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Absorption Capacity, Innovative Culture, and Organizational Innovation: Role of Catur Purusa Artha Culture as Moderating

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Abstract

Research aims: This research aimed to investigate the relationship between absorptive capacity (ACap) and innovative culture (ICul) in an organization. Additionally, the impact of ICul on innovation and the mediating function of the variable were analyzed. In this context, Catur Purusa Artha (CPA) culture served as a moderating varaible in assimilating organizational innovation (OIn).

Design/Methodology/Approach: A quantitative design was applied, and data were collected using a questionnaire distributed to 350 Small and medium enterprises (SMEs) units. Subsequently, the collected data were investigated using the Smart PLS3 application.

Research findings: The results showed that ACap did not affect OIn. ACap had a positive and substantial impact on ICul, which was influenced by OIn. Therefore, ICul functioned as a mediating variable in the relationship between ACap and OIn. CPA was reported to moderate the relationship between ACap and OIn.

Theoretical Contribution/Originality: The literacy could be used as a management practice developed in the business actors of Bali Province. In this context, the role of local culture was important in running a business.

Practitioners/Policy Implications: This research could be used in an organization for social, economic, cultural, and business development. The observation data and the conclusion were used as a reference.

Research Limitations/Implications: SMEs managers in Bali Province were used as samples since some organizations did not implement the local CPA culture. Furthermore, a national organizational culture could be applied to various sectors.

Keywords: Absorptive Capacity; Innovative Culture; Organizational Innovation; Catur Purusa Artha culture; Moderation-Mediation

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Introduction

Small and medium enterprises (SMEs) are essential in Indonesian economy, contributing 61.07% to Gross Domestic Product (GDP) in 2021. Additionally, the number of business sectors reached 64.19 million, and 97% of the total national workforce was absorbed (Azzura, 2021; Habibie, 2022). Despite the significant contribution, SMEs face challenges in increasing growth. A crucial challenge is the lack of expertise needed to compete in an ever-evolving market (Surya et al., 2021; Haider et al., 2017). External knowledge and adaptation to change are required to compete in an increasingly competitive and dynamic market. During these challenges, SMEs owners must develop the ability to manage knowledge

and innovate to remain relevant in a rapidly changing business environment (A. Costa et al., 2023). Furthermore, Tehseen & Ramayah (2015) reported that competitors might be unable to replicate knowledge.

To survive in a world of fierce competition and an unpredictable business environment, SMEs need to improve the quality of work and make adjustments (Farida & Setiawan, 2022). Information must be obtained from an eternal environment and accepted as an internal resource since knowledge is inadequate (Donbesuur et al., 2022). Therefore, talents and competencies may be crucial for the growth of SMEs, providing diverse signals to stakeholders in economic contributions (Saeed et al., 2015). In this context, knowledge-based view (KBV) and resource-based view (RBV) methods are particularly relevant.

KBV is the most strategically essential resource of an organization (Duarte Alonso et al., 2022), which is complex and challenging to replicate. SMEs must acquire and integrate external knowledge to remain competitive in a dynamic market environment with absorptive capacity (ACap) (Robertson et al., 2023). Knowledge from external sources such as customers, and competitors can help SMEs innovate and improve business models (Adam & Alofaysan, 2023). The concept of ACap is key to improving the ability of innovation and creativity (Saiz et al., 2018). External knowledge obtained from customers and competitors is essential to develop products or services in line with market needs (Medase & Abdul-Basit, 2020). Resource-based and capability-based perspectives emphasize the role of intangible assets. Mailani et al. (2024) stated that organizational culture and values were key drivers of competitive advantage. Similarly, capability-based resources, such as organizational creativity and innovation, are shaped by absorbency and culture. The openness of organizational culture to new ideas is key to stimulating creativity. Lam et al. (2021) reported that cultural openness related to knowledge of organizational culture was necessary to recognize the need for innovation. According to Loch (2017), the influence of culture on innovation, risk-taking, and openness to new ideas is significant (Rumanti et al., 2023; Hanifah et al., 2020)

A supportive organizational culture enables employees to engage in creative problem-solving and innovation (Hassan et al., 2019). In this research, an organization with a culture that values learning, creativity, and group decision-making promotes innovation (Egide, 2024). Additionally, a culture supporting innovation is critical to building organizational innovation (OIn) (Ali & Park, 2016). In Balinese culture, the concept of Catur Purusa Artha (CPA) teaches four main objectives of human life applied in a business context to achieve sustainability and long-term success (Utami et al., 2023). Wiagustini et al. (2017) outlined CPA as a cornerstone of business strategy and the performance of an organization based on the operations of Dharma. CPA is a concept from Balinese Hindu philosophy, which consists of four main life goals guiding human existence about life. This includes values such as Dharma (truth) and Artha (wealth or prosperity) to show business strategies (Dewi et al., 2023). The application of CPA framework can evaluate the sustainability of SMEs by balancing business goals with ethical and spiritual values (Trarintya et al., 2021). The concept of Triple Bottom Line (TBL) considers Artha (prosperity) in the context of Dharma (ethical behavior), Kama (desire), and Artha (material wealth) (Trarintya et al., 2021).

According to Astrid & Dewi G (2023), the concept and meaning of Artha are to strive or hope. The values teach about the balance between worldly and spiritual goals, which is relevant to achieving sustainability in the business world. The connection of culture with performance and sustainability applies CPA in business sustainability. A culture supporting creativity and innovation acts as a moral foundation influencing entrepreneurial behavior and organizational performance (Utami et al., 2023).

