellent (3.26-4). The result for descriptive statistics of each variables are: learning organization is perceived average (2.452), knowledge sharing capability is

perceived average (2.433) and innovation capability and business performance are perceived good with the value of mean of 2.524 and 2.713 respectively.

In this research, there are 4 latent variables, consisting of two exogenous variables (learning organization and knowledge sharing capability) and two endogenous variables (innovation capability and business performance). Learning organization/LO ( $\xi_1$ ) construct is measured by 5 indicators (X1-X5), knowledge sharing capability (KSC/ $\xi_2$ ) construct is measured by 3 indicators (X6-X8), innovation capability (IC/ $\eta_1$ ) construct is measured by 5 indicators (Y1-Y5) and business performance (BP/ $\eta_2$ ) construct is measured by 3 indicators (Y6-Y8). In PLS method, first must be conducted the test of outer model (convergent, discriminant validity and reliability) then inner model.

Convergent validity test is to measure how the indicator or manifest variable of a latent construct correlates one to another. Convergent validity test can be done with the criteria of value of loading factor and t-value of each loading factor. An indicator is considered valid if the value of factor loading  $\geq 0.7$  and t-value  $\geq 1.96$ . The result for value of loading factor is  $\geq 0.7$  and t-value for each indicator is  $\geq 1.96$ , indicating each indicator is valid within convergent validity test.

After the test of convergent validity, discriminant validity test must be conducted through the value of cross loading of indicator to its construct. Discriminant validity test is useful to measure how highly correlated of indicators to its construct, compare to other constructs. If the cross loading of the indicator for its construct is higher than for other constructs, it means that the construct predicts its indicator better than other constructs. The result for value of cross loading factor is that the value of loading factor of X1 is 0.7384 and is higher for its construct of Learning Organization (LO) than other constructs (Knowledge Sharing Capability/KSC, Innovation Capability/IC and Business Performance/BP). The same condition goes to all the indicators from X2 to Y8 in this research. It means the correlation of the indicator with its construct is higher to compare with other constructs. Overall, it complies to the criteria of discriminant validity.

Besides cross loading test, discriminant validity can be measured through comparing value of square root of average variance extracted ( $\sqrt{AVE}$ ) to its latent variable correlations. The result of AVE and  $\sqrt{AVE}$  value and the value of latent variable correlation are given below (Table 1 and Table 2).

Table 1 Construct AVE

Constructs	AVE	$\sqrt{AVE}$
LO	0.6518	0.8073
KSC	0.6038	0.7771
IC	0.8088	0.8993
BP	0.7908	0.8893

Table 2 Latent Variable Correlation

Latent Variable Correlation	LO	KSC	IC	BP
LO	1			
KSC	0.7485	1		
IC	0.7418	0.7158	1	
BP	0.7634	0.7172	0.8346	1

Measurement model test with the value of  $\sqrt{AVE}$  is to compare the value of  $\sqrt{AVE}$  for each construct to the value of latent variable correlation inter-construct. If the value of  $\sqrt{AVE}$  is higher than the value of latent variable correlation inter-construct, then discriminant validity is good and the value of AVE for each construct to be recommended  $> 0.5$  (Yamin & Kurniawan, 2009). It is shown above that the values of AVE for Learning Organization (0.6518), Knowledge Sharing Capability (0.6038), Innovation Capability (0.8088) and Business Performance (0.7908) are higher than 0.5, thus, discriminant validity through the value of AVE is good. It is also shown above that the value of  $\sqrt{AVE}$  is higher than the value of latent variable correlation inter-construct. The value of  $\sqrt{AVE}$  of Learning Organization is 0.8073 and is higher than value of latent variable correlation inter-construct (0.7485, 0.7418, and 0.7634). The same goes with the value of  $\sqrt{AVE}$  of Knowledge Sharing Capability is 0.7771 and is higher than the value of latent variable correlation inter-construct (0.7485, 0.7158 and 0.7172). The value of  $\sqrt{AVE}$  of Innovation Capability is 0.8993 and is higher than the value of latent variable correlation inter-construct (0.7418, 0.7158 and 0.8346). The value of  $\sqrt{AVE}$  of Business Performance is 0.8893 and is higher than the value of latent variable correlation inter-construct (0.7634, 0.7172 and 0.8346). Therefore, the criteria for discriminant validity are complied.

After convergent and discriminant validity, the last step of measurement model test is reliability test (Table 3), which can be seen through the value of composite reliability must be  $> 0.7$  and the value of Cronbach's Alpha must be  $> 0.5$ .

