The Effect of Organizational Capability and Tacit Knowledge on Organizational Performance: A Case Study on Organizational Innovation Power as Mediation in the Indonesian Public Sector

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Abstract

This study aims to analyze the role of organizational capability, tacit knowledge and organizational innovation power on organizational performance in the public sector. Specifically testing the effect of organizational capability and tacit knowledge on organizational performance with organizational innovation power as a mediator. The population of this study was 1,912 High-ranking Pratama Officials (Echelon II) and Administrator Officials (Echelon III) in the scope of the Government throughout North Maluku Province. Sampling using stratified random sampling with data analysis carried out using SEM-PLS analysis. The study results prove that increasing organizational innovation power aligns with increasing tacit knowledge and organizational capability. Increasing organizational performance aligns with tacit knowledge, organizational capability, and organizational innovation power. Increasing organizational performance can improve tacit knowledge through organizational innovation power, but organizational innovation power does not mediate the role of organizational capability in improving organizational performance. This study provides practical implications for public sector organizations that should focus on tacit knowledge management and organizational capability enhancement through training and technology to drive innovation and improve organizational performance in the public sector. Theoretically, the implications of these findings strengthen the Resource-Based View (RBV) theory, which suggests that tacit knowledge and organizational capability are critical factors in driving innovation and performance. However, innovation only sometimes mediates the relationship between organizational capability and performance in the public sector. Moreover, regulatory implications for public sector organizational policies need to support collaboration and knowledge sharing and the use of technology to optimize capability and innovation to improve organizational performance in the public sector.

Keywords: Organizational Capability, Tacit Knowledge, Organizational Innovation Power, Organizational Performance, Public Sector

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1. INTRODUCTION

Public sector organizational performance began to develop in the 1970s and has grown rapidly with the emergence of New Public Management (NPM) in several developed countries, such as the UK, New Zealand, and the United States, to increase the efficiency, effectiveness and accountability of organizations (Bailey, 1989). In the public sector, organizational performance is essential for a country's economy (Tensay & Singh, 2020) and is attracting increasing attention (Keramida et al., 2023). Measuring public sector performance is assessing progress towards set goals, including resource use efficiency, quality of goods and services, and effectiveness in achieving the organization's vision and mission (Silitonga et al., 2017).

According to de Almeida et al. (2017), this performance measurement is essential to ensure that the public receives high-quality services. However, the performance of public services in Asian countries, such as Malaysia, is still less competitive, ranking 24th in the 2017 World Competitiveness Report, down from 12th in 2014. (Supramaniam & Singaravelloo, 2021)(Supramaniam & Singaravelloo, 2021). Likewise, in Indonesia, the performance of the North Maluku Province organization is still low in the quality of public services, as seen from the assessment of the Government Agency Performance Accountability System (SAKIP) during 2021-2023, where 50 percent of districts/cities obtained SAKIP scores of less than 30 to 50 (predicated sufficient), indicating an unreliable AKIP system and the need for fundamental improvements to improve organizational performance in the public sector. One of the causes is the need for more innovation from regional apparatuses, as reflected in the measurement of the regional innovation index, which is still at a less innovative level; there are even districts that cannot be assessed. Therefore, further study is needed on organizational performance in the public sector.

The above studies generally focus on factors such as motivation, planning, culture, total quality management, organizational excellence, entrepreneurial orientation, ethics, corruption, emotional intelligence, job satisfaction, learning management, and transformational leadership on organizational performance in the public sector. Thus, researchers have not found any studies examining the role of strategic leadership, tacit knowledge, and organizational capability on organizational performance in the public sector, with organizational innovation power as a mediating variable. However, several previous studies use innovation as a mediating variable, such as (Hoai et al., 2022 Moon et al., 2020; Putro et al., 2021), but use cultural values, entrepreneurial support, transformational leadership, ethical climate, and internal control systems as independent variables on organizational performance, so researchers have also not found any studies that examine the role of tacit knowledge, organizational capability on organizational innovation power and organizational performance in the public sector.

According to (García et al., 2022), organizational performance must consider and understand various factors that influence organizational performance. These factors include tacit knowledge, organizational capability, and organizational innovation (Nuseir & Refae, 2022; Qiao & Wang, 2021; Tom et al., 2023; Tran et al., 2022).

A lack of innovation partly causes suboptimal organizational performance. López et al. (2018) stated that organizations or companies that lack innovation will experience worse results and can result in decreased productivity. Innovation is essential in improving organizational performance and can increase economic growth and development (Agbim et al., 2013).

Schuldt and Gomes (2020) stated that innovation is related to the creation of ideas that have never existed before, so they are considered evolutionary and, in turn, produce better processes or products for society, which ultimately increases competitive advantage and organizational performance. Innovation is essential for the sustainability of a business or

organization and to improve organizational performance. Therefore, organizations must embrace the idea of innovation not only for the benefit of routine tasks but also for organizational management mechanisms (Yousef et al., 2017). Innovation will bring changes and improvements in implementing an organization's activities. The better implementation of innovation in a public sector organization will produce maximum performance and provide satisfaction in providing services to the public. Innovation has a positive effect on public sector organizational performance. It can be interpreted that the higher the implementation of innovation in an organization, the higher the organizational performance (Sciarelli et al., 2020).

Employee knowledge management is important to achieve superior organizational performance (Muthuveloo et al., 2017). In particular, tacit knowledge management is very important in carrying out daily work functions effectively and efficiently, which in turn will improve organizational performance. Suwanti (2019) stated that sharing tacit knowledge is important to improve work efficiency, increase productivity, encourage innovation, improve output accuracy, and minimize waste for businesses, individuals, and companies. Therefore, individuals and organizations must rely on sharing tacit knowledge.