This research proposes integrating ACap as a key element in SMI innovation strategy. ACap is the ability to recognize, acquire, and integrate external knowledge to improve competitiveness and innovation (Prakasa et al., 2022). Extensive research was conducted to examine the reasons for the influence of ACap on OIn in SMEs, explore the role of innovative culture (ICul) in moderating the relationship between ACap and OIn, evaluate CPA as a mediator in the relationship between ACap and OIn, and identify factors for improving the competitiveness and sustainability of SMEs by integrating absorptive ACap and ICul. Furthermore, ACap, ICul, and OIn enhance competitiveness, as explained by the development of the research. Effective external knowledge management is possible by ACap idea in the setting of Indonesian SMEs. To show the effects of knowledge and culture on OIn and competitiveness, CPA Theory in Business Management integrates KBV and RBV perspectives as well as connects Balinese cultural philosophy with management practices.

Literature Review and Hypotheses Development

The concepts of Resource-Based Views, Knowledge-Based Views, and Dynamic Capability Views

The central query in strategic management research is the establishment and sustainability of "competitive advantage" to outperform others (Sedovs & Volkova, 2024). This theoretical framework shows RBV, KBV, and dynamic capability views (DCV). Several theoretical stances have been considered in establishing and sustaining competitive advantage with the advancement of strategic management science (Maijanen, 2020). The main factors affecting performance are human resources and internal competencies, or DCV. These perspectives have influenced research on intra-organizational success determinants (Errida & Lotfi, 2021). In this context, RBV, KBV, and DCV are considered a "long story" that progressively unfolds using different but complementary strategies. RBV is centered on the exclusive and non-replicable resources of the business (Kellermanns et al., 2016). Meanwhile, KBV analyzes knowledge assets as strategic resources to create value (D'Oria et al., 2021). DCV adopts a more dynamic method, examining the adaptation of business to strategic capacities in addressing the evolving business landscape (Maijanen, 2020). In the current changing economy, the framework offers SMEs a tool to explain the reason some individuals succeed and others fail. This new strategy emphasizes the capacity to grow, adapt, and evolve in response to dynamic business environment. Therefore, SMEs typically must rely significantly on the resource skills of owners. A resource-based method has been used to analyze small enterprises (Soluk et al., 2023).

Innovative Organizational

Innovation is "any concept, procedure, or material artifact deemed novel by the pertinent adoption unit." Ghasemzadeh et al. (2019) asserted that innovation was the most effective tactic for deciding sustainability. Therefore, this variable is a crucial tool for adjusting to the quickly shifting corporate environment (Aboramadan et al., 2020). An organization can use innovation to maintain a competitive edge and dramatically improve performance (Arsawan et al., 2020). SME owners must adopt a more inventive mindset and receive strong leadership to promote high-achieving organization (Schell, 2019). In dynamic corporate environment, operations must be highly innovative to generate profits and enhance efficiency and performance (Hanifah et al., 2020). Trivedi et al. (2024) stated that the application of concepts and results to develop new products or services, management strategies, laws, regulations, workflows, and technological advancements could raise performance and productivity. However, the pace and quality of innovation are important in a complicated and dynamic commercial context (Zhang et al., 2020). Ali and Park (2016) divided the new developments into management and administration, process, as well as product innovation. Launching a new good or service to satisfy the demands of existing customers or markets is known as "product innovation." An organization may include new components in the production or service processes to create better goods or services and this is known as process innovation. The implementation of new policies, initiatives, and organizational management structures to increase output is called managerial innovation (Mendoza, 2015).

Innovative Cultures

Ghasemzadeh et al. (2019) reported that innovation was a primary tactic and essential variable in determining business sustainability. An organizational process must be highly inventive to produce profits as well as improve performance and productivity (Arsawan et al., 2020). Applying concepts and innovations to create new goods or services, managerial methods, protocols, labor practices, and technologies increases output and performance (Hanifah et al., 2019). Innovation is important for adapting to the rapidly changing business environment (Aboramadan et al., 2020). This variable may be essential for maintaining a competitive advantage and improving performance (Bari et al., 2019). In a complicated and dynamic world, innovation and quality are crucial (Ghasemzadeh et al., 2019). Organization should be able to define innovation tasks and quickly obtain the information required without disrupting the operations due to a flexible process (Della et al., 2018). Organizational growth and leadership are improved by enhancing ICul (Schell, 2019). Better inputs are received from the surroundings to increase productivity and achieve a competitive edge. In this context, the creation of value through innovation is unquestionably a successful tactic (Halim et al., 2019). For instance, SMEs can flourish in specific circumstances with strong teamwork to develop technological capabilities, flexibility to harness new technologies, and early detection of shifting consumer preferences (Halim et al., 2019). Considering the complexity and challenges of innovation, a cultural perspective is needed to comprehend innovation (Della et al., 2018). Additionally, business must accept "culture" and consider the concept as a crucial component of innovation management (Halim et al., 2019). Innovation-friendly culture

also improve unity, loyalty, and unambiguous standards for proper conduct and attitude. Based on the description above, SMEs are crucial in establishing a cultural environment to stimulate innovation performance. Dobni & Klassen (2018) identified four categories of ICul, namely the desire to be innovative, the infrastructure to support innovation, the behavior to influence market and value orientation, and the environment to practice the concept. However, the culture of innovation is multifaceted since SMEs are small and fragile. The culture of innovation is viewed as unidimensional and includes a holistic method that values risk-taking, flexible structures, employee empowerment, communication, and optimized networks (Hanifah et al., 2019).