Table 3 Reliability Test

Construct	Composite Reliability	Parameter	Reliability	Cronbach's Alpha	Parameter	Reliability
LO	0.9028	$> 0.7$	<b>Reliable</b>	0.8645	$> 0.5$	<b>Reliable</b>
KSC	0.8205	$> 0.7$	<b>Reliable</b>	0.6772	$> 0.5$	<b>Reliable</b>
IC	0.9548	$> 0.7$	<b>Reliable</b>	0.9401	$> 0.5$	<b>Reliable</b>
BP	0.9184	$> 0.7$	<b>Reliable</b>	0.8657	$> 0.5$	<b>Reliable</b>

After measurement model test (convergent validity, discriminant validity and reliability), then inner or structural model must be tested, with the result of R square and the interpretation which indicates that 78.71% Innovation Capability variable is influenced by Learning Organization and Knowledge Sharing Capability, and the remaining 21.29% is influenced by other factors outside variables being studied in this research. Business Performance variable is influenced by Learning Organization, Knowledge Sharing Capability and Innovation Capability at 89.83% and the remaining 10.17% is influenced by other factors.

As it is mentioned earlier, there are 6 purposes of this research; T-1 has been explained previously to describe condition of learning organization, knowledge sharing capability, innovation capability and business performance as they are perceived by employees at PT SIT GLOBAL SYSTEMS. Here are the research findings on purpose of research from T-2 to T-6 given below to analyze the influence among variables (Table 4).

Table 4 Direct and Indirect Effect

Influence/Effect of Variables			Influence/Effect			T-value significance		
			Direct	Indirect	Total	Direct	Indirect	t-stat
Learning Organization (LO)	to	Innovation Capability (IC)	0.5257	-	0.5257	6.5162	-	>1.96
Knowledge Sharing Capability (KSC)	to	Innovation Capability (IC)	0.4223	-	0.4223	5.3229	-	>1.96
Innovation Capability (IC)	to	Business Performance (BP)	0.6368	-	0.6368	9.7596	-	>1.96
Learning Organization (LO)	to	Business Performance (BP)	0.2377	0.33477	0.5725	4.4171	7.7993	>1.96
Knowledge Sharing Capability (KSC)	to	Business Performance (BP)	0.1197	0.2689	0.3886	2.2994	5.1753	>1.96

From the summarization table above, it is concluded the total effect, direct effect and indirect effect (without mediation) of each hypotheses. According to t-value significance, it is concluded that each effect of variables whether directly or indirectly proves to be significant and positive, as t-calculated is bigger than t-statistics.

There are two types of mediation, namely full mediation and partial mediation (Baron and Kenny, 1986). It is concluded that effect of Learning Organization on Business Performance through mediating effect of Innovation Capability is partial mediation, as there is significant influence of Learning Organization on Business Performance both directly and indirectly through Innovation Capability. It is also concluded that effect of Knowledge Sharing Capability on Business Performance through mediating effect of Innovation Capability is partial mediation, as there is significant influence of Knowledge Sharing Capability on Business Performance both directly and indirectly through Innovation Capability.

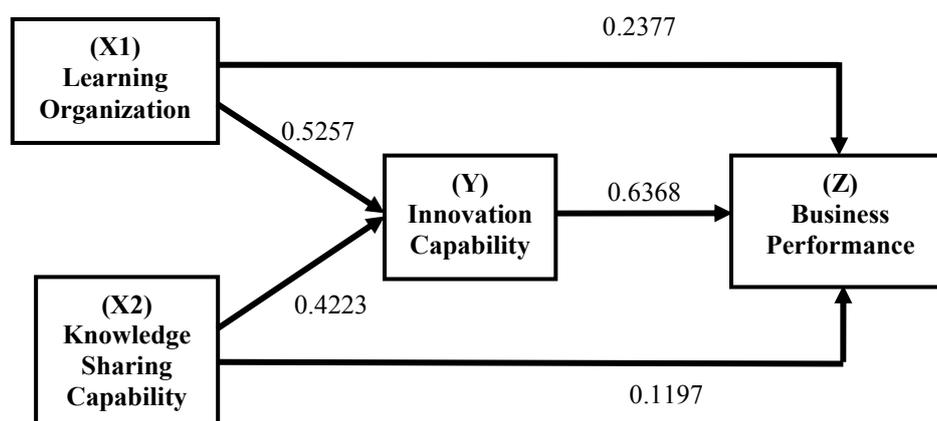


Figure 2 Direct Effect Coefficient

## CONCLUSION

From the findings of this research, the conclusions are as follows. The level of learning organization of PT SIT GLOBAL SYSTEMS is perceived on average level, the level of knowledge sharing capability of PT SIT GLOBAL SYSTEMS is average, whereas the level of innovation capability and business performance of PT SIT GLOBAL SYSTEMS are perceived good. Learning organization has influence on innovation capability at PT SIT GLOBAL SYSTEMS. The effect between learning organization and innovation capability is mainly because of becoming a learning organization, which emphasizes individual learning and collective learning, promotes new ideas as in creativity in helping the organization to be distinguished itself from the others. This new idea, of course, is a potential of new innovation, as a way to be adaptive to this ever-increasing business competition. Creativity sparks from continuous learning both as an individual and as team, which leads to higher innovation capability.