Tacit knowledge is essential for organizations because it can be a source of vital assets in workers' daily tasks and activities (Boamah et al., 2023). Furthermore, López et al. (2019) stated that tacit knowledge is a source of competitive advantage that can improve organizational performance. The Resource View Theory explains the relationship between tacit knowledge and organizational performance (Barney, 2001; Grant, 2001), which states that resources are essential for the existence of any organization. Knowledge is recognized as the only resource and the main differentiator, and any organization needs to maintain its competitive advantage (Suppiah & Sandhu, 2011).

Existing empirical studies have revealed that organizational performance is influenced by tacit knowledge (Muthuveloo et al., 2017; Mardani et al., 2018; Qiao et al., 2021). Low organizational capability is another factor that causes organizational performance to be less than optimal. Organizational capability is the organization's internal strength, and it determines how an organization gains an advantage over other organizations, leading to increased performance (Barney, 1991; Penrose, 1959).

Organizational capability is also essential in determining performance (Shurafa & Mohamed, 2016). Organizational capability represents the ability of an organization or company to integrate, learn, and reconfigure internal and external resources (Teece et al., 1997; Teece, 2007; Wu, 2010). Organizational capability reflects several abilities to carry out organizational planning and operational activities and adapt to complex and dynamic environmental changes, including technological changes, customer/consumer behavior, and government regulations. Therefore, organizational capability must be directed to overcome all change forms, improving organizational performance (Nuseir & Refae, 2022).

The Resource-Based View Theory explains the relationship between organizational capability and performance (Barney, 2001; Grant, 2001), which states that resources are essential for any organization. Organizational capability refers to the RBV theory, which states that capabilities enhance the relationship between resources and organizational performance (Barney, 1991).

Based on previous empirical studies, this research gap was obtained: First Gap, no research has used innovation power as a mediating variable. The basis for including the organizational innovation power variable as a mediating variable can be explained as follows: Innovation is an essential factor influencing organizational performance (Hang et al., 2022; Zhang et al., 2022). Innovation is an essential component for competitiveness and survival embedded in an organization's organizational structure, processes, products, and services (Sethibe & Steyn, 2015). The second Gap, the influence of tacit knowledge on organizational performance, also has variations in research results. The third Gap, the influence of

organizational capability on organizational performance, has variations in research results. The existence of a research gap indicates that there is still a gap, and this is the first focus of attention for this researcher. The research gap between the influence of tacit knowledge and organizational capability on organizational performance is explained by including organizational innovation power as a mediating variable.

Based on the description, the researcher is interested in testing and studying the influence of tacit knowledge and organizational capability on organizational performance in the public sector, especially in the North Maluku Provincial Government and the Regency/City Governments throughout North Maluku Province using the mediation variable organizational innovation power. That also shows the originality of this study compared to previous studies on organizational innovation power in public sector organizations, which need to be more clearly revealed. This study tries to fill the gap further by testing the influence of tacit knowledge and organizational capability on organizational innovation power and organizational performance in the public sector. The existence of the mediation effect of the organizational innovation power variable also distinguishes this study from previous studies.

Based on the research gap described previously, the problem faced is that there are still variations in research results, namely the influence of tacit knowledge on organizational performance and the influence of organizational capability on organizational performance. This study aims to develop new theoretical approaches to overcome the research gap on the influence of tacit knowledge and organizational capability on organizational performance and to provide empirical evidence for the theoretical model to be developed.

2. LITERATURE REVIEW

2.1. Resources-Based View

In the early 1990s, a change in perspective was introduced, placing organizations closer to organizational resource factors as competitive advantages or Resource-Based Views (RBV). The RBV theory was developed by Barney (1991), which is a theoretical framework that focuses on the internal resources and capabilities of a company or organization as a source of sustainable competitive advantage based on a review of the combination of assets, expertise, capabilities, and intangible assets that are valuable, rare, difficult to imitate, and cannot be substituted (Barney, 1991).

Resources Base View (RBV) has an important role and attention in analyzing organizational performance from owned resources compared to product market activities because it provides a deeper view of how internal resources can be managed to become a source of sustainable competitive advantage and better decision-making to achieve the long-term goals of the company or organization (Suryani, 2018).

2.2. Organizational Performance

Performance is a work result that can be achieved by a person or group of people in an organization by their respective authorities and responsibilities to legally achieve the organization's goals without violating the law by morals and ethics (Sri Maryuni, 2016). Along with the increasingly complex market competition, good performance is one of the important goals that every organization must achieve to ensure its sustainability (Faez et al., 2021).

Organizational performance reflects the smoothness of organizational workflow, strategy realization, and resource utilization (Shen et al., 2022). Organizational performance is one of the most critical performance parameters of organizational functions, besides productivity, efficiency or effectiveness (Bieńkowska, 2020). The author defines organizational performance as the ability of an organization to carry out tasks and functions to achieve the organization's goals, objectives, mission and vision. Organizational performance focuses on

achieving results or goals and emphasizes the implementation process and use of resources to achieve goals.

2.3. Tacit Knowledge

Resources are essential for the existence of any organization. The Resource-Based View theory by Barney (2001) and Grant (2001) states that knowledge is recognized as the only differentiating resource and the main differentiator and is important for any organization to maintain its competitive advantage (Suppiah & Sandhu, 2011). Knowledge is a factor of production, and knowledge is used by intellectuals (Drucker, 2008). Yeboah (2023) suggests that knowledge as a factor of production is action-based and used by knowledge workers in practice, while knowledge used by intellectuals is theoretical and used in books and scientific journals.