Catur Purusa Artha Culture

Some practices and methods of thinking about life are unique to the Hindu community in Bali. According to Rohlfer & Zhang (2016), the importance of innovation to business and economic success has been acknowledged as a crucial component of international management and organizational development. Trivedi et al. (2024) found that various culture-related factors in innovation combined to facilitate or limit performance in related groups. These results showed the complex and idiosyncratic relationship between culture and innovation. According to Dewi et al. (2023), there is a notion of life known as CPA, which signifies the four purposes of human existence. Artha reports the purpose of life, while Purusa implies the soul or human being. CPA positively and significantly moderates organizational cultural relations and business performance. The implementation of the local culture of CPA in running a business increases performance (Kusyana et al., 2024). Research by Trisnawati et al. (2021) showed that the value of CPA significantly affected product innovation. Furthermore, product innovation has a significant impact on business continuity and the value of CPA affects business continuity through product innovation. CPA can create internal conditions in the form of a conducive work environment when business management is based on local culture. Each organization member has cultural characteristics other than entrepreneurial spirit (Arabeche et al., 2022). The culture is integrated into operations and becomes integral (Saputra & Yasrawan, 2021). Based on Balinese Hinduism local knowledge, this research examines local wisdom as a creative inspiration sustained to enhance performance. SMEs in Bali benefit from the cultural values of CPA due to the wealth of the ancestors (Ningsih et al., 2015). CPA is part of a culture influenced by Hinduism in Bali (Wiagustini et al., 2017), where the main foundation in managing a business is Dharma (virtue). The concept is similar to stewardship theory (Trisnawati et al., 2019). The application of the value is an intangible asset for increasing the bravery of the management to make better judgments and use more judicious resources. This impacts the performance of the business (Trarintya et al., 2021). The principles, standards, and guidelines that underpin the structure and culture of an organization are known as Dharma. Meanwhile, Kama becomes the motive, desire, and foundation of individuals for moral commitment. Capital, facilities, and infrastructure, or Artha, are required to support the apparatus, culture, and structure. Moksa was developed as the ultimate objective, signifying worldly independence for every group member. The efficient management of intangible assets depends on establishing a framework to facilitate the application of sound corporate governance. The effective implementation of CPA increases the significance of corporate governance (Suparsa et al.,

2024). Suamba (2018) reported that the implementation of Dharma as the fundamental conduct of all ethical principles ended up with freedom or emancipation of oneself from the body, known as Moksha. The application of CPA to mediate local culture in an organization is critical because the concepy is connected in several ways and aims at self-transformation. Therefore, the entire desires to be satisfied must be tried based on Dharma.

Absorptive Capacity

Business can obtain fresh external knowledge and incorporate the concept into innovative management practices, new products, and processes through assimilation (Enkel et al., 2017). The ability to absorb new information and effectively support an organization in creating value is crucial (Hidayat, 2021; Supartha & Ratih, 2017). To improve OIn, ACap should entail transforming and applying newly acquired and absorbed information into the activities (Khan & Tao, 2022). Adaptable resources as well as capacity management and actualization show the impact of ACap on OIn by creating new goods and procedures (Sancho-zamora et al., 2022; Ali & Park, 2016). According to (Limaj & Bernroider, 2019), ACap is a two-dimensional phenomenon. Transformation and exploitation represent the aspects of achieved ACap, while acquisition and assimilation indicate the dimensions of potential ACap (Müller et al., 2021). Ding et al. (2023) stated that ACap could be subdivided into potential and realization. The latter is subdivided into four stages, namely acquisition, ACap, transformation, and exploitation (Brix, 2019).

Absorptive Capacity and Organizational Innovation

Müller et al. (2021) emphasized the effects of ACap in improving the performance of innovation. OIn can occur more frequently, quickly, and widely with adequate ACap (Qi et al., 2021). In this context, SMEs prefer an optimal course of action in response to external institutional influences (Strike et al., 2015). Increased flexibility in organizational adaptation to institutional influences is reported in an environment with high ACap levels (J. et al., 2017). SMEs depend on outside expertise to increase innovation within an organization and enhance productivity (Aliasghar & Haar, 2023). In a market where business competes primarily on knowledge, ACap has a unique capacity for converting knowledge into new goods, services, or organizational reform initiatives (Ahmed et al., 2020). ACap broadens knowledge base and skill set by applying new information (Srem & Shiva, 2023). The results showed a strong correlation between ACap and technological innovation even though more research is needed (Naqshbandi & Jasimuddin, 2022).
Based on the explanation, hypothesis

H_1

Absorptive Capacity and Innovation Cultures

Business can leverage external information to improve new levels of culture (Liu & Kang, 2021). External knowledge influences management innovations, procedures, and

products. After the information has been assimilated, the degree of expertise and corporate culture is more transparent (Lichtenthaler, 2016). The connection of trust between two communicators is essential to enhancing knowledge and improving a degree of exchange. This trusting relationship is another sign of a creative culture (Ali & Park, 2016). SMEs can use and change knowledge to strengthen inventive culture by incorporating the learned and assimilated concepts into the operations (Simao et al., 2019). Absorbency, specifically acquisition, significantly influences ICul (Ghasemzadeh et al., 2019).

