

Knowledge Management and Organizational Performance: The Mediating Role of Dynamic Capabilities

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ABSTRACT

This research examines the effect of knowledge management on organizational performance, with dynamic capability as a mediating variable. A quantitative research approach was applied. A survey was conducted using purposive random sampling. Data were collected manually by using a questionnaire. SmartPLS3 was used to analyze the data. The results showed that dynamic capability has been verified to mediate the relationship between knowledge management and performance. Greater knowledge management leads to higher performance, especially if the mediated dynamic capability is also greater. The managerial implications were that knowledge management and dynamic capability have prominent roles in organizational performance. Knowledge management and dynamic capability allow managers to optimize their creativity and innovation to develop ideas, which helps maximize the growth of organizational performance. The results supported the knowledge-based view (KBV). KBV serves as the foundation for comprehension of knowledge-based organizational theory. Knowledge significantly affects sustainable performance.



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INTRODUCTION

As assets issued by Muslims, zakat, infaq, and sadaqah (ZIS) play a significant role in the distribution of income and wealth; hence, they serve as economic incentives for production and investment (Firmansyah, 2013; Parisi, 2017). ZIS multiplies the Indonesian economy, including developing new employment, increasing income and buying power, and reducing poverty. Indonesia has a potential ZIS of IDR 327 trillion in 2022 as the nation with the highest Muslim population in the world, reaching 229,711,974 people (equivalent to 1.72% of GDP). It is required to maximize the performance of ZIS institutions in their collection and dissemination since ZIS's actualization is currently relatively lower (20%) than its potential (Nabillah et al., 2022).

Several ZIS institutions in Indonesia include 549 government-owned and 587 private institutions. The Amil Zakat Infaq and Sadaqah Institution (LAZIS) refers to national-level zakat, infaq and sadaqah institution that empowers communities through the productive use of zakat funds, infaq, waqf, and other philanthropic funds from individuals and organizations. LAZIS management institutions that adopt contemporary management and integrate ZIS into

society's expanding social problem-solving infrastructure. LAZIS has offices spreading all over Indonesia.

The COVID-19 pandemic and the fast growth of information technology are obstacles to LAZIS's efforts to enhance its performance and competitiveness continually. Knowledge management (KM) and dynamic capability (DC) are two crucial parts of LAZ's competitive advantage in constantly changing external environments. Knowledge will provide a competitive advantage by utilizing the most critical intangible input (Shujahat et al., 2021). Knowledge management provides managers with solutions to develop, retain, transmit, and utilize knowledge (Masrek & Zainol, 2015), while dynamic capability emphasizes upgrading resources by reconfiguring them with new competencies and skills (Teece et al., 1997).

Knowledge is an essential strategic corporate asset and resource for gaining a competitive advantage (Afqarina & Dihan, 2019; Sahibzada & Mumtaz, 2023). When a person joins an organization, he takes his expertise with him. Within the organization, the knowledge he contributes will be refined, followed by acquiring new information and experience or sharpening existing experience. Individuals in organizations grow their knowledge, abilities, and experience in various methods that the organization employs officially, methodically, and informally to improve themselves (Kristinawati & Tjakraatmadja, 2018), resulting in a learning process inside the organization. An employee's learning process is a way of self-development in which he gets more informed, experienced, and beneficial. Organizations require an employee's expertise to be preserved as organizational knowledge, even if the person moves, quits, or retires. The knowledge management process model, presented in four steps, socialization, extensification, combination, and internalization (SECI), explains managing individual knowledge into corporate knowledge (Masrek & Zainol, 2015).

LAZIS's competitive advantage cannot be discovered just on knowledge. Eisenhardt et al. (2010) asserted that competitive advantage originates from information repositories and an organization's capacity to produce, integrate, update, and exploit its knowledge assets. Furthermore, dynamic capability implies that organizations always attempt to extend, adapt, reconfigure, or even entirely transform their resources and expertise to produce value in a fast-changing dynamic environment (Katkalo et al., 2010). The capacity of a company to change its resources to produce value in a quickly changing environment is referred to as dynamic capability (Suherlan et al., 2019).

Research on the relationship between knowledge management, dynamic capability and performance has been widely carried out in the business sector, such as D'Este (2002) researching in pharmacy, Griffith et al. (2006) studying retail, Cepeda and Vera (2007) examining information and communication technology companies, as well as Chien and Tsai (2012) and Tseng and Lee (2014) investigating fast-food restaurants. Meanwhile, comparable research on non-profit organizations, particularly in the social area, has not been discovered, making it an attractive research topic to investigate to provide ideas for the growth of non-profit organizations in the social field.

