

## Digital Knowledge Management: Catalyst for Sustainable Performance of West Java Leather Craft SMEs in Industry 4.0

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### Abstract

This study aims to analyze the influence of Absorptive Capacity, Innovation Capability, Digital Transformation, and Intellectual Capital on Organizational Performance, with the mediating role of Digital Knowledge Management (DKM), in Micro, Small, and Medium Enterprises (MSMEs) in the leather craft industry in West Java. Using a quantitative approach, this study involved the entire population of 33 leather craft MSMEs in West Java as the data source. Data were collected through questionnaires and analyzed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) method. The results indicate that Absorptive Capacity, Innovation Capability, and Digital Transformation significantly influence DKM positively. However, Intellectual Capital does not have a significant influence on DKM. Furthermore, DKM was found to have a direct and significant influence on Organizational Performance. Absorptive Capacity also directly influences Organizational Performance. The mediating role of DKM is crucial: Innovation Capability and Digital Transformation indirectly influence Organizational Performance through DKM in a significant manner. Although Absorptive Capacity shows potential for indirect influence through DKM, the results are not yet fully clear. Intellectual Capital does not show significant influence, either directly or indirectly, through DKM. Overall, this research model effectively explains the variation in DKM (79.1%) and Organizational Performance (82.0%), emphasizing the complex interactions in SME performance.

**Keywords:** *Digital Knowledge Management, Organizational Performance, SMEs, Absorptive Capacity, Digital Transformation.*

### INTRODUCTION

The dynamic development of the global economy has driven significant changes in the operations of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. As a crucial component of Indonesia's economy, contributing approximately 60% to GDP and employing over 97% of the workforce, SMEs face

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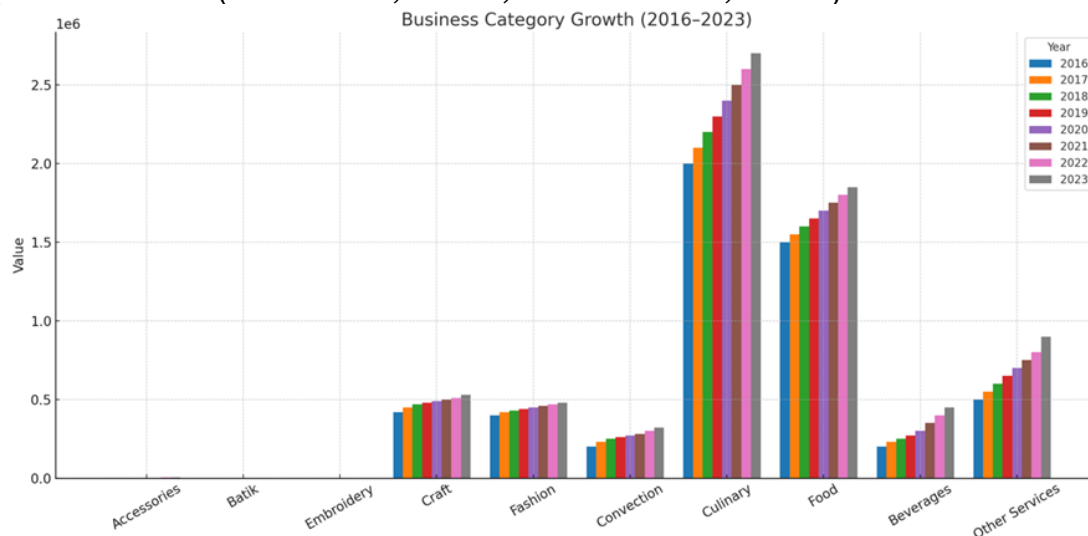
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various challenges and opportunities to adapt to these changes (Purba et al., 2021;Caraka et al., 2021). The COVID-19 pandemic, for example, has had a significant impact on SMEs, prompting them to reevaluate their business models and operational strategies. One important response to these dynamic changes is the adoption of innovative business models. The Business Model Canvas has emerged as a valuable tool for SMEs to navigate the complexities of the current economic landscape (Ibarra et al., 2020).

Adaptability is crucial as SMEs strive to maintain their competitiveness in an increasingly globalized market. Additionally, the integration of digital financial services has been identified as a key factor in enhancing SME performance. The adoption of Digital Financial Services (DFS) by Micro, Small, and Medium Enterprises (SMEs) enables improved financial management capabilities, thereby strengthening resilience against economic shocks. During the COVID-19 pandemic, many SMEs relied on digital strategies such as e-commerce and digital marketing to maintain their financial performance and business continuity. Studies indicate that e-commerce adoption has a significant relationship with improved financial performance of SMEs during the pandemic, while also serving as a mediator between e-commerce adoption and their sustainability performance (Gao et al., 2023; Purba et al., 2021).



**Figure 1. Projected Number of Micro, Small, and Medium Enterprises (MSMEs) by Business Category in West Java**

Based on Figure 1, the projected growth of Micro, Small, and Medium Enterprises (MSMEs) in the handicraft sector from 2019 to 2023 shows that, theoretically, these figures should continue to increase every year. However, actual data from the West Java Provincial Statistics Office shows a different dynamic. For example, in the handicraft sector in West Java, the number of micro and small businesses increased from 622,225 in 2021 to 667,795 in 2022, but then decreased to 641,639 in 2023. This

indicates fluctuations that may be caused by various factors such as changes in economic policies, the impact of the pandemic, and local market conditions that differ from initial estimates.

According to the latest data released by DISKUK JABAR in 2024, there are 33 MSMEs in the Craft Leather business category spread across several regencies and cities in West Java. This data covers the period from January to December 2023. Interestingly, these Craft Leather SMEs have a long history, with establishment years ranging from 1990 to 202. The history and diversity of the leather craft sector in West Java reflect the development of a creative industry focused on the use of leather materials. Historically, the leather industry has evolved alongside technology and innovation prioritizing production efficiency and environmental sustainability. In terms of production, the leather craft industry in West Java has been actively involved in the use of new technologies, such as the development of keratinase enzymes derived from bacteria to assist in leather processing, for example in the dehairing process or the removal of hair from animal hides (Moonnee et al., 2021). This is part of efforts to reduce the environmental impact caused by leather industry waste through the bio-utilization of keratin waste (R.-X. Zhang et al., 2022) .

Overall, the presence and impact of Craft Leather SMEs in West Java not only create jobs but also strengthen the region's creative economy. This industry contributes to local economic growth while preserving local traditions and culture, offering significant potential for the development of a broader creative economy sector (Vyskočilová et al., 2022).

The integration of digital knowledge management within the operational framework of SMEs in Indonesia is crucial for enhancing organizational performance. The adoption of digital transformation in SMEs not only facilitates the exchange of information and knowledge but also enhances business competitiveness and resilience in dynamic markets. Several studies indicate that the main challenges for SMEs in Indonesia in facing digital transformation include organizational readiness for change, agile leadership capabilities, and dynamic capabilities to implement digital ecosystems (Adhiatma et al., 2022).