Hurtado-Palomino et al. (2022) stated that continuous knowledge base improvement was guaranteed when an organization had a multidimensional ICul in an environment of open innovation, as well as acquisition, assimilation, transformation, and exploitation ability. Increasing collaboration and Communication is crucial for acquiring, assimilating, and transforming information (Liu & Kang, 2021). Cooperative culture accepts knowledge sharing, and ACap skills enable business to turn concepts into creative goods and services (Setia & Maharani, 2024). Meanwhile, employees can learn new information to improve output and customer service (Aboramadan et al., 2020). Sufficient trust and a standard set of values must give the business a competitive edge. Based on the description above, the hypothesis

H_2:

Innovation Cultures and Organizational Innovation

Culture is mainly shared by members to explain the performance of an organization (Yun et al., 2020). The establishment of a strong corporate culture is a strategy to impact employee behavior and increase productivity. According to Ghasemzadeh et al. (2019), "Innovative culture" promotes creativity by promoting experimentation, taking measured risks, and supporting personal growth. Additionally, a more robust and creative culture aids the development of technological innovation (Lam et al., 2021). ICul enhances employee engagement with sophisticated technologies supporting market innovation and new product development. The variable is more accurately characterized as the shared attitudes, values, beliefs, and behaviors to improve employee performance in product, service, and process innovation (Ali & Park 2016; Ghasemzadeh et al. 2019). SMEs must create a shared value system in line with fresh perspectives and open communication to achieve sustainable innovation (Kurniawati et al., 2022). Staff members can attempt new things and freely share ideas when there is a pervasive culture of innovation (Ghasemzadeh et al., 2019). Therefore, hypothesis

H_3

Absorptive Capacity, Innovation Cultures, and Organizational Innovation

Innovation and organizational uptake are related, but ICul plays a mediating function. Members may share certain presumptions, values, beliefs, attitudes, and behaviors to improve the development of new goods, services, or creative processes. This is known as ICul (Arsawan et al., 2020) where new insights are provided into the intricate relationship between OIn, culture, and ACap (Ali & Park, 2016). ACap process can help an organization overcome obstacles to developing ICul. Furthermore, ICul focuses inwardly and seeks a competitive advantage to accept new ideas, processes, and products (Lartey et al., 2020). The research shows that ICul may experience distinct ACap impacts. Naranjo-Valencia et al. (2016) reported a wider range of perspectives on ICul and explored the influence on corporate creativity. Individuals working in ICul are more inclined to engage with sophisticated technology (Cheong et al., 2024). Therefore, hypothesis

H_4

Absorptive Capacity, Catur Purusa Artha Cultures, and Organizational Innovation

Another moderating variable is CPA culture, which is very important in the teachings of Hinduism to guide Balinese life (Saputra & Yasrawan, 2021). RBV outlined is connected to the idea of CPA (Sukma, 2018) as part of the intangible resources of an organization (Arsawan et al., 2020). According to Trarintya et al. (2021), the concept of CPA is used to measure the sustainability of SME businesses. Cultural values are very important in the teachings of Hinduism (Wiagustini et al., 2017), where the main foundation in managing a business is Dharma and the concept resembles the stewardship theory (Trisnawati et al., 2019). Wiagustini et al. (2017) declared that CPA could increase organizational performance since business strategy was based on Dharma. The idea of CPA can be used to gauge the sustainability of business (Trarintya et al., 2021). Organizational performance also increases when the principles are appropriately included and innovated. Members and business management will be inspired to make better decisions to promote organizational performance by implementing the value of CPA (Wiagustini et al., 2017). Therefore, hypothesis

H_5

Figure 1 shows the correlation between the variables examined based on the theoretical justification.

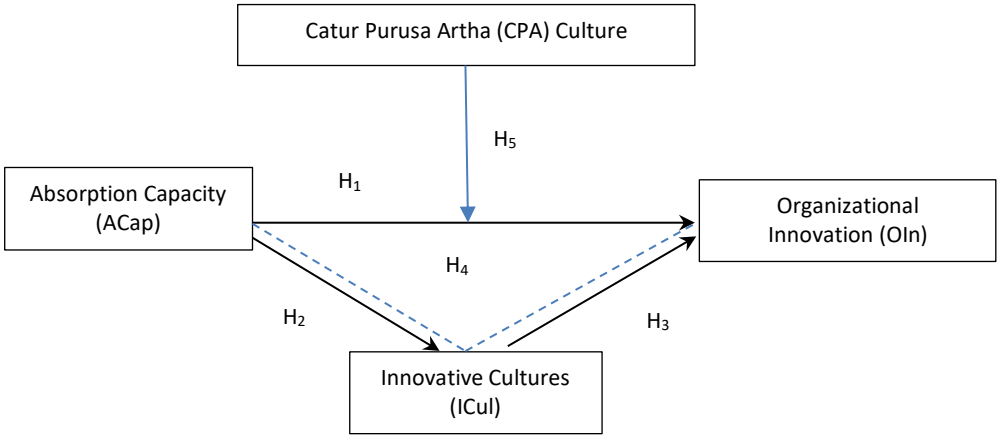

Figure 1 Research Model

Research Methods

Sampling Method, Population, and Sample

These organizations are the 61,862 SMEs in Bali Province in 2022 owned by the research participants.