For more than a few decades, researchers have been interested in tacit knowledge. In relation to tacit knowledge, researchers continue to interrogate tacit knowledge in various organizational contexts (Vera et al., 2022). Tacit knowledge is considered a key resource for organizations or companies that plays a vital role because workers develop and use this tacit knowledge to support their daily activities.

2.4. Organizational Capability

According to Grant (1991), organizational capability means that a company or organization can deploy organizational resources, such as tangible resources and intangible resources, to carry out an activity to improve organizational performance. Organizational capability has received much attention to improve the relationship between organizational resources and performance (Barney, 1991; Obeidat et al., 2017; Rehman et al., 2018; Shurafa & Mohamed, 2016). Furthermore, the organization's internal strength, which is the organization's ability, determines how an organization gains an advantage over other organizations and can ultimately improve performance (Barney, 1991; Penrose, 1959).

Organizational capability refers to the RBV theory, which states that capability enhances the relationship between resources and organizational performance (Barney, 1991). Rehman et al. (2019), in their study, found that increasing organizational capability could improve organizational performance by using resource orchestration theory and RBV theory. Therefore, this study uses organizational capability as an independent variable on organizational performance.

2.5. Hypothesis Development

2.5.1. Tacit Knowledge and Organizational Innovation Power

Tacit knowledge is practical knowledge related to work learned informally in the workplace that can become knowledge and is the organization's strength in daily business activities and decision-making. Several studies have proven that tacit knowledge influences innovation. Research conducted by (Wang & Hu, 2020) found that organizations that can build knowledge management capabilities through effective intra-organizational knowledge sharing and other knowledge management activities are more innovative (Ritala et al., 2015; Singh et al., 2021; Wang & Hu, 2020; J. Zhang et al., 2019). Then, research by Santoro et al. (2018) shows that knowledge management systems facilitate the creation of open and collaborative ecosystems and the exploitation of internal and external knowledge flows through the development of internal knowledge management capacity, increasing innovation capacity. In addition, for future research recommendations, the researchers suggest deepening the analysis of knowledge management strategies to drive innovation processes in organizations. Kucharska and Erickson (2023) also reported that shared tacit knowledge can be an essential

starting point for innovation processes and service innovation in organizations. They also confirmed a positive and significant relationship between tacit knowledge and innovation.

Tacit knowledge is unique personal knowledge expressed through practice, experience, and interaction in work that allows organizations to build sustainable capabilities (Ononye, 2021). Tacit knowledge is formed in subconscious learning either through direct experience or from others. Employees with strong tacit knowledge will benefit the organization, where the organization will have good innovation and performance capacity (Kucharska & Erickson, 2023). The description and results of the empirical research above, the hypothesis is formulated as follows:

H1: The better the Tacit knowledge, the more Organizational Innovation Power increases.

2.5.2. Organizational Capability and Organizational Innovation Power

Several studies have been conducted that prove that organizational capability influences organizational innovation. Sutanto (2017) researched lecturers from all universities in East Java Province, both state and private universities, and found that Organizational Learning Capability is a positive driving factor for Organizational Innovation. University managers and leaders who can create new ideas and generalize them to impact their departments will always try creatively to create new products, services, ideas, procedures, or processes to increase organizational innovation expected by the organization. The description and results of the empirical research above, the hypothesis is formulated as follows:

H2: The better the Organizational Capability, the greater the Organizational Innovation Power

2.5.3. Tacit Knowledge and Organizational Performance

Several studies have proven that tacit knowledge influences organizational performance. Research conducted by Muthuveloo et al. (2017) found that tacit knowledge management significantly affects organizational performance. However, among the four dimensions, namely socialization, internalization, externalization and combination, only socialization and internalization significantly affect tacit knowledge management on organizational performance. Abdelwhab Ali et al. (2019) argue that sharing explicit and tacit knowledge positively affects organizational performance. Olan et al. (2019) also found that tacit knowledge enhances a powerful new approach to organizational performance. Similar findings are similar to those of Singh et al. (2021), who found that tacit knowledge is crucial for achieving sustainable competitive advantage and can improve organizational performance.

Other empirical studies also confirm the positive influence of tacit knowledge on organizational performance (Ha, 2021). Tacit knowledge is unique personal knowledge expressed through practice, experience, and interaction in work that allows organizations to build sustainable capabilities (Ononye, 2021). Tacit knowledge is formed in subconscious learning either through direct experience or from others. Employees with strong tacit knowledge will provide benefits to the organization, where the organization will have good innovation capacity and performance (Kucharska & Erickson, 2023). The description and results of the empirical research above, the hypothesis is formulated as follows:

H3: The better the Tacit knowledge, the more Organizational Performance increases

2.5.4. Organizational Capability and Organizational Performance

Several studies have proven that organizational capability influences organizational performance. Research conducted by Rehman et al. (2019) on general managers and chief financial officers of the textile industry in Pakistan found that increasing organizational capability will increase organizational performance. Then, the research of Nuseir and Refae

(2022) revealed that organizational capability positively mediates the relationship between artificial intelligence, marketing strategy, and organizational performance in the tourism industry in the United Arab Emirates (UAE). A business company can use artificial intelligence to integrate physical and human resources and processes by producing more output and increasing organizational performance.

-Ur-Rehman et al. (2018) reported that cybernetic control and organizational capabilities significantly and positively influence organizational performance in the textile industry in Pakistan. Gupta et al. (2020), in a study conducted on employees working in organizations in various fields in India that use high technology in their operations, found a positive relationship between organizational capabilities in the form of big data predictive analytics (BDPA) and organizational performance. This study supports the criticality of human factors while developing dynamic analytical capabilities to achieve superior performance. The description and results of the empirical research above, the hypothesis is formulated as follows:

H4: The better the Organizational Capability, the more Organizational Performance will increase.