This study examines the impact of knowledge management (KM) on dynamic capability (DC), the impact of knowledge management (KM) on organizational performance, the impact

of dynamic capability on organizational performance, and the impact of knowledge management (KM) on organizational performance at LAZIS in Indonesia using dynamic capability (DC) as a mediating variable.

LITERATURE REVIEW

Knowledge Management and Organizational Performance

Knowledge management (KM) was originally discussed at a European management conference 1986 (Maier & Hädrich, 2006). Organizations must constantly adapt to a dynamic environment, necessitating knowledge generation inside the company (Kristinawati & Tjakraatmadja, 2018). As Lee and Choi (2003) asserted, knowledge creation necessitates continual business innovation to attain a competitive advantage. Knowledge production is refining current information by discovering new knowledge or reflecting on previously encountered events. This process happens when workers maintain an open mindset, notice job faults, and strive to improve. The SECI idea, which stands for socialization, externalization, combination, and internalization, describes four key patterns of knowledge generation or conversion between individual knowledge and organizational knowledge to improve organizational performance (Masrek & Zainol, 2015).

Organizational performance is an intriguing and relevant issue. Financial performance is often used to measure organizational performance and organizational success is linked to profit. Along with the ability to handle change and give input to management decision-making, financial success alone is insufficient; organizational performance must also be evaluated in terms of customer satisfaction, learning, and development. Individual and collective performance combine to generate organizational performance. Understanding and improving organizational performance is required to accomplish optimum organizational objectives of good corporate governance (GCG). According to Obeidat et al. (2019), organizational performance is essential in designing, executing, and monitoring strategic goals and determining the organization's future path. Obeidat et al. (2019) further added that organizational performance includes strategic planning, operations, finance, and development.

The impact of knowledge management (KM) on organizational performance has been discussed in the literature as multiple researchers attempted to explore how specific knowledge management (KM) strategies affect the organization's performance. The knowledge-based view (KBV) approach forms the basis for building employee involvement in the company's routine activities. This approach is achieved through increasing employee involvement in formulating the company's operational and long-term goals. In the knowledge-based view, firms develop new knowledge that is important for competitive advantage from existing unique combinations of knowledge (Fleming, 2001). In this era of uncertainty, companies often compete by developing new knowledge faster than their competitors. A study by Kiessling et al. (2009) in Croatia indicated that a positive relationship exists between knowledge management (KM) and organizational performance (Kiessling et al., 2009). Gold et al. (2001) concluded a strong relationship between employee knowledge-based capacity and organizational results of item improvement, representative improvement, and firm development (Gold et al., 2001). Ha et al.

(2016) explained the positive and significant influence of Knowledge Management (KM) on the performance (P) of small and medium enterprise organizations in Malaysia. Based on the studies mentioned, the first hypothesis is formulated as follows.

H1. Knowledge Management is positively related to performance.

Dynamic Capability and dan Organizational Performance

According to Teece et al. (2016), dynamic capabilities are part of the competencies that enable companies to create new products or processes and respond to changing market conditions. Then, it was revised to reflect the company's ability to integrate, build, and reconfigure its internal and external competencies to cope with rapid environmental changes. Helfat and Martin (2015) suggest that dynamic capabilities involve adaptation and change as organizations build, integrate, or reconfigure resources and other capabilities. Barreto (2010) stated dynamic capabilities as a company's potential to solve problems systematically, formed by its tendency to identify opportunities and threats, make appropriate and market-oriented decisions, and change its resource base. Dynamic capabilities are intangible assets known as knowledge-based views (KBV).

Dynamic capabilities reflect the company's ability to achieve competitive advantage, meaning that dynamic capabilities are closely related to company performance. Griffith et al. (2006) showed that building dynamic capabilities in a company would improve company performance. Rindova and Fombrun (2001) found that dynamic capabilities are critical for a company's success in a competitive environment. Rindova and Kotha used a case study of Yahoo! and Excite, which had high competitiveness then. D'Este (2002) provided empirical evidence of pharmaceutical companies in Spain that sweetened capabilities enable companies to make changes and reconfigure resources to respond to market demand effectively. Chien and Tsai (2012) showed empirical evidence that dynamic capabilities improve restaurant performance in Taiwan. Based on the studies mentioned, the second and third hypotheses are formulated as follows.