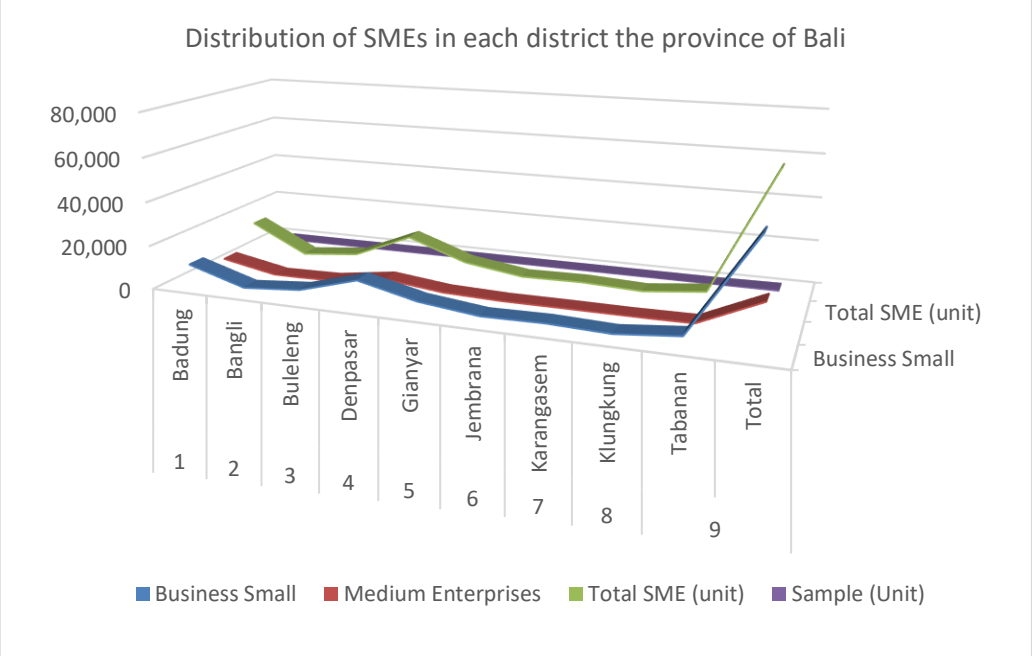

Figure 2 Bali Province's SMEs by District Distribution

The samples were selected based on the following criteria (1). SMEs are defined by three factors (1) 5 or fewer people are employed, (2) SMEs have been in business for 5 years or longer, and (3) SMEs have a turnover in sales. SEM model requires a minimum sample size of 5 to 10 times the indicator of the latent variable. The Slovin method was used to determine the sample size, resulting in 397 SME units of samples total, and only 350 were processed further.

Operational Definitions and Variable Indicators

The explanations of each variable used are known as operational variables.

Table 1 Defines dimensions, measuring scales, indicators, and variables

Construct (Variable)	Operational Definition	Dimensions, indicators, and question items	Scale
OIn	The breakthrough process of SMEs is to advance and develop to achieve goals that are right on target, effectively and efficiently in gaining competitive advantage.	OIn has three components: management adaptation, developing new skills and resources, and producing new products and processes (Camisón and López 2014); (Ali & Park, 2016).	Likert 1-5
ACap	The process of learning new information to meet business needs and adapting to changes among various SMEs business partners is known as absorptive ability.	The four aspects of ACap are acquisition, absorption, transformation, and utilization (Supartha and Ratih, 2017).	Likert 1-5
CPA Culture	The confidence of SMEs in understanding the four goals of life to achieve lasting happiness.	Dharma, Artha, Kama, and Moksa are the four CPA dimensions (Trisnawati, Pasek, and Kartika, 2019).	Likert 1-5
ICul	ICul is the openness of SMEs to innovation.	Dobni, (2008) referred to the culture of invention. There are four main ICul, namely (1) the drive to innovate, (2) the environment that supports innovation, (3) the operational behavior necessary to influence market direction and value, and (4) the environment for innovation implementation.	Likert 1-5

Sources: previous research

Methods for Gathering Information

Survey methods are used to gather data for the investigation. Questionnaires containing participant names, an assortment of closed questions, and indicator items accessible for every dimension and construct are distributed through online Google forms.

Data Analysis Techniques

Data analysis uses descriptive and inductive methods. Inductive or inferential statistical analysis evaluates measurement models, while structural models are evaluated through bootstrapping methods with the help of SmartPLS3 (Ferdinand, 2011).

Results and Discussion

Description of Participants

This is an outline of participants based on gender, age of owners or leaders, and final educational attainment.

Table 2 Description of Research Participant Characteristics

Information	Number of Respondents	Percentage (%)
Gender:		
Man	362	75
Woman	88	25
Total	350	100
Education Level:		
High School / Vocational School	82	23
Diploma	63	18
Bachelor	158	45
Postgraduate	28	7
Other	21	6
Total	350	100
Age of Respondents:		
31 - 30 years	54	15
31 - 40 years	121	35
41 – 50 years	115	33
51 - 60 years	49	14
> 60 years old	11	3
Total	350	100

Gender was used to reflect the inclusion of owners who participated in this research. There were 362 and 88 male and female participants or 75.00% and 25.00%, respectively. An important method for assessing the intellectual capacity of 82 or 23.00% participants is to analyze educational achievement. A total of 63, 158, and 28 participants, or 18.00%, 45.00%, and 7.00% graduated with a Diploma, Bachelor's, and Postgraduate, respectively. Therefore, the majority of participants have completed a sufficient number of higher education, as evidenced by the majority of undergraduate or graduate. The age distribution of participants is calculated using the age. Participants aged < 30, 31-40, 41-50, 51-60, and > 60 years were 54, 121, 115, 49, and 11 at 15.00%, 35.00%, 33.00%, 14.00%, and 3.00%, respectively. According to the research, productive age, defined as being between 31 and 50 years old, predominates among owners of SMEs and leaders.