2.5.5. Organizational Innovation Power and Organizational Performance

Several studies have proven that innovation influences organizational performance. Wu (2016) research proved that social media marketing strategies, organizational culture, strategic leadership, organizational learning, social networks, and innovation orientation are critical factors in strengthening organizational performance. Research by Mardani et al. (2018) showed that the quality of innovation, knowledge creation, and knowledge integration significantly influence performance. Fartash et al. (2018) found that organizational innovation has a significant positive role in improving organizational performance. Organizational innovation is an essential factor that needs to be considered by organizational managers and business owners to achieve competitive advantage and improve organizational performance. Singh et al. (2021) reported that top management knowledge values and knowledge-sharing practices affect open innovation, affecting organizational performance. Sciarelli et al. (2020) identified that innovation positively impacts organizational performance.

Other studies also confirm innovation's positive and significant influence on organizational performance (Sharif & Muhammad, 2022; Tran et al., 2022). Innovation involves implementing new products or processes to improve overall competitiveness and profitability. It involves new methods to identify the needs of new and existing clients (Fartash et al., 2018). As market competition becomes increasingly fierce, innovation becomes an essential factor that can grow organizational competitiveness. Organizations developing innovation will gain advantages through long-term performance (Gomes et al., 2022). The description and results of the empirical research above, the hypothesis is formulated as follows:

H5: The better the Organizational Innovation Power, the more the Organizational Performance increases.

2.5.6. Tacit Knowledge, Organizational Performance and Organizational Innovation Power

Several studies have proven that tacit knowledge influences organizational performance. Research conducted by Abdelwhab et al. (2019) found that sharing explicit and tacit knowledge positively affects organizational performance. Olan et al. (2019) also found that tacit knowledge enhances a powerful new approach to organizational performance. Similar findings are similar to those of Singh et al. (2021), who found that tacit knowledge is crucial for achieving sustainable competitive advantage and can improve organizational performance. Qiao and Wang (2021) also reported that tacit knowledge has a positive impact on organizational performance in the supply chain in China. Other empirical studies also confirm

the positive influence of tacit knowledge on organizational performance (Ha, 2021). The description and results of the empirical research above, the hypothesis is formulated as follows:

H6: The better the tacit knowledge through organizational innovation power, the more organizational performance will increase.

2.5.7. Organizational Capability, Organizational Performance and Organizational Innovation Power

Several studies have proven that organizational capability influences organizational performance. Research conducted by Rehman et al. (2019) on general managers and chief financial officers of the textile industry in Pakistan found that increasing organizational capability will increase organizational performance. Then, the research of Nuseir and Refae (2022) revealed that organizational capability positively mediates the relationship between artificial intelligence, marketing strategy, and organizational performance in the tourism industry in the United Arab Emirates (UAE). A business company can use artificial intelligence to integrate physical and human resources and processes by producing more output and increasing organizational performance.

Another empirical study by Gupta et al. (2020) conducted on employees working in various fields in India that use high technology in their operations found a positive relationship between organizational capabilities in the form of big data predictive analytics (BDPA) and organizational performance. This study supports the criticality of human factors while developing dynamic analytical capabilities to achieve superior performance. The description and results of the empirical research above, the hypothesis is formulated as follows:

H7: The better the Organizational Capability through Organizational Innovation Power, the more Organizational Performance will increase.

3. RESEARCH METHOD

3.1. Sample and Data Collection

The population in this study was 1,912 High-ranking Officials (Echelon II Officials) and Administrator Officials (Echelon III Officials) in the North Maluku Provincial Government and Regency/City Governments throughout North Maluku Province. The number of samples taken was 348. The sample in this study was determined using stratified random sampling.

3.2. Method of collecting data

This study uses a questionnaire and research documentation. The questionnaire is closed and direct, so respondents only need to choose the available answers to get information. The questionnaire is given directly to respondents. This closed questionnaire consists of several statements or questions with several predetermined options. Respondents are asked to mark the option that is most appropriate for them.

In the data collection process, a pilot study was carried out first to ensure the quality of the instrument (questionnaire) used. The initial stage in the pilot study was face validity. Namely, the activity to validate the questionnaire that had been prepared by distributing it to 5 (five) questionnaires to respondents (lecturers and management practitioners). This activity was carried out so that selected respondents would provide views and opinions regarding the contents of the questionnaire related to understanding the substance and use of terms or language. From the existing input, revisions were made to terms and sentences that were easily digested by respondents for the perfection of the questionnaire. After revising the questionnaire, the next stage was to distribute it again to 53 respondents. That was done to test the validity and reliability of all items used in this study.

3.3. Data Analysis Techniques

The analysis technique used in this study is Partial Least Square Structural Equation Modeling (PLS-SEM), performed with the help of the SmartPLS 3.0 application. PLS-SEM is an analysis tool developed as an alternative to Covariance-Based Structural Equation Modeling (CB-SEM), which emphasizes predictive power and is not too demanding on sample size.

3.4. Descriptive Statistical Analysis

Descriptive statistical analysis will be used in this study as a tool for empirical description of the data collected in the study. Descriptive statistical analysis consists of frequency distribution, average statistics and index numbers. The respondent's answer numbers used range from 1 to 5. So, the resulting index numbers start from 10 to 100, with a range of 90 without the number 0. By using the five-box method, the range of 90 divided by 5 (five) will produce a range of 18, which will be used as the basis for interpreting the index value, with details (Ferdinand, 2014): value 10.00 - 28.00 is very low; value 28.01 - 46.00 is low; value 46.01 - 64.00 is moderate; value 64.01 - 82 is high; and value 82.01 - 100 is very high.