Absorption capacity is an organization's ability to recognize the value of new information, assimilate it, and apply it for commercial purposes. This is crucial for SMEs seeking to innovate and adapt to market changes. Based on existing research, absorption capacity plays a significant role in mediating the relationship between entrepreneurial orientation and innovation capability, which in turn positively impacts organizational performance (Makhloufi, Ali Sahli, et al., 2021). Additionally, organizational learning and learning ability are

considered important drivers contributing to frugal innovation and, subsequently, play a role in enhancing operational performance in specific industries (Berndt et al., 2023).

Digital absorption capacity and knowledge management play a crucial role in enhancing the performance of micro, small, and medium enterprises (MSMEs) in West Java, Indonesia. This study demonstrates how absorption capacity acts as a mediator in the relationship between digital capacity and innovation performance, emphasizing the importance of digital technology in supporting better innovation (Kastelli et al., 2022). Furthermore, another study highlights that external factors such as networks and alliance learning also influence MSMEs' ability to adopt responsible innovation through absorption capacity. This study found that alliance learning and absorption capacity play important roles in innovation in emerging markets (Zahoor et al., 2022).

In discussing the correlation between innovation and SME performance, several studies have highlighted diverse results. Research indicates that while there is a significant relationship between innovation and SME performance, the role of the external environment as a moderating variable significantly influences these outcomes (Fu et al., 2021). This suggests that external factors can alter the relationship between innovation and performance. Meanwhile, other studies have investigated the impact of digital technology from Industry 4.0 and found that while innovation has a positive effect on performance, different innovation strategies yield varying impacts, indicating that not all innovations

Limited managerial expertise and skills within SMEs can hinder the implementation of effective innovative practices, leading to suboptimal performance outcomes. In this study, it was found that business strategies have an indirect impact on SME performance, and innovation plays a positive role in mediating between strategy and SME performance (Latifah et al., 2020). Another study highlights the importance of entrepreneurial resources and innovation capabilities as mediators in microbusiness performance. Entrepreneurial resources, particularly technical resources, have a positive and significant impact on innovation capabilities, which in turn enhance business performance (Taleb et al., 2023).

The challenges faced by SMEs in digital transformation and identifying opportunities that can be leveraged by SMEs through the application of AI technology to support sustainable development. This study also suggests strategies to address these AI transformation challenges (Lu et al., 2022; Setiadi et al., 2025). This study develops an organizational competency model for digital transformation that enables SMEs to identify and develop the digital capabilities needed to advance in digital

transformation (González-Varona et al., 2021). Digital transformation has proven to have a significant impact on the performance of small and medium-sized enterprises (SMEs), including those in regions such as West Java. This process involves the adoption of modern technologies that have the potential to improve operational efficiency, market presence, and financial performance. However, SMEs often face challenges such as limited resources, inadequate digital skills, and a culture that tends to be resistant to change, which can hinder the full utilization of these benefits (Kallmuenzer et al., 2024).

The main factors facilitating successful digital transformation include investment in digital technology, development of employees' digital skills, and implementation of a strong digital transformation strategy. These elements are crucial as they enable SMEs to remain competitive and resilient in a rapidly changing business environment (Teng et al., 2022). Additionally, digital transformation can impact various business activities, particularly marketing, by leveraging digital tools to deepen customer relationships and build organizational value. While traditional tools are still used, SMEs gain significant benefits from integrating digital technology into their marketing strategies, which helps optimize their reach and engagement (Ziółkowska, 2021).

Intellectual capital, which includes human, structural, and relational capital, plays an important role in improving SME performance. Intellectual capital, defined as intangible assets that contribute to a company's value, includes the knowledge, skills, and innovative capabilities of its workforce. It encompasses human capital, structural capital, and relational capital. Effective knowledge management, referred to as digital knowledge management, enables these companies to leverage their intellectual resources effectively (Aviv et al., 2021; Chen & Chen, 2021; Izzo et al., 2021). Research highlights that SMEs that implement strong knowledge management practices can enhance their innovation capabilities and operational efficiency (Zhou et al., 2021). By fostering an environment where knowledge is shared and utilized, SMEs can improve decision-making processes and adapt more quickly to market demands (Kareem et al., 2021).

Intellectual capital plays a crucial role in enhancing the performance of small and medium-sized enterprises (SMEs), including those in West Java, by leveraging its three key components: human capital, structural capital, and relational capital. These elements are essential for driving innovation, strategic development, and sustainable competitive advantage, which collectively contribute to improved organizational performance (Jordão & Novas, 2022; Khan et al., 2020; Phonthanakitithaworn et al., 2023).

Several studies have explored the relationship between absorptive capacity and organizational performance, noting inconsistencies in their findings. One such study examined how absorptive capacity can mediate the relationship between corporate entrepreneurship and firm performance. This study found that absorptive capacity significantly contributes to company performance and mediates the relationship between corporate entrepreneurship and performance, emphasizing the important role of information within organizations (Umrani et al., 2022). Another study investigated how various dimensions of absorptive capacity and innovation capabilities influence business performance. The study highlights that both potential and actual absorptive capacity significantly influence product and process innovation, which in turn impact business performance. This research suggests a deeper understanding of the various dimensions of absorptive capacity to enhance organizational outcomes (Sancho-Zamora et al., 2021).

Research on the relationship between innovation and performance has indeed shown inconsistencies, with some studies highlighting the complex dynamics at play. Generally, innovation does not always directly correlate with improved performance due to various moderating factors (Ghardallou, 2022; Kim et al., 2020; Y. Liu & Wang, 2020; Waqas & Tan, 2022; Yadav et al., 2023). These studies highlight that the impact of innovation on performance is highly dependent on various moderating factors, which may include managerial characteristics, market conditions, organizational strategies, and external legitimacy. Although innovation has the potential to improve performance, these findings suggest that innovation often functions more as a significant moderator rather than a direct cause.

SMEs face numerous challenges in digital transformation, particularly related to resource constraints. Many of these challenges revolve around financial issues, digital literacy, and organizational culture, which can hinder the effective adoption of digital technology (Cheng et al., 2023; Kallmuenzer et al., 2024; Teng et al., 2022). While these challenges are not easy to overcome, well-planned digital strategies can enhance SMEs' ability to capitalize on the opportunities offered by digitalization, leading to sustainable development and improved business performance (Vrontis et al., 2022).

Research indicates that the relationship between intellectual capital and SME performance is not always direct but can be mediated by other factors. For example, in a study, big data analytics capabilities were found to enhance supply chain innovation and digital capabilities, which ultimately improved the financial performance of SMEs (Bhatti et al., 2022). Additionally, the relationship between business strategy and SME

performance can also be mediated by innovation and accounting information systems, indicating that these elements act as important intermediaries in enhancing performance (Latifah et al., 2020). This study emphasizes the importance of identifying and leveraging mediating factors to enhance the relationship between intellectual capital and SME performance.