Validity Test

Validity or outside loadings (measurement models) are used to verify when each concept is unidimensional. The research indicator is valid when the value of the loading factor indication is more than or equal to 0.50. Figure 3 and Table 3 present results tested using SmartPLS to show valid and invalid data.

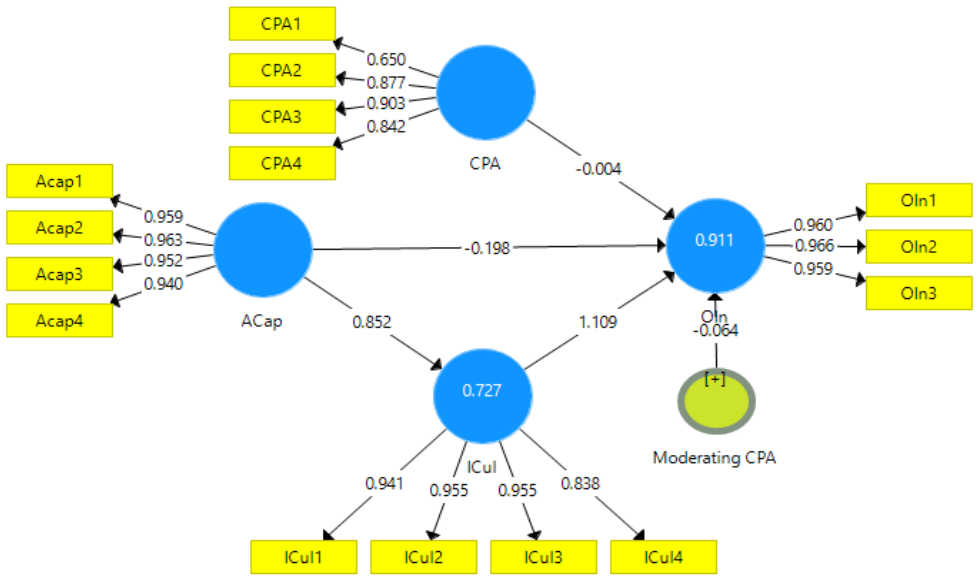

Figure 3 Measurement Model Test Results

The items are legitimate because each construct indicator in Figure 3 has an outer loading value greater than 0.50.

Table 3 Validity Test Results

Indicators	ACap	CPA	ICul	OIn
ACap1	0.959			
ACap2	0.963			
ACap3	0.952			
ACap4	0.940			
CPA1		0.650		
CPA2		0.877		
CPA3		0.903		
CPA4		0.842		
ICul1			0.941	
ICul2			0.955	
ICul3			0.955	
ICul4			0.838	
OIn1				0.960
OIn2				0.966
OIn3				0.959

Validity test shows that all variable indicators are considered authentic since each original sample indicator value is more significant than 0.50.

Composite Reliability

The reality test shows the objectivity (error-free) of the measurement to ensure consistent measurements across time and different items in the indicator. A total of two methods are used to perform the test in SmartPLS, where Cronbach's alpha assesses the lower bound and is acceptable when the value is above 0.60. Composite Reliability assesses the actual reliability value and is acceptable when the value is above 0.70. Meanwhile, Average Variance (AVE) is acceptable when the value is above 0.50.

Table 4 Reliability Test

Variable	Cronbach's alpha	Composite reliability	Average Variance Extracted (AVE)
ACap	0.967	0.976	0.909
CPA Culture	0.839	0.893	0.679
ICul	0.941	0.959	0.853
OIn	0.959	0.973	0.924

The variable produces reliable results at 0.967 on Cronbach's Alpha scale. The data in Table 4 explains the dependability of ACap variable. Additionally, Composite Reliability score is 0.976, obtaining consistent results when creating variables with AVE value of 0.909. CPA culture variable is dependable and obtains consistent results with a Cronbach's Alpha value of 0.839. CPA Composite Reliability and AVE values of 0.893 and 0.679 are appropriate and consistently obtain results when used to build variables. ICul variable consistently obtains reliable results with a Cronbach's Alpha score of 0.941. Furthermore, Composite Reliability value is 0.959, generating variables with consistent outcomes. AVE value is 0.853 since the variable can be recorded. Cronbach's Alpha value of OIn is 0.959, hence, the variable regularly produces trustworthy results. In generating variables, OIn obtains consistent results, as reported by the acceptable AVE score of 0.924 and Composite Reliability of 0.973.

Internal Model Structural Model Test

Inner analysis ensures that the developed structural model is accurate and dependable. The outcomes can be shown through a significant value when the T-statistic is more extensive than 1.96 or the p-value is less than 0.05. The results examined using SmartPLS3 are shown in Figure 4 and Table 5 to view significant and unimportant data.