3.5. Hypothesis Testing

This study was designed by grouping variables into two forms, namely latent/construct variables (unobserved variables) and manifest variables (observed variables). Latent variables cannot be measured directly, so several indicators are required. In contrast, manifest variables can be measured or are indicators of latent variables (Ghozali, 2013). So, the data analysis technique used in this study is the Structural Equation Model. This technique is usually used to test relatively complex relationships/models. The advantage of this analysis technique in management studies is its ability to test structural models and their measurements simultaneously.

Inferential statistical analysis is intended to test all hypotheses in this study using Partial Least Square (PLS) analysis with the Smart PLS program. According to Hair et al. (2019), PLS models are usually analyzed and interpreted sequentially in two stages, namely: (1) Assessment of the reliability and validity of the measurement model and (2) Assessment of the structural model. The analysis of the structural model through PLS is carried out in several stages, namely:

1. Designing a structural model (inner model)
2. Designing a measurement model (outer model)
3. Constructing a path diagram
4. Converting a path diagram into a system of equations
5. Estimation
6. Goodness of fit

The instrument's validity was tested first through a pilot test before distributing the questionnaire. The pilot test was conducted on 53 State Civil Apparatus (ASN) officials in the North Maluku Province. The results of the convergent validity test and discriminant validity of the pilot test for each variable can be explained in the tables below.

Table 1. Convergent Validity of Pilot Test- Tacit Knowledge Variable

Variable	Construct	Outer Loading	Information
Tacit knowledge	TK1	0.848	Valid
	TK2	0.833	Valid
	TK3	0.709	Valid
	TK4	0.726	Valid

Source: Processed by researchers, 2024

The results of Table 1 above show that the four constructs in the tacit knowledge variable, which are derived from the construct of each variable, are declared valid with a factor loading value > 0.70.

Table 2. Convergent Validity of Pilot Test- Organizational Capability Variable

Variable	Construct	Outer Loading	Information
Organizational Capability	OC1	0,858	Valid
	OC2	0,823	Valid
	OC3	0,837	Valid
	OC4	0,842	Valid
	OC5	0,773	Valid
	OC6	0,879	Valid
	OC7	0,842	Valid

Source: Processed by researchers, 2024

The results of Table 2 above show that the seven constructs in the Organizational Capability variable, which are the constructs of each variable, are declared valid with a factor loading value > 0.70.

Table 3. Convergent Validity of Pilot Test- Organizational Innovation Power Variable

Variable	Construct	Outer Loading	Information
Organizational Innovation Power	OIP1	0,746	Valid
	OIP2	0,737	Valid
	OIP3	0,723	Valid
	OIP4	0,793	Valid
	OIP5	0,749	Valid
	OIP6	0,822	Valid
	OIP7	0,849	Valid

Source: Processed by researchers, 2024

The results of Table 3 above show that the seven constructs in the Organizational Innovation Power variable, which are the constructs of each variable, are declared valid with a factor loading value > 0.70.

Table 4. Convergent Validity of Pilot Test- Organizational Performance Variable

Variable	Construct	Outer Loading	Information
Organizational Performance	OP1	0,737	Valid
	OP2	0,832	Valid
	OP3	0,707	Valid
	OP4	0,877	Valid
	OP5	0,891	Valid
	OP6	0,847	Valid
	OP7	0,794	Valid

Source: Processed by researchers, 2024

The results of Table 4 above show that the seven constructs in the organizational performance variable, which are derived from the construct of each variable, are declared valid with a factor loading value > 0.70.

Table 5. Discriminant validity of the pilot test- Average Variance Extracted

Variable	*Average Variance Extracted*
Tacit Knowledge	0,611
Organizational Capability	0,700
Organizational Innovation Power	0,601
Organizational Performance	0,664

Source: Processed by researchers, 2024

Table 6 shows the Average Variance Extracted (AVE) value in the second pilot test results, with an outer loading of> 0.5. Thus, the convergent validity test plays a role. It shows that all variables used in this study have met the criteria for discriminant validity.

Table 6. Discriminant validity of the pilot test- Fornell Larcker

Variable	OC	OIP	OP	TK
Organization Capability	0.837			
Organizational Innovation Power	0.710	0.775		
Organizational Performance	0.774	0.643	0.815	
Tacit Knowledge	0.853	0.667	0.672	0.781

Source: Processed by researchers, 2024

The discriminant validity test in the PLS program application can also be seen from the Fornell Larcker criterion value by comparing each variable's square root AVE value with the square root AVE value of other variables in the model. Table 6 shows that each targeted variable's square root AVE value is higher than the square root AVE value of other variables. Thus, this research variable has passed the discriminant validity test.

4. RESULTS

4.1. Validity Test

Validity tests are conducted to show the level of validity and reliability of the instrument to be used in the study. Instrument testing in this study uses validity and reliability tests. The results of the convergent validity and discriminant validity tests of each variable can be explained in the tables below.

Table 7. Convergent Validity - Tacit Knowledge Variable

Variable	Construct	*Outer Loading*	Information
Tacit knowledge	TK1	0,819	Valid
	TK2	0,864	Valid
	TK3	0,759	Valid
	TK4	0,881	Valid

Source: Processed by researchers, 2024

The results of Table 7 above show that the four constructs in the tacit knowledge variable, derived from each variable's construct, are declared valid with a factor loading value > 0.70.

Table 8. Convergent Validity - Organizational Capability Variable

Variable	Construct	Outer Loading	Information
Organizational Capability	OC1	0,860	Valid
	OC2	0,858	Valid
	OC3	0,901	Valid
	OC4	0,905	Valid
	OC5	0,902	Valid
	OC6	0,846	Valid
	OC7	0,888	Valid

Source: Processed by researchers, 2024

The results of Table 8 above show that the seven constructs in the Organizational Capability variable, which are the constructs of each variable, are declared valid with a factor loading value > 0.70.