Overall, there is a significant research gap regarding how these variables interact and influence SME performance, particularly in the context of West Java. Although each variable is recognized as important, many studies show inconsistencies and ambiguities in their findings, indicating that the relationship between these variables and SME performance is highly complex and influenced by diverse contextual factors. Further research is needed to understand the nuances of these interactions and identify effective strategies for SMEs in West Java. Additional research is also required to examine how each of these variables operates within the context of leather craft SMEs in West Java.

## **LITERATURE REVIEW**

### **Stakeholder Theory**

Stakeholder Theory, introduced by R. Edward Freeman, emphasizes that companies must consider the interests of all stakeholders, not just shareholders. This theory asserts that companies have a fiduciary duty to all stakeholders. Although its application in strategic management research is still limited, this thinking continues to evolve (Goyal, 2020). One important contribution is the process-ontological perspective, which views organizations and stakeholders as maintained through social practices and relationships, differing from the traditional view that emphasizes separate entities. This approach provides a better understanding of value creation, ethics, and managerial thinking in capitalism (Valentinov & Chia, 2022).

The New Stakeholder Theory (NST) expands on the original idea by highlighting who should be included and how collaboration creates shared value. Organizations are understood as means to achieve the collective goals of stakeholders (McGahan, 2023). Additionally, this theory is integrated into corporate governance by emphasizing an inclusive model that addresses collective action and enhances shared well-being while challenging the primacy of shareholders (Stoelhorst & Vishwanathan, 2022).

### **Resource-Based Theory (RBT)**

Edith Penrose's classic work *The Theory of the Growth of the Firm* provides an important conceptual foundation for understanding how a company's internal resources drive growth and competitive advantage. Penrose emphasizes that

the unique resources and capabilities possessed by a company determine its strategic position and expansion opportunities, thereby forming the basis of Resource-Based Theory (RBT). Recent literature expands on this idea through the lens of dynamic capabilities, highlighting the importance of a company's ability to adapt and reconfigure its resources in response to changes in the business environment. Thus, competitive advantage can be sustained through adaptive responses to market disruptions (Rotjanakorn et al., 2020).

Contemporary research also highlights the relevance of RBT to green innovation, where companies that leverage environmentally friendly innovations as strategic assets not only strengthen their competitiveness but also contribute to sustainable development (Khanra et al., 2021). Additionally, the concept of temporary competitive advantage underscores the need for dynamic strategies and resource reallocation to address temporary advantages (Dagnino et al., 2020). In the modern context, the integration of Environmental, Social, and Governance (ESG) practices expands a company's resource base, as it has been proven to support green innovation while reducing financing constraints (Zhai et al., 2022). Overall, Penrose's theory remains relevant in explaining how companies can develop sustainable competitive advantages by managing internal resources, strengthening dynamic capabilities, and integrating innovation and sustainability practices.

### **Organizational Performance**

Organizational performance is a multi-dimensional field encompassing employee performance, stakeholder engagement, CSR, and organizational culture. Organizational culture has been proven to play an important role in driving innovation that positively impacts performance (Liu et al., 2022; Alkhadra et al., 2022; Imran et al., 2021; Shea et al., 2021). Organizational performance is typically defined by experts as the result of specific behaviors and job functions over time. This includes the smoothness of workflows, the implementation of strategies, and the utilization of resources, which reflect the quantity and efficiency of tasks completed (Kaur & Kadam, 2021; Konjaang & Xu, 2021; Pillareddy & Karri, 2023).

In the digital environment, organizational performance is greatly influenced by various factors including digital transformation, stakeholder engagement, and digital leadership. Organizations are beginning to realize the importance of integrating digital strategies and technologies to improve performance. Digital transformation involves comprehensive changes in strategy, business processes, and

operations, with the ultimate goal of improving overall performance through the effective use of digital technology (Yu & Moon, 2021). The success of digital transformation also depends on the readiness of the organization and the availability of the necessary resources (Chwiłkowska-Kubala et al., 2023). Stakeholder involvement plays an important role in organizational performance, especially in the context of digital transformation. Effective stakeholder involvement can enhance project success and satisfaction, which are critical for the sustainability of organizational project success (Toukola & Ahola, 2022). The use of digital tools can facilitate this involvement by offering various benefits and opportunities to create added value (Toukola & Ahola, 2022).

In this Organizational Performance study, performance is measured using dimensions proposed by several studies. The dimensions of organizational performance include: financial performance (Sabău Popa et al., 2021), operational performance (Lee, 2021), human resource performance (Mccartney & Fu, 2022), and sustainability performance (Zhao et al., 2021).

### **Digital Knowledge Management**

Digital Knowledge Management (DKM) is defined as a systematic process for capturing, storing, sharing, and utilizing knowledge in digital formats to enhance organizational performance and innovation (Farooq, 2022). In the context of the digital economy, Managerial Capability Dynamics (MCD) plays a crucial role in advancing organizations toward more competitive business transformation. Research indicates that dynamic capabilities, which include knowledge exploitation, risk management, and marketing capabilities, play a significant mediating role between family influence and digital business model innovation (Soluk et al., 2021). These dynamic capabilities enable organizations to adapt to rapidly changing environmental dynamics, thereby strengthening innovation and organizational agility in the digital economy.

Digital transformation has become a foundation for small and medium-sized enterprises (SMEs) in maintaining business continuity amid the pandemic, with an emphasis on digital orientation and digital capabilities that directly influence digital transformation (Rupeika-Apoga et al., 2022). Additionally, digital transformation leadership drives organizational agility, facilitating the digitalization of business practices and the development of innovative business models through effective knowledge transfer (Ramadan et al., 2023). In a broader context, an analysis of adaptive capacity configurations in relation to digital transformation

performance reveals that interaction with the digital world through environmental scanning capabilities is crucial. This enables companies to gather information about the environment, thereby facilitating the configuration of capacities needed for digital transformation (Liu et al., 2021). Thus, the implementation of DKM in the digital economy helps organizations maintain competitive advantage in meeting the new challenges and opportunities posed by rapidly evolving digital technologies.

In this Digital Knowledge Management (DKM) study, the dimensions proposed by several studies are measured, which include several key dimensions that contribute to the effective management and utilization of knowledge in a digital environment. These dimensions include digital marketing strategy, knowledge sharing, financial literacy, technology integration, and collaborative networks (Abdallah et al., 2024; Farias-Gaytan et al., 2021; Masrianto et al., 2022; Sakas et al., 2022; Zhong & Zhao, 2024).

### **Absorptive Capacity**

Absorptive capacity is the ability of a company to recognize, assimilate, and apply valuable external information, and plays a crucial role in enhancing innovation capacity and business performance (Carrasco-Carvajal et al., 2023). A better understanding of absorptive capacity can mediate the influence of stakeholder pressure on innovation capability and company performance (Singh et al., 2020). In the context of digital transformation, absorptive capacity plays an important mediating role in enhancing the positive effects of digital capacity on innovation performance, indicating that this capacity is an essential organizational capability for effectively leveraging digital technology (Kastelli et al., 2022).