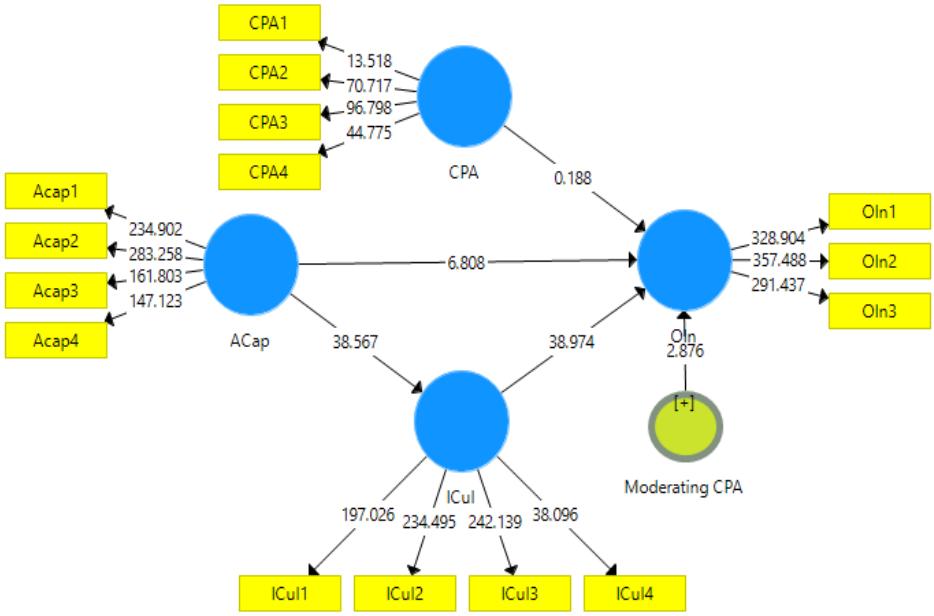

Figure 4 Path Coefficient

Figure 4 and Table 5 provide the same information with different views and the results are offered in the form of T-statistics. Each construct raised appears as a T-statistic value. After comparison with 1.96, the T-statistic value indicates when the hypothesis is accepted or rejected. The proposed hypothesis is accepted or rejected when the T-statistic is more or less than 1.96.

Table 5 Path Coefficient Results

Relationships Between Variables	Original Sample (OS)	T-Statistics	P_Value	Information
ACap) → ICu	0.852	39.154	0.000	Accepted
ACap) → OIn	-0.198	6.234	0.000	Rejected
(ICul → OIn	1.109	35.164	0.000	Accepted
CPA moderation, ACap → OIn	-0.064	2.844	0.005	Accepted
ICul → OIn→ ACap	0.945	28.895	0.000	Accepted

Table 5 shows the results obtained based on the resampling method with the bootstrap model and the hypothesis is more diverse. The trajectory coefficients of each model appear complete with a plus-minus sign. In addition, p-value is also reported and identical to T-statistics. The following discussion includes a full explanation of hypothesis testing.

SMEs with the capacity to absorb and integrate external knowledge tend to be more innovative and adapt to market changes since ACap significantly reduces OIn. SMEs in Bali will have fewer chances to expand innovations in terms of absorption of potential and realization. In contrast, SMEs receptive to outside influences such as transformation and assimilation for profit-making purposes produce OIn.

SMEs in Bali cannot recognize and assimilate the new external value in formation (Zuhroh et al., 2025). According to Sitiari et al. (2024), different enterprises need to learn more from other sources about leveraging outside expertise to improve their competitive position. Therefore, absorbency promotes the frequency, pace, and reach of OIn (Qi et al., 2021). In a knowledge-based competitive economy, ACap is a distinctive skill that helps SMEs convert information into new goods, services, or procedures to improve OIn (V. Costa & Monteiro, 2016). ACap increases the potential for creativity and expands the knowledge base and skill set by applying new information (Srem & Shiva, 2023).

ICul is significantly impacted by ACap due to the positive relationship between the variables (Qi et al., 2021; Berrone et al., 2010). Therefore, more effective innovation can lead to higher productivity (Lartey et al., 2020). In this context, an organization may change into commodities or services or demand new reforms in competing mainly on knowledge and unique ACap ability (Felipe et al., 2017). By incorporating the learned knowledge assimilated into operations, SMEs can transform and improve ICul (Stelmaszczyk, 2020). Furthermore, absorbency, specifically acquisition, significantly influences ICul (Ghasemzadeh et al., 2019). According to Naqshbandi & Kamel (2017), an organization in an environment of open innovation, acquisition, assimilation, transformation, and exploitation capabilities guarantees ongoing enhancement of knowledge to stimulate the growth of ICul. SMEs have a more open knowledge and culture after assimilating new information (Limaj & Bernroider, 2019). A total of two communicators must have a trustworthy connection and the relationship reflects an inventive culture to improve information absorption and promote knowledge transfer (Ali & Park, 2016). The results support Liu & Kang (2021), where SMEs use external knowledge to develop innovative cultural levels. Meanwhile, OIn is strongly impacted by ICul, as reported by W. Zhang et al. (2023). A more creative culture can improve innovation and advancement. This inventive culture promotes employee engagement with cutting-edge technologies to facilitate the development of new products and market niches. Therefore, SMEs must establish a shared set of values in promoting candid communication, accepting fresh concepts, and integrating creative endeavors to accomplish sustainable innovation. According to Engen et al. (2021) and Ghasemzadeh et al. (2019), employees could experiment and freely express ideas when innovation is ingrained in the workplace. Culture is essentially accepted by the members to explain the performance of the organization despite the lack of a consensus definition (Yun et al., 2020). Creating a solid business culture is a powerful tool for influencing employee behavior and enhancing results.