Table 9. Convergent Validity - Organizational Innovation Power Variable

Variable	Construct	Outer Loading	Information
Organizational Innovation Power	OIP1	0,853	Valid
	OIP2	0,778	Valid
	OIP3	0,817	Valid
	OIP4	0,883	Valid
	OIP5	0,863	Valid
	OIP6	0,910	Valid
	OIP7	0,864	Valid

Source: Processed by researchers, 2024

The results of Table 9 above show that the seven constructs in the Organizational Innovation Power variable, which are the constructs of each variable, are declared valid with a factor loading value > 0.70.

Table 10. Convergent Validity of t- Organizational Performance Variables

Variable	Construct	Outer Loading	Information
Organizational Performance	OP1	0,862	Valid
	OP2	0,892	Valid
	OP3	0,827	Valid
	OP4	0,912	Valid
	OP5	0,907	Valid
	OP6	0,917	Valid
	OIP7	0,895	Valid

Source: Processed by researchers, 2024

The results of Table 10 above show that the seven constructs in the organizational performance variable, derived from each variable's construct, are declared valid with a factor loading value > 0.70.

Table 11. Discriminant validity - Average Variance Extracted

Variable	Average Variance Extracted
Tacit Knowledge	0,692
Organizational Capability	0,775
Organizational Innovation Power	0,729
Organizational Performance	0,719

Source: Processed by researchers, 2024

The validity test of the reflective model measurement with the help of the PLS program application can be done through the convergent and discriminant validity tests. Table 11 shows the Average Variance Extracted (AVE) value in the results of the second pilot test, which has an outer loading of> 0.5. Thus, it is by the role of thum of the convergent validity test. That shows that all variables used in this study have met the discriminant validity criteria.

Table 12. Discriminant validity of pilot test- Heterotrait-Monotrait Ratio (HTMT)

Variable	OC	OIP	OP	TK
Organization Capability				
Organizational Innovation Power	0.867			
Organizational Performance	0.849	0.821		
Tacit Knowledge	0.878	0.777	0.833	

Source: Processed by researchers, 2024

The discriminant validity test in the PLS program application can also be seen from the Heterotrait-Monotrait Ratio (HTMT) criterion value, namely by looking at the high HTMT value results indicating a problem with discriminant validity. The HTMT rule of thumb is ≤ 0.90. Table 12 shows the HTMT Rule of Thumb value for each targeted variable ≤ 0.90. Thus, this research variable has passed the discriminant validity test.

Table 13. Discriminant validity - Fornell Larcker

Variable	OC	OIP	OP	TK
Organization Capability	0,880			
Organizational Innovation Power	0,820	0,854		
Organizational Performance	0,905	0,778	0,888	
Tacit Knowledge	0,806	0,706	0,764	0,832

Source: Processed by researchers, 2024

The discriminant validity test in the PLS program application can also be seen from the Fornell Larcker criterion value by comparing each variable's square root AVE value with the square root AVE value of other variables in the model. Table 13 shows that each targeted variable's square root AVE value is higher than the square root AVE value of other variables. Thus, this research variable has passed the discriminant validity test.

4.2. Reliability Test

The instrument developed in the questionnaire is considered reliable if it has a level of consistency in the results achieved. According to Hair et al. (2019), a reliability test using internal consistency tests the consistency of indicators in measuring a construct. Internal consistency in PLS can use two measures, namely Cronbach's alpha and composite reliability. Cronbach's alpha measures the lower limit of the reliability value, while composite reliability measures the actual value of the reliability of a construct. The rule of thumb for Cronbach's

alpha is more significant than 0.60, while the rule of thumb for composite reliability must be greater than 0.70, although a value of 0.60 is still acceptable.

Table 14. Reliability

Variable	Composite Reliability	Cronbach's Alpha
Tacit Knowledge	0,900	0,852
Organizational Capability	0,960	0,951
Organizational Innovation Power	0,949	0,937
Organizational Performance	0,963	0,955

Source: Processed by researchers, 2024

The test results in Table 14 above show that Cronbach's alpha value is > 0.60, and the composite reliability value is > 0.70 for all constructs used. Thus, it can be concluded that the instrument used in this study is reliable.

4.3. Hypothesis Testing Results

Table 18 below contains the summary results of hypothesis testing, both direct testing and indirect testing (mediation).

Table 15. Summary of Hypothesis Testing Results

Model	*β*	*T*	P Values	Conclusion
Tacit Knowledge -> Organizational Innovation Power	0,707	13,795	0,000	Supported
Organization Capability -> Organizational Innovation Power	0,820	29,255	0,000	Supported
Tacit knowledge -> Organizational Performance	0,765	12,422	0,000	Supported
Organization Capability -> Organizational Performance	0,906	40,220	0,000	Supported
Organizational Innovation Power -> Organizational Performance	0,779	18,381	0,000	Supported
Tacit knowledge -> Organizational Innovation Power -> Organizational Performance	0.337	5.529	0.000	Supported
Organization Capability -> Organizational Innovation Power -> Organizational Performance	0.089	1.567	0.118	Not Supported
Organizational Innovation Power; R Square(0.680); R Square Adjusted (0.678)				
Organizational Performance: R Square (0.831); R Square Adjusted (0.829)				
Statistical significance <0.05; t Table = 1.964				

Source: Processed by researchers, 2024

5. DISCUSSION

5.1. Tacit Knowledge and Organizational Innovation Power

The results of the hypothesis test show that Tacit knowledge affects organizational performance. These results strengthen the research conducted by (Wang & Hu, 2020), which found that organizations that can build knowledge management capabilities through effective

intra-organizational knowledge sharing and other knowledge management activities are more innovative (Ritala et al., 2015; Singh et al., 2021; Wang & Hu, 2020; J. Zhang et al., 2019). The results of the study also strengthen the research of Santoro et al. (2018), which emphasizes that knowledge management systems facilitate the creation of open and collaborative ecosystems and the exploitation of internal and external knowledge flows through the development of internal knowledge management capacity, which in turn increases innovation capacity. Tacit knowledge is unique personal knowledge expressed through practice, experience, and interaction in work that enables organizations to build sustainable capabilities (Ononye, 2021).

