

## **Towards the Sustainability of Indonesian Medium-Sized Food Manufacturing Enterprise: The Role of Informal Knowledge Sharing**

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**Abstract:** This study aims to examine the interrelations between certain human capital initiatives (reward systems and training programs) and enterprise sustainability (innovativeness, adaptiveness and growth) with the existence of informal knowledge sharing practice as moderating factor. This study employs empirical information generated by interviews to professional experts (senior staff, middle manager and top manager) from selected Indonesian medium-sized food manufacturing enterprises. As results, a conceptual model is derived and a set of hypotheses is developed for further study needs.

**Key words:** Human capital initiatives, enterprise sustainability, informal knowledge sharing, medium enterprise, needs

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### **INTRODUCTION**

Medium-sized enterprises in Indonesia are significant in a number of contexts, in terms of their part to the national production (GDP) and their establishment to the employment. When the economic crisis hit Indonesia in 1997 as it was in 2008, medium enterprises have shown the ability to survive better than small and large enterprises (Tahi and Tambunan, 2011). In term of their role to national production, manufacturing sector contributes the highest GDP by 85% (2). The data underlined the importance of manufacturing sector to the development of medium enterprises and the stability of Indonesian economic as a whole. However, previous studies with regard to medium enterprises have revealed that the quality of human capital still become the key problem to most Indonesian Mes (Tahi and Tambunan, 2011).

The development of human capital amongst medium enterprises still become the main objective of the Indonesian Ministry of Cooperative, Small and Medium Enterprises (Kemenkop-UKM) as stated in their strategic plan. The strategic plan stresses that the human capital development programs will be focusing on education and training, in terms of basic production, technical support, entrepreneurship and managerial development. Various government accompanying programs have been organized to improve the quality of human capital amongst medium enterprises. The programs comprised of training and development in production techniques, general management, quality management systems, quality control methods and entrepreneurship. In

agreement with Kemenekop, the Ministry of National Development Planning (BAPPENAS) proposes to improve the negotiating power of Indonesian Mes by accelerating the entrepreneurial skill and technical competence of the human capital. The main objective of the plans is to help medium enterprises to grow and succeed. Nevertheless while sufficient amount of fund has been allocated to human capital development, the sustainability of most of the medium enterprises is still in question mark.

The literatures of human capital research from have been conducted in many areas and have developed many key success indicators. There are approximately three success indicators from nearly 70 previous studies on the relationship between human capital and business success: Profitability, growth and business size (Unger *et al.*, 2011). However, those previous studies did not consider 'sustainability' as success indicator whereas this factor is considered the basic criteria to business success (Drucker, 1954; Hannon and Freeman, 1977; Suarez and Utterback, 1995). Moreover, these previous researches neglected to provide an understanding on the motivational factors behind every action that is taken by organization's key actors and how they interact each other to pursue the human capital initiatives, (i.e., policies, procedures and practices) for the benefit of organization (and themselves).

**Human capital initiatives, enterprise sustainability and the practice of informal knowledge sharing:** Most of Indonesian enterprises, specifically medium scale

enterprises, tend to fully implement what so called “the western human resource management models” in order to manage their human capital. The main motivation is to be able to competitive in global competition. The advancement of strong economic activities in the Asia-Pacific zone uncovered the limitation of traditional Western Human Resource Management (HRM) methods. The adoption of HRM practices is still more dependent on management fashion than research, whether by academic or practitioner (Price, 2011).

HRM models have been developed in many ways and mostly based on large scale companies in USA and UK (Unger *et al.*, 2011; Price, 2011; Bratton and Gold, 2012). This fact justify the previous argument which reflect that current human resource management models view a human as an object (as one of the factors of production) not an actor (Gonzalez and Tacorante, 2004).

Previous studies on human capital studies relied on resource-based view of the firms which examine human using every element of production factor, economics perspective, financial management and accounting, product life cycle theory, strategic management, organizational ecology and technology management (Unger *et al.*, 2011; Nafukho *et al.*, 2004; Baron and Armstrong, 2007). In other words, there is a need to develop a more comprehensive model that is more suitable to Indonesian condition. Previous studies revealed that when organization sees people’s knowledge and traits as the soul of enterprise as the definition of human capital is introduced thoroughly, human capital had significantly affected enterprise performance (Chen and Chang, 2013). Human Capital is very crucial to enterprise success, especially to small and medium enterprise because human capital has the ability to modify enterprise’s ability to create better process (Jones *et al.*, 2010). Another study argues that by delivering knowledge sharing practice, especially in informal settings, the effect of any human capital initiatives would be more beneficial to the organization (Sunardi *et al.*, 2015).