H2. Dynamic capability is positively related to performance.

H3. Dynamic capability mediates the relationship between knowledge management and performance.

RESEARCH METHOD

LAZIS is a zakat, infaq and sadaqah institution with many achievements and can contribute to society, government and others (Ahmad & Rusdianto, 2018). Indonesia has 1.136 LAZISs, including 549 government-owned and 587 private institutions. Two hundred twenty-seven (227) respondents, those who had been operating for at least 3 years, were selected using a purposive sampling technique. The purposive sampling technique was chosen because not all population members have criteria that match the phenomenon being studied. Therefore, a purposive sampling technique was chosen, which determines certain considerations or criteria that must be fulfilled by the samples used in this research. This research used a questionnaire to collect primary data from LAZIS managers.

This study employed the Partial Least Square (PLS) method using the SmartPLS program. One of the Structural Equation Modeling (SEM) techniques, Partial Least Square, can directly assess latent variables, indicators, and measurement errors (Purwanto & Sudargini, 2021). In addition, PLS analysis combines confirmatory factor analysis (CFA), regression analysis, and path analysis (Rönkkö et al., 2023). PLS can be applied for all data sizes, does not need assumptions, and does not require a big sample size, but it can also establish connections without a theoretical foundation. In PLS analysis, there are two models: the measurement and structural models (Mohamad et al., 2019). The measurement model (external model) describes the relationship between latent variables and their corresponding indicators. Based on the substantive theory of research, the structural model (inner model) specifies the connection between latent variables (structural model).

RESULTS AND DISCUSSION

There were 227 participants in this study, and 211 questionnaires were filled out completely and well. Of the 211 respondents, 61.61% were men, and 38.39% were women. Moreover, 36,02% of respondents were between 41 and 50, 29,38% were between 31 and 40, 23,22% were under 30, and 11,37% were over 50. Regarding working positions, 65.88% of respondents worked as office leaders, 15,17% as division heads, 13,27% as secretaries, 3,32% as treasurers, and 2.37% as employees. Subsequently, 41,23% of respondents had bachelor's degrees, 33.65% held diploma degrees, 10,01% held senior high school degrees, and 7.11% had headmaster degrees.

Measurement Model Assessment

Figure 1 illustrates the effect of dynamic capability (DC) and knowledge management (KM) on LAZIS's performance.

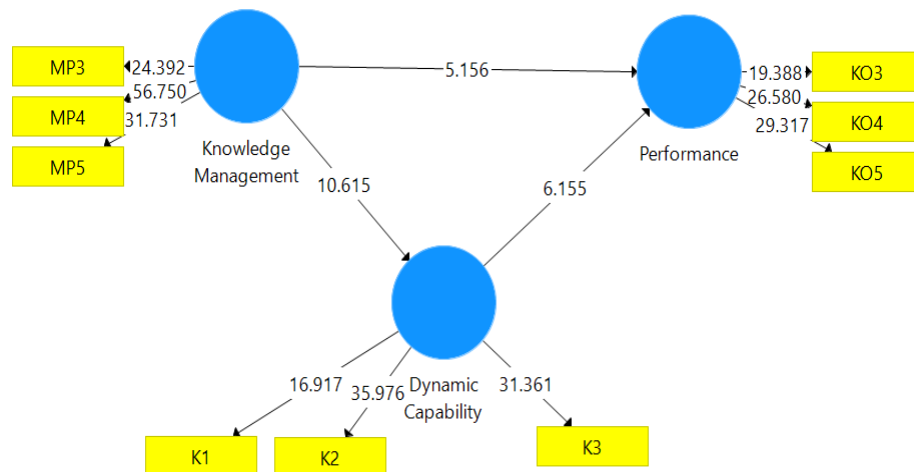


Figure 1. Outer Model

The outer model generated knowledge management (KM), represented by three indicators: dynamic capability (DC), represented by five indications, and performance (P), represented by

three indicators (Table 1). In the analysis phase, the outer reflective model was evaluated using four criteria, including verifying the validity and reliability of the variables by examining Convergent Validity, Cronbach’s Alpha, Composite Reliability, and Average Variance Extracted (AVE) for each variable (Hair et al., 2020; Jain & Dhir, 2021).