According to Oliva et al. (2019), a better knowledge management strategy is needed to drive organizational innovation. In addition, for future research recommendations, researchers suggest a deeper analysis of knowledge management strategies to drive organizational innovation processes. Kucharska and Erickson (2023) also reported that shared tacit knowledge can be an important start for innovation processes and service innovation in organizations. They also confirmed a positive and significant relationship between tacit knowledge and innovation. Tacit knowledge is formed in subconscious learning either through direct experience or from others. Employees with strong tacit knowledge will provide benefits to the organization, where the organization will have good innovation capacity and performance (Kucharska & Erickson, 2023).

5.2. Organizational Capability and Organizational Innovation Power

The results of the study prove that organizational capability affects organizational innovation power. This study's results align with research conducted by Sutanto (2017), who found that organizational learning capability is a positive driving factor for organizational innovation power. The results of this study strengthen the RBV theory, which states that Organizational Capability is a strategic resource that plays an essential role in creating competitive advantage, including the ability to produce innovation. In this context, capability functions as a bridge connecting organizational resources with increased performance through innovation. Therefore, Organizational capability improves the relationship between resources and organizational performance (Barney, 1991).

The results of this study are in line with Wang's (2021) research, which found that Organizational Capability has a positive effect on Organizational Innovation power. This study's results also confirm the Knowledge-Based Theory of the Firm, which explains that organized knowledge in company capabilities enables the development of knowledge-based innovation (Grant, 1996). The study's results also align with Haile and Tuzuner's research (2022), which shows that organizational learning capability positively affects Organizational Innovation power. Organizational capability, including learning capability, enables organizations to adopt and create new ideas relevant to market needs. This study emphasizes that organized capabilities, such as adaptability, resource management, and organizational learning development, are critical in driving sustainable innovation.

Organizational capability is an essential strategic element in driving organizational innovation power. This capability includes the organization's ability to manage resources, adopt learning, and utilize knowledge effectively to create relevant and sustainable innovations. With organized capabilities, organizations can face environmental changes, integrate new ideas, and increase added value through innovation. That shows that organizational capabilities are the foundation for internal management and the main driver for increasing Organizational Innovation Power in the public sector.

5.3. Tacit Knowledge and Organizational Performance

The results of this study prove that Tacit Knowledge has a positive effect on Organizational Performance. This study's results align with the research of Muthuveloo et al. (2017), who found that tacit knowledge management significantly affects organizational performance. The study's results are also in line with the research of Olan et al. (2019), which proves that tacit knowledge can improve organizational performance. Similar findings align with those of Singh et al. (2021), who found that tacit knowledge is crucial for achieving sustainable competitive advantage and improving organizational performance. Abdelwhab Ali et al. (2019) argue that sharing explicit and tacit knowledge positively affects organizational performance. Qiao and Wang (2021) also reported that tacit knowledge has a positive impact on organizational performance in the supply chain in China. In addition, Mardani et al. (2018) showed that knowledge management activities directly impact innovation and organizational performance and indirectly through increasing innovation capabilities. Liu et al. (2023) showed that knowledge management technologies positively affect organizational performance.

Tacit knowledge is unique personal knowledge expressed through practice, experience, and interaction in work that allows organizations to build sustainable capabilities (Ononye, 2021). According to Iksan et al. (2024), the majority of organizational knowledge consists of implicit knowledge, which consists of abstract components (instincts, perspectives, ideas, experiences, and competencies) that explain how and why someone solves a problem or task, where implicit knowledge is beneficial for an organization. That is according to Mahdi et al. (2023). Implicit knowledge can indirectly strengthen self-competence and improve performance in the public sector.

These empirical results also confirm the research results (Ha, 2021), which prove that tacit knowledge positively affects organizational performance. Tacit knowledge is formed in subconscious learning either through direct experience or from others. Employees with strong tacit knowledge will benefit the organization, where the organization will have good innovation and performance capacity (Kucharska & Erickson, 2023). Based on the research and studies above, tacit knowledge positively affects organizational performance, reinforcing the importance of personal and unique knowledge obtained through practice, experience, and interaction at work. Tacit knowledge is a strategic resource that enables organizations to build sustainable competitive advantage, increase innovation, and improve overall organizational performance. Tacit knowledge helps organizations transform individual experiences into innovative solutions, thereby driving long-term growth and success in the public sector.

5.4. Organizational Capability and Organizational Performance

The results of the study show that organizational capability has a positive effect on organizational performance. These results strengthen the RBV theory, which states that organizational capability as a strategic resource can significantly improve performance. According to Rehman et al. (2019), the study found that increasing organizational capability will improve organizational performance by using the help of resource orchestration theory and RBV theory.

These results are in line with research by Wang and Zeng (2017); Gomes and Wojahn (2017); Rehman et al. (2018); Hussain et al. (2018); Rehman et al. (2019); Mishra et al. (2019); Bhatti et al. (2020); Gupta et al., (2020); Nuseira and Refaea, (2022) showed that organizational capability has a positive effect on organizational performance.