Knowledge sharing capability has influence on innovation capability at PT SIT GLOBAL SYSTEMS. In the era of knowledge-based these days, knowledge has become a crucial asset for organization. By continuous learning and obtaining new knowledge, then share the knowledge among members, organization may be able to utilize the new knowledge into implementation of new products, services or methods (innovation). Innovation capability influences business performance at PT SIT GLOBAL SYSTEMS. The factor of innovation capability influences business performance is that the objective of innovation is to create value for the business in this rapid change of business environment.

Learning organization influences business performance at PT SIT GLOBAL SYSTEMS directly and indirectly through innovation capability. By encouraging learning opportunity for employees, PT SIT GLOBAL SYSTEMS obtain more creative ideas, which may lead to better innovation capability. The more innovative an organization is the more possibility of better business performance. This explains learning organization influences business performance directly and indirectly. From the research findings, it is concluded that innovation capability mediates learning organization to higher business performance, compare direct effect learning organization on business performance alone. Thus, improving learning organization with the mediating effect of innovation capability will enhance better business performance.

Knowledge sharing capability influences business performance directly and indirectly through innovation capability. Despite of the little amount of previous research on this before, by improving knowledge sharing capability, it will lead to better business performance directly, or through innovation capability indirectly. From the research findings, it is concluded that innovation capability mediates knowledge sharing capability to higher business performance, compare direct effect knowledge sharing capability on business performance alone. Thus, improving knowledge sharing capability with the mediating effect of innovation capability will enhance better business performance.

### Suggestions

Suggestions for PT SIT GLOBAL SYSTEMS are as follows. Leader must be seen as coach and guide, instead of controller, as it may be perceived so right now. Leader is suggested to create organizational climate to support better shared vision with clarity of purpose, so that employees have the same and clear perception of what companies strive to achieve in the future and how to achieve the goals, and that way employees start to see that everyone is part of one whole company, not just collection of individuals, this will increase better coordination of work with organization. Creating organizational climate is essential for better communication, teamwork, empowerment of employees so that employees are being involved actively within company, rather than just following the order.

There has to be improvement of management support of giving learning opportunities for employees both as an individual and a team, as it is perceived that team learning is considered as the lowest point of learning organization indicator, which needs improvement. PT SIT GLOBAL SYSTEMS is suggested to improve knowledge sharing capability by encouraging of experimentation for new innovation, allowing employees to utilize their own knowledge at work, encouraging openness within each other to share knowledge. Bond among employees and leader must be encouraged to be better through communication in favoring of better trust, which leads to openness to share. However, gender moderates knowledge sharing activities, that female tend to perceive sharing more positively than male. It is known that the majority of employees at PT SIT GLOBAL SYSTEMS is male. Relation among employees also must be nurtured because the gap of employment duration at PT SIT GLOBAL SYSTEMS is high, which the majority are on early year of employment (<1 and 1-2 year) and late year of employment (>5 year), which may be unfavoring of knowledge sharing. PT SIT GLOBAL SYSTEMS is suggested to be more flexible and open to new ideas and accept risk taking behavior in experimentation for implementation of new ideas by encouraging open participation. Although it is perceived that level of commitment to innovation is good, it still needs to be improved by technological advancement. Technological advancement will help PT SIT GLOBAL SYSTEMS to be more innovative and enhance higher innovation capability. Lastly, reward must be taken into consideration, because it is a powerful motivator of behavior, thus, creating public recognition and financial bonus for innovative behavior may lead to higher innovation capability. PT SIT GLOBAL SYSTEMS to achieve better business performance, it is advised to cope with external environment better such as trends, business environment change and business opportunities. Besides, it is suggested to focus more on improving knowledge sharing capability and learning organization because they both are perceived as average level and because knowledge sharing capability and learning organization with the mediation of innovation capability is proven in this research to enhance business performance.

Suggestions for future research are as follows. There is a need for analyzing other indicators that might also influence variables being studied in this research because there is no standard or widely accepted indicators to measure each variable. It is suggested for future research to be longitudinal research to be more accurate and specific on the factors influencing variables studied in this research. It is suggested to find evidence and analyze the advantage and disadvantage of using 4-point likert scale without middle point in research. If there is a construct cannot be measured directly by its indicator, it is suggested to conduct second layer of Partial Least Square method, where the indicators will be broken down into sub-indicators to be more specific.

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