Absorptive capacity also has a positive impact on innovation capacity, which in turn influences business performance. Different dimensions of absorptive capacity play an important role in this relationship, including potential absorptive capacity and realized absorptive capacity, which shape product and process innovation (Sancho-Zamora et al., 2021). On the other hand, absorption capacity also strengthens organizational learning capacity, where both interact to enhance innovation capabilities in high-innovation-intensity environments (Makhloufi, Ali Sahli, et al., 2021). Additionally, absorptive capacity facilitates open innovation practices in small and medium-sized enterprises (SMEs), which enhances both entry and exit innovation strategies and has positive implications for performance (Carrasco-Carvajal et al., 2023).

In this study, absorptive capacity is measured using

dimensions proposed by several studies Akhtar et al. (2023), Javeed et al. (2023), Makhloufi (2023), Belaid et al. (2021), Song et al. (2021), which are used in this study and include: Potential Absorptive Capacity (PAC), Realized Absorptive Capacity (RAC), Value-Sensitive Absorptive Capacity (VAC), Green Innovation, and Environmental Issues.

### **Ability to Innovate**

The ability to innovate reflects the capacity of individuals and organizations to create and implement new ideas, adapt to change, and create value. During the COVID-19 pandemic, innovative work behavior and organizational learning readiness were found to enhance sustainable economic performance, with empowering leadership driving innovation (Faulks et al., 2021). Organizational structures such as Deliberately Developmental Organizations (DDO) also support continuous learning and inclusion, enabling diverse identities to participate in innovation (Kwon, 2020).

Industry 4.0 technologies, including AI and big data, contribute to innovation but also pose challenges such as technostress. Their positive impacts can be maximized through skill development, HR strategies, and adaptive cultures (Malik et al., 2021; Munir et al., 2022). Additionally, entrepreneurial orientation, absorptive capacity, and organizational learning strengthen internal innovation capacity in line with external opportunities (Makhloufi et al., 2021). Overall, innovation capability is multifaceted, requiring synergy between leadership, culture, technology, and adaptive learning to build organizational resilience in the face of uncertainty.

In this study, the Ability to Innovate is measured using dimensions identified by several studies as relevant for this research, including: Leadership (Ye et al., 2021), Team dynamics (Jakobsen et al., 2021), Organizational resilience (Wang et al., 2022), Knowledge sharing practices (Joo et al., 2022), Culture (Arghode et al., 2021), Employee empowerment (Van Den Berg et al., 2021), and Strategic alignment (Meher & Mishra, 2021).

### **Digital Transformation**

Digital transformation represents a fundamental change in organizations by integrating digital technology and strategically leveraging resources to enhance value propositions. This process is not merely the adoption of technology, but also the redefinition of organizational strategies and operations (Chatterjee & Mariani, 2024). Digital transformation has been proven to increase flexibility, competitiveness, and operational efficiency through the

strengthening of innovation and managerial practices (Mihu et al., 2023). In the face of uncertainty, such as the COVID-19 pandemic, digital technology is being used to redesign business processes, create new value, and enhance institutional functions, including in higher education (Antonopoulou et al., 2023).

In the financial sector, the adoption of disruptive technologies is driving innovation in service models, although this requires adaptive strategies and organizational structures (Naimi-Sadigh et al., 2021). Meanwhile, in the manufacturing sector, digital transformation correlates with improved operational performance, although this is accompanied by high initial costs (Guo & Xu, 2021). Furthermore, digital transformation also contributes to environmental, social, and governance (ESG) aspects, driving green innovation, transparency, and strong governance (Yang et al., 2023). This underscores the strategic nature of digital transformation in supporting organizational sustainability and excellence.

In this Digital Transformation study, the dimensions used are those proposed by several studies, which include: Technology Dimension (Rodriguez-Lluesma et al., 2020), Process Dimension (Appio et al., 2021), Human Dimension (Philip, 2021), Organizational Dimension (Smith & Beretta, 2020).

### **Intellectual Capital**

Intellectual Capital consists of three main components: human capital, structural capital, and relational capital. Human capital includes the skills, knowledge, and competencies of employees. Structural capital encompasses the processes, infrastructure, and organizational databases that support the optimization of human capital. Meanwhile, relational capital refers to relationships with stakeholders such as customers, suppliers, and business partners. These three elements significantly contribute to value creation, innovation, and organizational performance. Research indicates that Intellectual Capital has a significant impact on innovation and competitiveness. Studies in the financial sector link intellectual capital growth with improved innovation performance (Ali et al., 2021), while research on Malaysian manufacturing SMEs emphasizes the mediating role of innovation capabilities in the relationship between Intellectual Capital and firm performance (Aljuboori et al., 2021).

In the context of e-business, Intellectual Capital also strengthens entrepreneurial orientation and competitive agility (Al-Omouh, 2021). Additionally, investment in Intellectual Capital is associated with improved financial competitiveness

and innovation, although results vary across industries (Liu et al., 2021). Furthermore, Intellectual Capital has different impacts depending on the context, such as green innovation in the renewable energy sector or pharmaceutical performance (F. Ge & Xu, 2020). Therefore, effective Intellectual Capital management is key for organizations to enhance capabilities and maintain competitive advantage.

In this Intellectual Capital (IC) study, IC is measured using dimensions proposed by several studies, including Aljuboori et al. (2021), De Matos Pedro et al. (2020), Lu et al. (2021), which are used in this study and cover: human capital, structural capital, and relational capital.

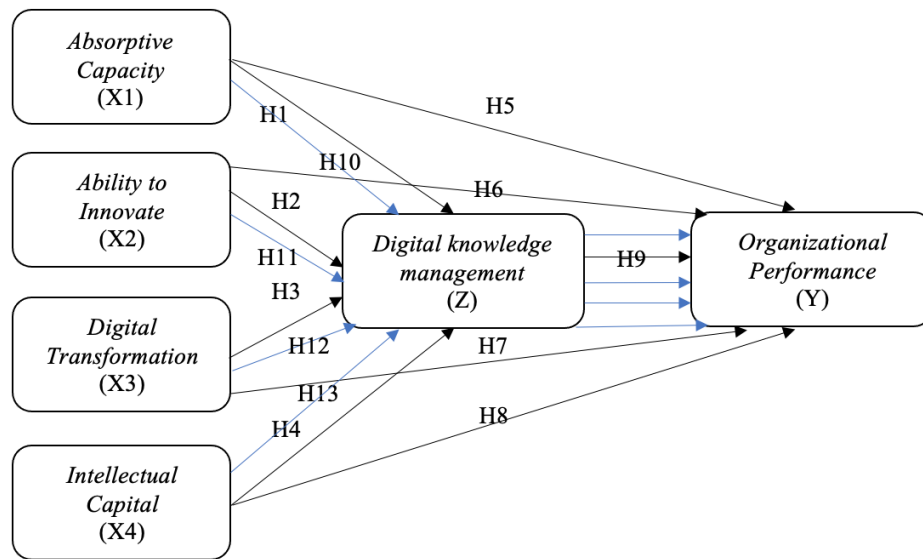
### Research Hypothesis

Based on the theoretical review conducted, the research hypotheses can be formulated as follows:

- H1: Absorptive Capacity influences Digital Knowledge Management.
- H2: Ability to Innovate influences Digital Knowledge Management.
- H3: Digital Transformation impacts Digital Knowledge Management.
- H4: Intellectual Capital influences Digital Knowledge Management.
- H5: Absorptive Capacity influences Organizational Performance.
- H6: Ability to Innovate influences Organizational Performance.
- H7: Digital Transformation influences Organizational Performance.
- H8: Intellectual Capital influences Organizational Performance.
- H9: Digital Knowledge Management influences Organizational Performance.
- H10: Absorptive Capacity influences Organizational Performance mediated by Digital Knowledge Management.
- H11: Ability to Innovate influences Organizational Performance mediated by Digital Knowledge Management.
- H12: Digital Transformation influences Organizational Performance mediated by Digital Knowledge Management.
- H13: Intellectual Capital influences Organizational Performance mediated by Digital Knowledge Management.

The following figure presents a research framework that represents the relationship between the research variables.

This framework is based on theory and empirical studies that have been discussed.



**Figure 2. Research Framework**

## METHOD

This study focuses on testing and analyzing the influence of Absorptive Capacity, Innovation Capability, Digital Transformation, and Intellectual Capital through the role of Digital Knowledge Management, as well as its implications for Organizational Performance. The research design uses a causal approach, which aims to test the influence between these variables (Arif & Macneil, 2022). This research is based on hypothesis testing and is explanatory in nature, providing an explanation of the object being studied (Kwak, 2023 ; Grünwald et al., 2024). The type of research used is quantitative research (Huang & Wang, 2022; Wirtz et al., 2022).

This study focuses on leather craft SMEs in West Java Province to narrow the scope of the study and make it more specific. The unit of analysis in this study is the business actors in the leather craft industry in the region, namely managers who manage the business and are also the owners. The population refers to the entire group of people, events, or phenomena that a researcher wishes to study. A sample is a subset of the population that shares specific characteristics and is used to represent the entire population (Lakens, 2022).

When the population size is relatively small and a census is feasible, conducting a full census compared to sampling can offer several benefits. A census provides comprehensive and detailed demographic data that can be used to formulate various socio-economic policies and public services (Leasure et al., 2020; Lichter & Johnson, 2020). In this study, the

researcher did not conduct sampling but instead used the entire population of 33 leather craft SMEs in West Java as the data source.

The sampling technique used in this study was probability sampling because every member of the population has an equal chance or probability of being selected as a sample (Ahmad et al., 2022). The method used was simple random sampling, where all members of the population have an equal right to be selected as research samples and represent the population (Rathakrishnan et al., 2021).

Survey data collection was conducted through questionnaires distributed both directly and online using Google Forms. The research instrument was developed based on theoretical foundations and practices related to the research variables, namely Absorptive Capacity, Ability to Innovate, Digital Transformation, Intellectual Capital, Digital Knowledge Management, and Organizational Performance. The data were then analyzed quantitatively using a multivariate approach with Partial Least Squares Structural Equation Modeling (PLS-SEM) (Legate et al., 2021; Magno et al., 2022).

## RESULTS AND DISCUSSION

### Descriptive Analysis

The descriptive statistical analysis in this study aims to explain, summarize, and present data on the strategic behavior of SME actors in the leather craft industry in West Java Province in managing Absorptive Capacity, Ability to Innovate, Digital Transformation, and Intellectual Capital. The responses from the business actors indicate the extent to which they are able to utilize these factors as efforts to promote the implementation of Digital Knowledge Management, which serves as a strategy for improving Organizational Performance.

**Table 1. Summary of Variable Responses**

No	Variable	Dimension	Score Obtained	Maximum Score	Percentage of Maximum Score	Category
1	Absorptive Capacity	Potential Absorption Capacity (PAC)	276	330	83.6	Good
		Realized Absorption Capacity (RAC)	272	330	82.4	Good
		Value-Added Absorption Capacity (VAC)	274	330	83.0	Good
		Green Innovation	272	330	82.4	Good

		and Environmental Issues				
	<b>Total Score</b>		<b>1094</b>	<b>1320</b>	<b>82.9</b>	<b>Good</b>
<b>2</b>	<b>Ability to Innovate</b>	Leadership	258	330	78.2	Good
		Team Dynamics	262	330	79.4	Good
		Organizational Resilience	258	330	78.2	Good
		Knowledge Sharing Practices	267	330	80.9	Good
		Culture	254	330	77.0	Good
		Employee Empowerment	269	330	81.5	Good
		Strategic Alignment	269	330	81.5	Good
	<b>Total Score</b>		<b>1837</b>	<b>2310</b>	<b>79.5</b>	<b>Good</b>
<b>3</b>	<b>Digital Transformation</b>	Technology	238	330	72.1	Good
		Process	232	330	70.3	Good
		Human	237	330	71.8	Good
		Organization	244	330	73.9	Good
	<b>Total Score</b>		<b>951</b>	<b>1320</b>	<b>72.0</b>	<b>Good</b>
<b>4</b>	<b>Intellectual Capital</b>	Human Capital	365	495	73.7	Good
		Structural Capital	400	495	80.8	Good
		Relational Capital	394	495	79.6	Good
	<b>Total Score</b>		<b>1159</b>	<b>1485</b>	<b>78.0</b>	<b>Good</b>
<b>5</b>	<b>Digital Knowledge Management</b>	Digital marketing strategy	255	330	77.3	Good
		Knowledge sharing	257	330	77.9	Good
		Financial literacy	259	330	78.5	Good
		Technology integration	259	330	78.5	Good
		Collaborative network	250	330	75.8	Good
	<b>Total Score</b>		<b>1280</b>	<b>1650</b>	<b>77.6</b>	<b>Good</b>
<b>6</b>	<b>Organizational Performance</b>	Financial Performance	261	330	79.1	Good
		Operational performance	265	330	80.3	Good
		Human resource performance	257	330	77.9	Good
		Sustainability performance	262	330	79.4	Good
	<b>Total Score</b>		<b>1045</b>	<b>1320</b>	<b>79.2</b>	<b>Good</b>

Based on the score calculation results, it can be concluded that all research variables are in the good category, with a score percentage ranging from 72.0% to 83.6%. The Absorptive Capacity variable obtained the highest score with

an average of 82.9%, indicating that the organization has a strong ability to absorb, manage, and apply knowledge, including related to green innovation. Ability to Innovate is also quite high (79.5%), reflecting leadership, team dynamics, and a knowledge-sharing culture that supports innovation. Meanwhile, Digital Transformation received the lowest score (72.0%), indicating room for improvement in technology, processes, and human resource readiness. Intellectual Capital (78.0%) and Digital Knowledge Management (77.6%) indicate that knowledge capital and digital strategies are performing well. Overall, Organizational Performance is at a good level (79.2%), indicating that financial, operational, human resources, and sustainability performance are relatively optimal.