These results also align with research conducted by Rehman et al. (2019) on general managers and chief financial officers of the textile industry in Pakistan, proving that increasing organizational capability will increase organizational performance. Similarly, research by Nuseir and Refae (2022) revealed that organizational capability positively mediates the relationship between artificial intelligence, marketing strategy, and organizational performance

in the tourism industry in the United Arab Emirates (UAE). A business company can use artificial intelligence to integrate physical and human resources and processes by producing more output and increasing organizational performance. According to Ur-Rehman et al. (2018), organizational capability positively influences organizational performance in Pakistan's textile industry. These results also confirm the research by Gupta et al. (2020) in India, which found a positive relationship between organizational performance. By managing capabilities effectively, organizations can utilize resources and technology optimally to achieve competitive advantage and better performance. However, there are differences in results in several contexts that indicate the need for a more specific approach according to industry and organizational characteristics.

5.5. Organizational Innovation Power and Organizational Performance

The results of this study indicate that organizational innovation power has a positive effect on organizational performance, which is in line with previous studies that identify innovation as a critical factor in improving organizational performance. As Wu (2016) found, innovation orientation is vital in strengthening organizational performance, indicating that the organization's ability to innovate contributes directly to goal achievement and competitive advantage. Mardani et al.'s (2018) research further emphasizes that the quality of innovation in products and processes significantly affects organizational performance, indicating that only high-quality innovation can drive improved performance.

Fartash et al.'s (2018) research also confirms that organizational innovation plays an important role in improving organizational performance. Continuous innovation helps organizations maintain competitiveness and achieve better performance. Innovation, as an activity that involves the implementation of new products or processes, is essential in identifying changing market needs, and this is becoming increasingly important in the face of increasingly fierce competition. With continuous innovation, organizations can respond to market demands, increase competitiveness, and create long-term benefits.

Furthermore, Singh et al.'s (2021) research highlights how knowledge-sharing practices and the value of knowledge from top managers drive open innovation, which in turn impacts organizational performance. Sciarelli et al. (2020) also identified that innovation has a significant positive impact on organizational performance, which aligns with the understanding that innovation is a strategy to improve processes and create products that can meet the needs of the growing market. The results of this study are further strengthened by the findings (Sharif & Muhammad, 2022; Tran et al., 2022) which emphasize that the effective implementation of innovation positively impacts organizational performance in the public sector. Organizations developing innovation will gain advantages through long-term performance (Gomes et al., 2022). Organizational innovation has a very large impact on improving performance. Organizations that continuously develop and implement innovation will gain a competitive advantage, improving organizational performance in the public sector.

5.6. Tacit Knowledge, Organizational Performance and Organizational Innovation Power

The results of this study prove that Tacit Knowledge affects Organizational Performance through Organizational Innovation Power. These results are in line with those of research by Singh et al. (2021), which found that tacit knowledge is very important for achieving sustainable competitive advantage and can improve organizational performance. These results show that tacit knowledge can encourage individual innovation and organizational power and improve organizational performance. Tacit knowledge that is personal and obtained through experience and interaction plays an important role in creating innovation that can improve organizational performance.

This result also aligns with research conducted by Abdelwhab et al. (2019), who found that sharing explicit and tacit knowledge positively affects organizational performance. Similarly, research by Olan et al. (2019) found that tacit knowledge enhances a powerful new approach to organizational performance. Qiao and Wang (2021) also reported that tacit knowledge has a positive impact on organizational performance in the supply chain in China. Other empirical studies also confirm the positive influence of tacit knowledge on organizational performance (Ha, 2021). Tacit knowledge is essential in the innovation process and as a bridge connecting innovation with better organizational performance. Tacit knowledge helps organizations adapt to change and generate innovative solutions that improve competitiveness and long-term organizational performance in the public sector.

5.7. Organizational Capability, Organizational Performance and Organizational Innovation Power

The results of this study prove that organizational capability is not mediated by organizational innovation power on organizational performance. This result is in line with the research of Nuseir and Refae (2022), which revealed that organizational capability positively mediates the relationship between artificial intelligence, marketing strategy, and organizational performance in the tourism industry in the United Arab Emirates (UAE). Through the proper application of artificial intelligence, a business company can integrate physical and human resources and processes to produce more output and increase organizational performance.

Independently, this study's results align with research conducted by Rehman et al. (2019) on general managers and chief financial officers of the textile industry in Pakistan, finding that increasing organizational capability will increase organizational performance. However, in terms of mediation, these results are also not in line with research by Gupta et al. (2020) conducted on employees working in organizations in various fields in India that use high technology in their operations found that there is a positive relationship between organizational capabilities in the form of big data predictive analytics (Big Data Predictive Analytics or BDPA) and organizational performance.

6. CONCLUSION

The increase in organizational innovation power aligns with the increase in tacit knowledge and organizational capability. The increase in organizational performance is in line with the increase in tacit knowledge, organizational capability and organizational innovation power. Although tacit knowledge can increase organizational performance through organizational innovation power, organizational innovation power does not mediate the role of organizational capability in increasing organizational performance.

Practical Implications:

Organizations should focus on managing tacit knowledge and enhancing organizational capability through training and technology to drive innovation and improve organizational performance in the public sector.

Theoretical Implications:

These findings reinforce the Resource-Based View (RBV) theory, which suggests that tacit knowledge and organizational capability are critical factors driving innovation and performance. However, innovation only sometimes mediates the relationship between organizational capability and performance in the public sector.

Regulatory Implications:

Organizational policies need to support collaboration and knowledge sharing and the use of technology to optimize capability and innovation to improve organizational performance in the public sector.

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