Table 1. Results of Outer Loadings

Variable	Indicator	Outer Loadings	AVE	CR	CA
Knowledge management (KM)	a. Knowledge creation	0.825	0.693	0.893	0.820
	b. Knowledge sharing	0.908			
	c. Knowledge Application	0.840			
Dynamic capability (DC)	a. Managerial Capability	0.783	0.693	0.871	0.780
	b. Employee knowledge and skills	0.863			
	c. Organizational Culture	0.849			
Performance (P)	a. Financial performance	0.762	0.693	0.847	0.729
	b. Operational performance	0.829			
	c. Organizational effectiveness	0.823			

Convergent validity aims to determine the validity of each relationship between the indicator and the construct or latent variable. The convergent validity of the measurement model with reflective indicators was assessed based on the correlation between item or component scores with latent variable or construct scores estimated by the SmartPLS program. In testing convergent validity, the outer loading value was utilized. The indicator meets convergent validity in the good category if the outer loading value is > 0.70 . The individual reflective measure is high if it correlates more than 0.70 with the measured construct (Hair et al., 2020; Jain & Dhir, 2021). The data revealed that all variable indicators acquired outer loading values of > 0.7 , which were declared valid for further analysis.

Discriminant validity was performed through the Average Variant Extracted (AVE) method. Each indicator has a criterion of > 0.5 to be valid (Hair et al., 2020; Jain & Dhir, 2021). The AVE value of the knowledge management (KM) variable was 0.742, the dynamic capability (DC) was 0.592, and the performance (P) was 0.710, demonstrating that all variables had good discriminant validity.

Composite reliability is part of testing the reliability value of variable indicators. A variable meets composite reliability if the composite reliability value is > 0.7 (Hair et al., 2020; Jain & Dhir, 2021). The composite reliability value of knowledge management (KM) was 0.896, the dynamic capability (DC) was 0.879, and the performance (P) attained 0.880. The value of each variable was > 0.7 , indicating that the three variables were reliable.

A variable is reliable if it has Cronbach’s alpha value of > 0.7 (Hair et al., 2020; Jain & Dhir, 2021). The Cronbach’s alpha of knowledge management (KM) obtained 0.825, the dynamic capability (DC) attained 0.828, and the performance (P) acquired 0.797. As all variables met Cronbach’s alpha value requirements, they had a high level of reliability.

Structural Model Assessment

Several tests comprising multicollinearity, the goodness of fit, path coefficient, and hypothesis testing were run to evaluate the inner model.

1. Multicollinearity test

This test sought to identify multicollinearity between variables by examining the tolerance value between independent variables. The findings of the collinearity statistics (VIF) for the knowledge management (KM) on dynamic capability (DC) were 1.000, 1.771 for performance (P), and 1.771 for the dynamic capability (DC) on performance (P). Following the value of each VIF variable of < 3-5, the multicollinearity test is not violated.

Table 2. Results of Collinearity Statistics (VIF)

Collinearity Statistics (VIF)	Knowledge Management	Dynamic Capability	Performance
Knowledge Management		1.000	1.399
Dynamic Capability			1.399
Performance			

2. The Goodness of Fit Test

Coefficient Determination (R-Square) was employed to assess the extent to which other variables fulfilled the dependent variable. $R^2 > 0.07$ indicates a strong effect of the independent variable on the dependent variable, whereas R^2 between 0.33 and 0.67 signifies a moderate influence, and R^2 between 0.19 and 0.33 implies a weak influence (Hair et al., 2020).

Table 3. Results of R-Square

	R-Square	R-Adjusted
Dynamic Capability	0.285	0.282
Performance	0.503	0.498

R-Square was deployed to determine the impact of knowledge management (KM) on dynamic capability (DC) and the extent of knowledge management's influence on performance (P). Knowledge management (KM) possessed a 43.5% effect on the dynamic capability (DC) and a 55.8% influence on performance (P).

The Q-Square value was utilized to determine the Goodness of Fit. The Q-Square value corresponds to the Coefficient Determination (R-Square) in that the greater the Q-Square value, the more accurate the model.

$$Q^2 = 1 - (1 - R_1^2) \times (1 - R_2^2) \times (1 - R_3^2)$$

$$Q^2 = 1 - [(1 - 0.285) \times (1 - 0.503)]$$

$$Q^2 = 1 - [(0.715) \times (0.497)]$$

$$Q^2 = 1 - [0.355]$$

$$Q^2 = 0.6447$$

The Q-Square value of 0.6447 indicates that the research model describes 64.47% of the data diversity, while the remaining 35.53% is explained by variables other than the model. This model has an excellent Goodness of Fit.