### Structural Equation Model-Partial Least Squares (SEM-PLS) Analysis

This study involved 57 manifest variables (indicators) and 6 latent variables. The analysis was conducted through a measurement model (Outer Model) and a structural model (Inner Model), which were then used to test the Structural Equation Model (SEM) using the Partial Least Square (PLS) method.

### Outer Model Test

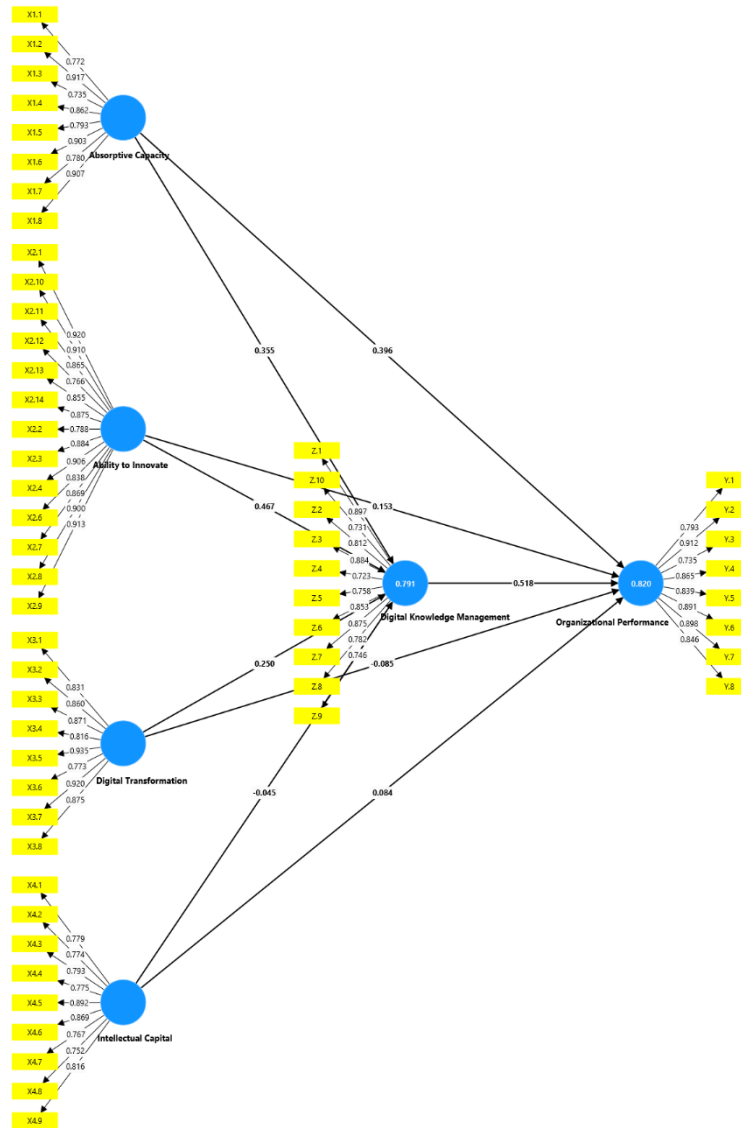
Using PLS software, factor loadings on each construct indicator were utilized to evaluate convergent validity, ensuring that indicators within a construct have a high level of correlation. Convergent validity is considered met if the factor loading values exceed 0.70, while the Average Variance Extracted (AVE) and communality values are above 0.5. The results of the data analysis are presented in the following table.

**Table 2. Final Factor Loadings**

Variable (Symbol)	Dimension	Indicator	Loading Factor	Note
<b>Absorptive Capacity (X1)</b>	Potential Absorption Capacity (PAC)	X1.1	0.772	Valid
		X1.2	0.917	Valid
	Realized Absorption Capacity (RAC)	X1.3	0.735	Valid
		X1.4	0.862	Valid
	Value-Sensitive Absorption Capacity (VAC)	X1.5	0.793	Valid
		X1.6	0.903	Valid
	Green Innovation and Environmental Issues	X1.7	0.780	Valid
		X1.8	0.907	Valid
<b>Ability to Innovate (X2)</b>	Leadership	X2.1	0.920	Valid
		X2.2	0.788	Valid
	Team Dynamics	X2.3	0.884	Valid

		X2.4	0.906	Valid
	Organizational Resilience	X2.6	0.838	Valid
	Knowledge Sharing Practices	X2.7	0.869	Valid
		X2.8	0.900	Valid
	Culture	X2.9	0.913	Valid
		X2.10	0.910	Valid
	Employee Empowerment	X2.11	0.865	Valid
		X2.12	0.766	Valid
	Strategic Alignment	X2.13	0.855	Valid
		X2.14	0.875	Valid
<b>Digital Transformation (X3)</b>	Technology	X3.1	0.831	Valid
		X3.2	0.860	Valid
	Process	X3.3	0.871	Valid
		X3.4	0.816	Valid
	Human	X3.5	0.935	Valid
		X3.6	0.773	Valid
	Organization	X3.7	0.920	Valid
		X3.8	0.875	Valid
<b>Intellectual Capital (X4)</b>	Human Capital	X4.1	0.779	Valid
		X4.2	0.774	Valid
		X4.3	0.793	Valid
	Structural Capital	X4.4	0.775	Valid
		X4.5	0.892	Valid
		X4.6	0.869	Valid
	Rational Capital	X4.7	0.767	Valid
		X4.8	0.752	Valid
		X4.9	0.816	Valid
<b>Digital Knowledge Management (Z)</b>	Digital marketing strategy	Z1	0.897	Valid
		Z2	0.812	Valid
	Knowledge sharing	Z3	0.884	Valid
		Z4	0.723	Valid
	Financial literacy	Z5	0.758	Valid
		Z6	0.853	Valid
	Technology integration	Z7	0.875	Valid
		Z8	0.782	Valid
	Collaborative network	Z9	0.746	Valid
		Z10	0.731	Valid
<b>Organizational Performance (Y)</b>	Financial Performance	Y1	0.793	Valid
		Y2	0.912	Valid
	Operational performance	Y3	0.735	Valid
		Y4	0.865	Valid
	Human resource performance	Y5	0.839	Valid
		Y6	0.891	Valid
	Sustainability performance	Y7	0.898	Valid
		Y8	0.846	Valid

Table 2 presents the factor loading values for each manifest variable. An indicator is considered valid if its factor loading value for the latent variable exceeds 0.70.