An additional correlation exists between ACap and OIn through the mediating variable ICul. ACap This describes the capacity to identify, take in, and modify new information applied to innovation and advancement. OIn is related to the adoption and development of new concepts, goods, or procedures to increase productivity or competitiveness. ICul consists of principles, attitudes, and practices in promoting innovation and creativity. The mediating variable connecting ACap and OIn is ICul. ICul can have a more significant effect even though the ability to learn new information does not affect OIn.

Substantial evidence supports the conclusion that ACap significantly affects OIn. OIn is aided by the current ICul and reinforced by the capacity to assimilate new knowledge. A robust ICul is required to optimize the ability to assimilate and modify new information for more successful innovation. This research supports Tan et al. (2021) where an innovative workplace culture motivates staff members to take an active role in comprehending the intricate technologies underpinning innovation. According to Arsawan et al. (2020), organizational members in SMEs who share similar values, beliefs, attitudes, and behaviors could easily create and develop new goods, services, or innovation processes. In this context, ACap may affect ICul of an organization (Taha et al., 2016). Broader perspectives on ICul are also reported to influence corporate creativity. This result improved knowledge of the intricate connection between OIn, culture, and ACap (Ali & Park, 2016). ACap, CPA, and OIn focus on the role of CPA as a moderating variable.

CPA is a cultural concept derived from Balinese philosophy that includes four life goals or principles, namely Dharma (truth or morality), Artha (material well-being or achievement), Kama (enjoyment or satisfaction), and Moksha (liberation or spirituality). In this context, CPA is used as a moderation variable in strengthening or influencing the relationship between ACap and OIn. ACap is the ability of an organization to absorb and use external knowledge to support innovation and development. OIn is concerned with applying new ideas in products, services, processes, or practices to improve performance and competitiveness. In addition, CPA acts as a moderating variable, affecting the extent to which the relationship between ACap and OIn becomes stronger or weaker. This variable can strengthen or weaken the effects of ACap on OIn.

Based on the data, the implementation of local cultural values can enhance the efficacy of innovation. CPA principles improve performance and competitiveness through more flexible innovation and a foundation grounded in pertinent local values. This local culture serves as a social or cultural component and significantly enhances the connection between innovation potential and information intake.

SMEs in Bali disregarding CPA cultural norms have difficulty incorporating foreign skills to promote more sustainable innovation. This is also consistent with the results of earlier hypothesis testing, where the inclusion of SMEs on the island significantly restricts OIn. Therefore, direction is required on the four pillars of human life, namely Moksa (the goal of a business is to increase value through profits and sustainable capabilities), Kama (efforts to increase customer satisfaction), Artha (financial achievement is the embodiment of effective and efficient operations), and Dharma (operational and customer management are the embodiment of internal business processes) (Saputra & Yasrawan, 2021). According to Wiagustini et al. (2017), Dharma serves as the cornerstone of CPA strategy and enhances organizational performance. Based on the results, sustainability is measured using the concept of CPA (Trarintya et al., 2021).

Conclusion

In conclusion, this research showed that ACap had no discernible impact on OIn. The potential to innovate decreased with ACap, suggesting an assimilation of current information rather than generating or refining ideas. In addition, ACap had an important beneficial effect on ICul. Business with a stronger ICul absorbed information and knowledge better. This reported the critical importance for organization to collect and analyze relevant external information to promote the development of ICul. ICul dramatically increased the level of OIn in an organization. This implied that success in innovation could be achieved through the establishment of a culture with the capacity to support experimentation, creativity, and teamwork. Therefore, the secret to promoting innovation success was creating ICul, which acted as a mediating variable in the relationship between OIn and ACap. Organization must manage the process of knowledge absorption to increase innovation. In this context, CPA could act as a moderating variable compared to ACap and OIn.

Based on the description above, this research added to the knowledge available on ACap, ICul, and OIn. New opportunities were also created for investigating the effects of cultural values on the correlation between variables. Future research should also examine the relationship between knowledge management and culture in increasing the sustainability and competitiveness of SMEs. This research has limitations despite the contribution. First, a survey of SMEs owners emphasizing ACap, Icul, and OIn was conducted. Therefore, the results could not be applied as a general rule in other domains. Second, the mood of participants might be impacted when completing the questionnaire because this cross-sectional research used self-assessment reports.

Concerning the implications, SMEs must understand the application of external knowledge from competitors, customers, and other pertinent sources. This is accomplished by working with business partners or conducting in-depth market research. Furthermore, organization must enhance an environment that supports innovation by allowing staff members to experiment with new concepts freely and promote initiatives. Business strategies and decisions need to be significantly influenced by CPA values. By implementing these concepts, SMEs can focus on financial gains and achieve more comprehensive objectives such as social welfare and business sustainability. SMEs must provide management and staff with education and training on knowledge management, innovation management, and incorporation of local cultural values into business plans to improve inventive culture and absorption ability. Finally, policymakers and managers may find this valuable guidance in designing more effective innovation initiatives.

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