3. Path Coefficient Test

The path coefficient test reveals the influence of the independent variable on the dependent variable. The path coefficient was demonstrated by the effects of knowledge management (KM) on dynamic capability (DC) (9.505), knowledge management (KM) on performance (P) (3.722), and dynamic capability (DC) on performance (P) (3.508). These findings indicate that each variable in the model has a positive path coefficient. In short, the greater the path coefficient value of one independent variable to the dependent variable, the stronger the influence between the dependent variables.

Hypothesis Testing

1. Direct Effect Test

This study tested three hypotheses using the bootstrapping analysis method. Through the findings of the t-statistic, the influence of the significance level between the independent and the dependent variables can be determined. H0 is rejected if the t-statistic value is more than 1.967 or the P-value is less than 0.05.

Table 4. Results of Direct Effect Test (Path Coefficient)

Path Coefficient	Hypothesis	Direction	Amount of Influence	t-Statistics	t-Table	P-Value	Description
Knowledge Management -> Dynamic Capability	H1	+	0.534	10.615	1.988	0.000	Significant Positive
Knowledge Management -> Performance	H2	+	0.353	5.156	1.988	0.000	Significant Positive
Dynamic capability -> Performance	H3	+	0.455	6.155	1.988	0.000	Significant Positive

The t-statistic value for the direct impact of knowledge management (KM) on dynamic capability (DC) was 9.551, and the P-value was 0.000. Therefore, knowledge management (KM) had a positive and statistically significant effect on dynamic capability (DC). When a company can improve its knowledge management (KM), its dynamic capability (DC) will expand (Irmawati et al., 2021; Permatasari et al., 2023; Turulja & Bajgoric, 2018).

Knowledge management (KM) significantly impacts dynamic capability (DC) since if an organization is not managed by knowledge, it will be impossible to increase its ability. The knowledge resource on religious and social issues is one of the reasons why LAZIS across Central Java possesses adequate capability. If the organization has a mature grasp of these aspects, it will be simple to enhance its skills. LAZIS does not make judgments arbitrarily; all decisions are based on various decisions, with knowledge management as one of the organization's pillars to ensure its excellent capability. Hence, H1—knowledge management (KM) positively affects dynamic capability (DC) and is accepted.

The t-statistic value of the direct influence of knowledge management (KM) on performance (P) was 3.611, and the P-value was 0.000. Hence, knowledge management (KM) positively and significantly affected performance (P). Knowledge management (KM) could

strengthen organizational performance positively. These results are supported by Fahmi et al. (2020), Najmi et al. (2018) and Permatasari et al. (2023). Positive influence means that improving the knowledge management (KM) of LAZIS managers would increase the performance of LAZIS. Thus, H2—knowledge management (KM) positively affects performance (P) and is accepted.

The t-statistic value of the direct influence of dynamic capability (DC) on performance (P) was 3.362, and the P-value was 0.001, indicating dynamic capability's positive and significant effect. The organization's ability to face the challenges of the external environment significantly influences organizational performance. When dynamic capability increases, organizational performance also increases. LAZIS could improve its performance by establishing good relations with internal and external offices, increasing innovation to adapt programs to the convenience of technology, and being responsive to social phenomena. These results are supported by Jain and Dhir (2021), Permatasari et al. (2023), Rehman et al. (2019), and Turulja and Bajgoric (2018). Therefore, H3—dynamic capability (DC) has a positive effect on acceptable performance (P) is accepted.

2. *Indirect Effect Test*

The indirect effect test aimed to determine the indirect influence of knowledge management (KM) on performance (P) through dynamic capability (DC).

Table 5. Indirect Test Results (Indirect Effects)

Indirect Effects	Original Sample	P-value	Description
Knowledge Management -> Dynamic Capability -> Performance	0.243	0,000	Significant Positive

The t-statistic for the indirect effect of knowledge management (KM) on performance (P) through dynamic capability (DC) was 2.943, with a P-value of 0.000. Positive and substantial effects of knowledge management (KM) on performance (P) through dynamic capability (DC) were concluded. This result is in line with Dzhengiz and Niesten (2020). Hence, H4—knowledge management (KM) has an indirect effect on performance (P) mediated by indirect knowledge management (KM) on performance (P) through dynamic capability (DC) is accepted.