**Figure 3. Results of the Smart PLS Algorithm**  
**Table 3. Average Variance Extracted (AVE)**

Variable	Average Variance Extracted (AVE)
Absorptive Capacity (X1)	0.699
Ability to Innovate (X2)	0.756
Digital Transformation (X3)	0.742
Intellectual Capital (X4)	0.645
Digital Knowledge Management (Z)	0.654
Organizational Performance (Y)	0.721

Based on the data, the six latent variables are valid because the AVE values exceed the minimum limit of 0.5. This finding indicates that the manifest variables have met the AVE requirements, so that all indicators used meet the criteria for Convergent Validity. Convergent Validity basically describes the extent to which an instrument is capable of producing scores that truly reflect the construct being measured.

### Discriminant Validity

To evaluate discriminant validity, an analysis was conducted by comparing the factor loadings on the main construct with the AVE values and the correlations between latent variables. A construct is considered to have good discriminant validity if the correlation of the indicators with the construct being measured is higher than the correlation of those indicators with other constructs. Thus, the indicators can be said to better represent the construct in question. The results of the cross-loading values are presented below:

**Table 4. Cross-Loading Factors**

Variable	Indicator	AC	AI	DT	IC	DKM	OP
AC	X1.1	0.772	0.151	0.114	-0.145	0.306	0.462
	X1.2	0.917	0.444	0.362	-0.202	0.611	0.696
	X1.3	0.735	0.556	0.239	-0.165	0.646	0.515
	X1.4	0.862	0.386	0.348	-0.277	0.553	0.658
	X1.5	0.793	0.369	0.164	-0.228	0.485	0.638
	X1.6	0.903	0.590	0.305	-0.118	0.691	0.869
	X1.7	0.780	0.574	0.426	-0.114	0.694	0.589
	X1.8	0.907	0.576	0.419	-0.170	0.710	0.834
AI	X2.1	0.577	0.920	0.358	-0.311	0.755	0.712
	X2.2	0.352	0.788	0.495	-0.193	0.646	0.544
	X2.3	0.500	0.884	0.401	-0.203	0.691	0.677
	X2.4	0.451	0.906	0.326	-0.271	0.632	0.550
	X2.6	0.422	0.838	0.236	-0.213	0.607	0.668
	X2.7	0.480	0.869	0.370	-0.334	0.697	0.563
	X2.8	0.549	0.900	0.530	-0.157	0.741	0.709
	X2.9	0.576	0.913	0.397	-0.326	0.760	0.676
	X2.10	0.489	0.910	0.408	-0.313	0.657	0.648
	X2.11	0.415	0.865	0.314	-0.165	0.638	0.526
	X2.12	0.472	0.766	0.649	-0.140	0.729	0.632
	X2.13	0.541	0.855	0.238	-0.415	0.682	0.657
	X2.14	0.539	0.875	0.467	-0.255	0.734	0.603
	DT	X3.1	0.323	0.390	0.831	-0.119	0.436
X3.2		0.452	0.396	0.860	-0.084	0.539	0.442
X3.3		0.370	0.415	0.871	0.068	0.502	0.383
X3.4		0.302	0.327	0.816	-0.184	0.523	0.353
X3.5		0.376	0.476	0.935	-0.065	0.636	0.462
X3.6		0.125	0.336	0.773	-0.159	0.375	0.250
X3.7		0.285	0.395	0.920	-0.027	0.543	0.361
X3.8		0.256	0.427	0.875	-0.029	0.526	0.371
IC	X4.1	-0.102	-0.137	0.074	0.779	-0.137	-0.116
	X4.2	0.007	-0.281	-0.004	0.774	-0.141	-0.026
	X4.3	-0.143	-0.277	0.115	0.793	-0.218	-0.193
	X4.4	-0.129	-0.212	-0.171	0.775	-0.234	-0.102
	X4.5	-0.189	-0.311	-0.004	0.892	-0.204	-0.107
	X4.6	-0.324	-0.299	-0.171	0.869	-0.377	-0.246
	X4.7	-0.146	-0.178	-0.239	0.767	-0.176	-0.150
	X4.8	-0.067	-0.116	-0.016	0.752	-0.109	-0.032
	X4.9	-0.119	-0.107	0.040	0.816	-0.046	-0.066
DKM	Z1	0.617	0.718	0.494	-0.248	0.897	0.776
	Z2	0.479	0.689	0.569	-0.186	0.812	0.623

	Z3	0.738	0.688	0.525	-0.144	0.884	0.795
	Z4	0.544	0.588	0.293	-0.203	0.723	0.627
	Z5	0.475	0.617	0.603	-0.237	0.758	0.604
	Z6	0.598	0.718	0.384	-0.277	0.853	0.789
	Z7	0.749	0.693	0.509	-0.341	0.875	0.756
	Z8	0.546	0.563	0.523	-0.177	0.782	0.679
	Z9	0.498	0.573	0.710	-0.025	0.746	0.574
	Z10	0.543	0.577	0.255	-0.398	0.731	0.620
<b>OP</b>	Y1	0.739	0.583	0.254	-0.230	0.625	0.793
	Y2	0.814	0.644	0.350	-0.207	0.725	0.912
	Y3	0.645	0.471	0.444	0.118	0.533	0.735
	Y4	0.702	0.605	0.497	-0.322	0.751	0.865
	Y5	0.659	0.577	0.384	0.128	0.762	0.839
	Y6	0.674	0.667	0.339	-0.285	0.726	0.891
	Y7	0.648	0.666	0.386	-0.193	0.799	0.898
	Y8	0.611	0.702	0.334	-0.192	0.830	0.846

The indicators used to measure the latent variables have met the required criteria, as shown in the previous table. This is indicated by the cross-loading value of each indicator being greater for the latent construct it measures than for other latent constructs.

### Reliability Test

Composite Reliability (CR) and Cronbach's Alpha (CA) are two approaches commonly used to assess reliability in Partial Least Square (PLS) analysis.