The role of knowledge sharing practice can be seen from different perspective. By examining knowledge sharing practice from informal setting, it is likely to involve certain human capital traits to gain better relation between human capital initiatives and enterprise sustainability (Sunardi *et al.*, 2015). In this study, informal knowledge sharing is presume to have moderating role to the relation of certain human capital initiatives and enterprise sustainability. Figure 1 describes the relationship between informal knowledge sharing, human capital initiatives and enterprise sustainability.

The term ‘human capital initiative’s represents human capital policies and programs which are actually being

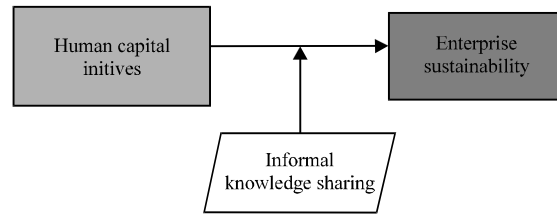


Fig. 1: Initial research framework

practiced within the organization. Enterprise sustainability can be narrowed to the ability of enterprise to foster innovativeness, adaptiveness and growth.

### MATERIALS AND METHODS

To explore the initial research framework, a qualitative approach was employed which using interview by asking two fundamental questions. Interview is the most reliable tool to gather experience and opinion (Yin, 2003). The question were stated as follow.

**First question:** “I believe that your organization has been implementing many human capital policies and programs. What do you think about them?”

**Second question:** “In manufacturing company, sharing knowledge is one important activity. Do you share your knowledge with other employees or top management, regarding human capital policies and initiatives?”

The interviews were conducted by involving three experts from one top Indonesian medium-sized food manufacturing enterprise, located in greater area of Jakarta, Indonesia. The experts come from different level of employment structure within the enterprise: staff, middle level manager and top level manager. The experts were elected by considering several conditions. First, they should be familiar with the term of “knowledge sharing” and “human capital”. Second, they should have been working in the company for at least five consecutive years. Third, they should have been working in food manufacturing enterprise, medium-sized specifically, for at least 10 year, to make sure they understand the knowledge sharing climate within the context of food manufacturing enterprise. Responds from experts are then to be analyzed by considering previous research in knowledge sharing and enterprise sustainability (Nafukho *et al.*, 2004; Bruhn *et al.*, 2010; Nafziger and Terrell, 1996; Amayah, 2013), contexts. The final step is to propose research model and develop hypotheses.

**Hypotheses and model development:** Previous studies regarding Indonesian small and medium enterprises

revealed that “poor human capital management initiatives” become the most critical issue within Indonesian small and medium enterprise. Moreover, the Indonesian Ministry of National Development Planning (BAPPENAS) in its development policy stated that the government schemes to leverage the negotiating capability of Indonesian Medium Enterprises (MEs) purposely by assisting the entrepreneurship skill and technical competence of the MEs. And again, the government focus is still in the area of skill training, instead of developing a more appropriate human capital initiatives.

Previous study suggest that “where human capital experience is acquired into organisational knowledge, the use of knowledge management framework will help the process of knowledge acquisition and therefore will directly impact the sustainability of the enterprise” (Sunardi *et al.*, 2015). This is interesting argument since most medium-sized enterprises still not sure of the benefit of employing knowledge management initiatives. The following discussion based on the arguments is as follows:

“Yes, we have many policies and programs in our company. But, I don’t think we really apply all of those. In my experience, we usually pay more attention to view policies such as rewards and personnel matters. In similar when we talk about programs, well training program is one and only one that matters to me. We usually sharing our skills or experience or idea in relations to training. For some managers, sharing knowledge is also in relations to development program. I don’t see any relations between knowledge sharing and CSR or personnel administration. With reward policy well, maybe” (Senior staff at X)

“We have three or four policies with regards to people management. Interestingly, most employees talk about only two things: how they get better pay and how they get the opportunity to go abroad. Going abroad is related to training programs because in manufacturing company like us, you need to be skillful and updated. I believe if rewards system is also discussed through informal occasions, the acceptance level will be increased and the spirit of people will be better. It’s good for the company. I think training program should be also accompanied by many informal and relaxing discussions to be effective. I believe the innovativeness of people can be better” (QC Manager at X)

“I think our company doesn’t put too much efforts on conceptualizing and developing many policies and programs. We have several policies and program only that we think are appropriate with us such as reward and training. In fact, those two are the only interesting issues for me. And I believe the company is well aware of it. Well, I see no relations between knowledge sharing and most of our human capital programs, except with training. Trainings keep us adaptive to technological changes. However, I think it might work with rewards system, since it has become the most sensitive area. Actually, the owners once discussed the bonus policy with me during lunch. I gave them advice based on my experience and fortunately, they accepted my thought. Yes, it might work” (Factory Manager at X)

The above discussions underlines two preliminary facts. First, the informants believe that only certain human capital policy and practice are relevant to any informal knowledge sharing practices: training and development program and rewards system. In manufacturing context, the existence of training program is important to provide organization with continuous supply of skilful employees (Lado and Wilson, 1994; Nonaka, 1991).