3. *The total effect of the relationship between knowledge management (KM) and performance (P) with dynamic capability (DC) as a mediating variable*

The total impact of the relationship between variables determines whether a completely mediated or partially mediated relationship exists in the model. Fully mediated relationships refer to those in which the independent variable exerts a significant influence on the mediating variable and the mediating variable exerts a significant influence on the dependent variable. However, the direct effect of the independent variable on the dependent variable is insignificant. Partial mediation is a relationship in which there is a significant influence on all variables, including the influence of the independent variable on the mediating variable, the effect of the

mediating variable on the dependent variable, and the direct influence of the independent variable on the dependent variable.

Table 6. Result of Total Effect of Relationship between Knowledge Management (KM) and Performance (P) with Dynamic Capability (DC) as A Mediating Variable

	T-Statistics	t-table	Description
Knowledge management -> Dynamic Capability	10.615	1.988	Significant Positive
Knowledge management -> Performance	5.156	1.988	Significant Positive
Dynamic capability -> Performance	6.155	1.988	Significant Positive

A significant relationship existed between knowledge management (KM) and dynamic capability (DC), with a significant value of 9.501, between knowledge management (KM) on performance (P), with a significant value of 8.684, and between dynamic capability (DC) on the performance (P), with a significant value of 3.362. Thus, the relationship was partial mediation. This finding is corroborated by the research of (Najmi et al., 2018).

According to the findings of Wei et al. (2011), the dynamic capability (DC) moderated the relationship between knowledge management (KM) and performance (P) positively and significantly.

Dynamic capability (DC) is the capacity to deploy assets to boost operational efficiency (Teece, 2007). In most instances, research has demonstrated that constructing or enhancing different areas of organizational competence results in enhanced performance. Although both knowledge management (KM) and capability are essential for generating competitive advantage, they are distinct elements. Knowledge management (KM) is an asset with often distinct inputs to the process. Resources are assets that often serve as inputs to corporate operations. Capability aims to establish an effective and efficient procedure for resource deployment and value creation. This research defines organizational performance capacity as the employee-level ability to acquire and utilize resources to fulfil tasks and achieve organizational objectives.

This research optimizes organizational capability as the amount to which people learn knowledge, and the business detects consumer expectations and adapts to satisfy them. Knowledge-based theory illustrates how information-based resources effectively produce new knowledge or technologies that are only valuable if workers absorb and utilize them. Knowledge is vital for developing internal and external capabilities, such as technical and marketing skills and inter-organizational networks. Knight and Tamer Cavusgil (2004) suggested that generating new knowledge might result in the growth of organizational capability, enhancing its responsiveness to change. Knowledge associated with business decision-making is another part of organizational competency, and those with superior knowledge in these crucial areas could perform above average (Pertusa-Ortega et al., 2010). Over time, both knowledge management (KM) and organizational capability evolve. Such adjustments are often required if the advantages generated from organizational capability are to be sustained (Danneels, 2011; Vlas et al., 2022). However, organizational capability based on knowledge management (KM) will boost organizational performance under static and dynamic situations.

CONCLUSION

This study was conducted to examine the effect of knowledge management (KM) on the performance (P) of LAZIS through the mediation of dynamic capability (DC). Dynamic capability (DC) as a mediation variable in the relationship between knowledge management (KM) and LAZIS performance (P) unveiled that the higher the knowledge management (KM), the higher the LAZIS performance (P) will be if the mediated dynamic capability (DC) is also greater.

The limitation of this research is that it has not discussed culture and the role of information technology. Effective knowledge management will be available in a conducive work culture, namely the building of mutual trust so that there is a need to share knowledge. Information technology is also a factor that supports effective knowledge management, dynamic capacity and organizational performance. The authors suggest that for future studies, the indicators of each variable can be explored in more detail. Then, factor analysis can be carried out to select the most significant and relevant indicators, which can be integrated into structural model analysis. Adding organizational culture variables and information technology will get better results.

Managerial implications indicate that LAZIS must build a long-term strategy to gain sustainable performance instead of relying solely on short-term operations. LAZIS must enhance its product quality to compete with other organizations. Therefore, it should improve its knowledge management (KM) by analyzing market trends. In addition, it becomes a new challenge for the LAZIS to facilitate access to the latest information technology-based services.

The theoretical implication demonstrates that knowledge influenced the sustainable performance of LAZIS. Knowledge significantly affects sustainable performance. Therefore, the industry needs to study market trends to improve sustainable performance regarding benefits.

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