Second, innovativeness is considered an important outcomes of any informal knowledge sharing activities, with regards to training program. This finding is in line with previous study which argues that knowledge sharing is related to innovation and idea generation (Pawlowsky and Schmid, 2012; Busch *et al.*, 2011; Smith and Sharicz, 2011). However, the study sees it in the context of formal knowledge sharing.

Third, in manufacturing business, the ability of enterprise to be adaptive is also compulsory (Leon, 2013; Teece, 2007). In manufacturing sector which is very likely to involve technological changes, enterprises should possess the ability to face rapid changing environment as well as the ability to upgrading and reconstructing firm’s capability to grow (Bonini and Gomer, 2011). In other words, growth is considered crucial to the sustainability of any enterprise, especially for small and medium enterprises. The above discussions help the extension of initial research framework into more specific model. The following model can be derived from the discussions and previous related studies as seen in Fig. 2. The model helps the formulation of the following hypotheses:

- H<sub>1</sub>: The relationships between human capital initiatives and enterprise sustainability is moderated by employee perceptions of informal knowledge sharing process

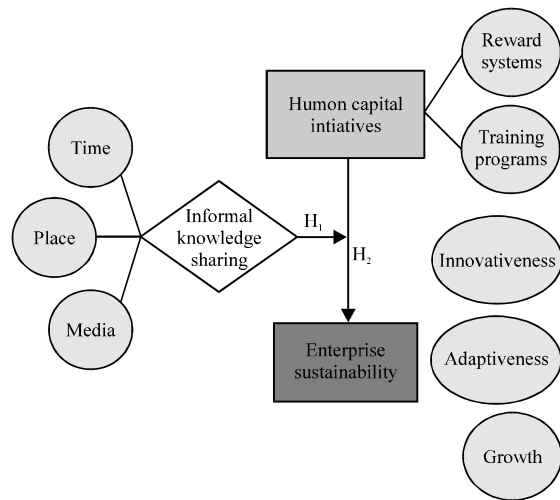


Fig. 2: Model conceptualization

- H<sub>2</sub>: Human capital initiatives have direct positive effect to enterprise sustainability

To estimate the relationships stated in H<sub>1</sub>, the following set of hypotheses is developed:

- H<sub>1a</sub>: The direct effect of reward systems to enterprise innovativeness is moderated by informal knowledge sharing process such that the effect is stronger for individuals who perceive informal knowledge sharing process to be more effective
- H<sub>1b</sub>: The direct effect of training programs to enterprise innovativeness is moderated by informal knowledge sharing process, such that the effect is stronger for individuals who perceive informal knowledge sharing process to be more effective
- H<sub>1c</sub>: The direct effect of reward systems to enterprise adaptiveness is moderated by informal knowledge sharing process such that the effect is stronger for individuals who perceive informal knowledge sharing process to be more effective
- H<sub>1d</sub>: The direct effect of training programs to enterprise adaptiveness is moderated by informal knowledge sharing process such that the effect is stronger for individuals who perceive informal knowledge sharing process to be more effective
- H<sub>1e</sub>: The direct effect of reward systems to enterprise growth is moderated by informal knowledge sharing process such that the effect is stronger for individuals who perceive informal knowledge sharing process to be more effective
- H<sub>1f</sub>: The direct effect of training programs to enterprise growth is moderated by informal knowledge sharing process such that the effect is stronger for individuals who perceive informal knowledge sharing process to be more effective

Formal knowledge sharing activities depend on three basic entities called 'Ba': the time knowledge sharing is conducted, the place knowledge sharing is performed and the media used to share knowledge (Nonaka *et al.*, 2001). In this study, the 'Ba' idea is transformed into informal knowledge sharing perspective. Practically, in medium-sized manufacturing enterprise 'reward system's and 'training program's are considered the most important initiatives. The existence of these initiatives has also been considered to be impactful to enterprise 'innovativeness, adaptiveness and growth'.

Innovativeness can be defined as the ability of organizations to absorb new knowledge to create new product or service or the ability of organizations to develop certain product or service that meet customer's expectation. Adaptiveness can be described as the capability of organizations to modify their methods, process and strategy appropriately due to technological and environmental change. While 'growth' can be stated as the capacity of organizations to improve their wellbeing through sales, income and employment.

## CONCLUSION

Though the importance of manufacturing enterprise is significant, very view research has attempted to evaluate the role of knowledge sharing practice to foster human capital policies and program effectiveness. By using different perspective, human capital initiatives can be effectively disseminated to enhance enterprise sustainability through informal knowledge sharing practice.

This study increases the chance of literature enrichment with regards to human capital studies and knowledge management studies. The main conclusion emerging from this study indicates that certain human capital initiatives can affect innovativeness of enterprise as well as the adeptness of the enterprise to be more adaptive to technological changes and the adeptness of the enterprise to grow.

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