**Table 5. Reliability Test Results**

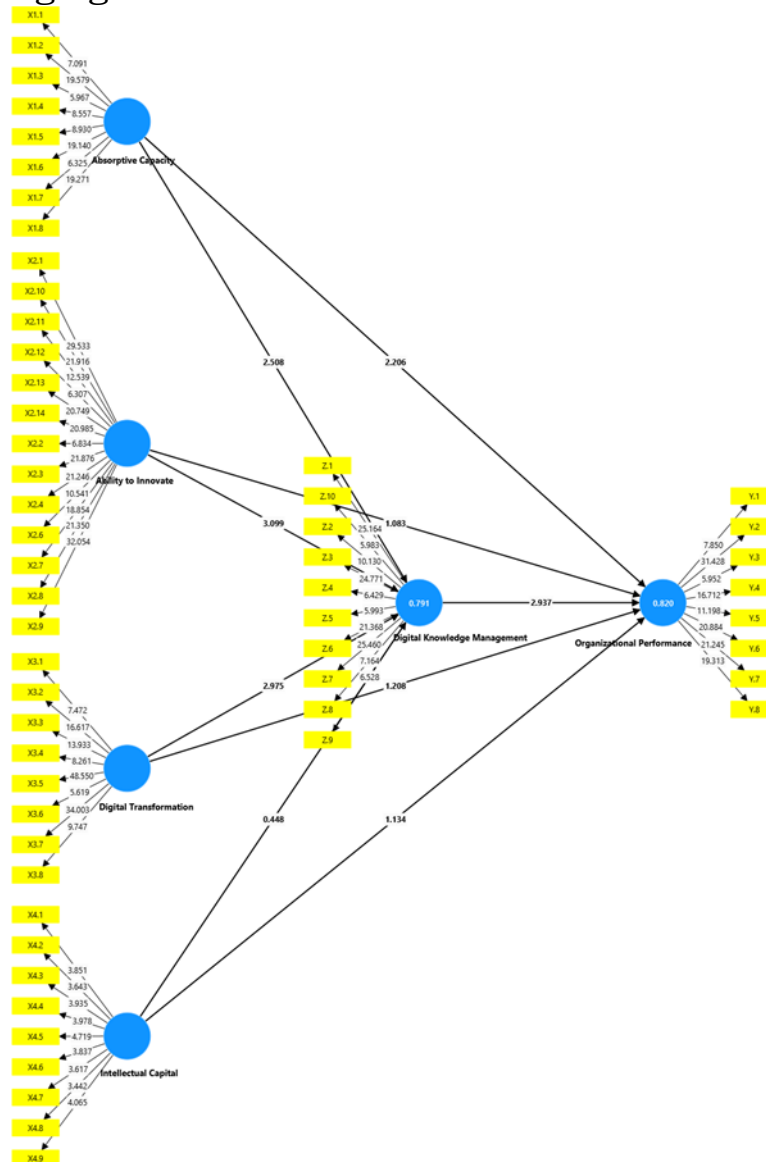
Variable	Cronbach's Alpha	Composite Reliability	Description
Absorptive Capacity (X1)	0.93	0.949	Reliable
Ability to Innovate (X2)	0.973	0.976	Reliable
Digital Transformation (X3)	0.95	0.958	Reliable
Intellectual Capital (X4)	0.934	0.942	Reliable
Digital Knowledge Management (Z)	0.940	0.949	Reliable
Organizational Performance (Y)	0.944	0.954	Reliable

The test results show that the data is reliable, meaning that all indicators are able to measure the variables consistently. This is indicated by a Composite Reliability (CR) value above 0.7 and a Cronbach's Alpha (CA) value exceeding 0.6, thereby strengthening the evidence of the reliability of the measurement instrument.

### Inner Model Test

The purpose of structural model evaluation is to assess the relationship between latent variables. The testing process was conducted by examining the path coefficient values to determine the level of significance of the influence. The t-value of the path coefficient was obtained through the bootstrapping

method. The bootstrapping results of this study are shown in the following figure:



**Figure 4. Bootstrapping Result**

**Hypothesis**

Path coefficients, t values, p values, and coefficient magnitudes are used as the basis for assessing the significance of the influence on the research hypothesis. The parameter coefficient values (original sample) are also displayed in the path significance test results, which illustrate the level of influence of each variable. A summary of the hypothesis testing results in this study is shown in the following table.

**Table 6. Path Significance Test**

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Absorptive Capacity -&gt; Digital Knowledge Management	0.355	0.344	0.142	2.508	0.012
Ability to Innovate -&gt; Digital Knowledge Management	0.467	0.477	0.151	3.099	0.002
Digital Transformation -&gt; Digital Knowledge Management	0.250	0.232	0.084	2.975	0.003
Intellectual Capital -&gt; Digital Knowledge Management	-0.045	-0.060	0.101	0.448	0.654
Absorptive Capacity -&gt; Organizational Performance	0.396	0.391	0.179	2.206	0.027
Ability to Innovate -&gt; Organizational Performance	0.153	0.164	0.141	1.083	0.279
Digital Transformation -&gt; Organizational Performance	-0.085	-0.080	0.070	1.208	0.227
Intellectual Capital -&gt; Organizational Performance	0.084	0.074	0.074	1.134	0.257
Digital Knowledge Management -&gt; Organizational Performance	0.518	0.506	0.176	2.937	0.003

**Table 7. Hypothesis Test Matrix**

H	Variable	Correlation	t-Value	t-Table	Description
H1	Absorptive Capacity → Digital Knowledge Management	0.355	2,508	1.96	Influential
H2	Ability to Innovate -&gt; Digital Knowledge Management	0.467	3.099	1.96	Influential
H3	Digital Transformation -&gt; Digital Knowledge Management	0.250	2.975	1.96	Influential
H4	Intellectual Capital -&gt; Digital Knowledge Management	-0.045	0.448	1.96	Not Influential
H5	Absorptive Capacity -&gt; Organizational Performance	0.396	2.206	1.96	Influential
H6	Ability to Innovate -&gt; Organizational Performance	0.153	1.083	1.96	Not Influential
H7	Digital Transformation -&gt; Organizational Performance	-0.085	1.208	1.96	Not Influential
H8	Intellectual Capital -&gt; Organizational Performance	0.084	1.134	1.96	Not Influential
H9	Digital Knowledge Management -&gt; Organizational Performance	0.518	2.937	1.96	Influential

This study uses a confidence level of 95%. In a two-tailed hypothesis test, the t-statistic representing the Path Coefficient must be greater than 1.96. Based on the Path Coefficient and the t-value listed in the table, the following conclusions can be drawn:

The hypothesis testing results show interesting dynamics regarding the relationship between variables in the research

model. First, Absorptive Capacity is proven to have a significant effect on Digital Knowledge Management (DKM) with a t-value of 2.508 ( $>1.96$ ) and a positive coefficient of 0.355. This confirms that the higher an organization's ability to absorb, understand, and internalize external knowledge, the better the digital knowledge management that can be achieved. Furthermore, Ability to Innovate also has a significant influence on DKM with a t-value of 3.099 and a coefficient of 0.467. This finding shows that strong innovation capacity contributes to the improvement of digital knowledge management effectiveness. Similarly, Digital Transformation has a positive and significant effect on DKM ( $t = 2.975$ ; coefficient = 0.250), indicating that successful digital transformation drives the knowledge management process to become more adaptive and integrated. Unlike the three previous variables, Intellectual Capital does not have a significant effect on DKM ( $t = 0.448$ ; coefficient = -0.045). This suggests that while intellectual capital is important, its contribution to digital knowledge management is not yet dominant, and even tends to be negative in the context of this study.

In relation to Organizational Performance, the research results show that Absorptive Capacity has a significant effect ( $t = 2.206$ ; coefficient = 0.396). This means that the better an organization's knowledge absorption capacity, the higher its performance. Conversely, Ability to Innovate ( $t = 1.083$ ; coefficient = 0.153), Digital Transformation ( $t = 1.208$ ; coefficient = -0.085), and Intellectual Capital ( $t = 1.134$ ; coefficient = 0.084) do not show a significant influence on organizational performance. This indicates that these three variables, although theoretically important, have not yet produced a strong tangible impact in the context of performance measurement in this study.

Interestingly, Digital Knowledge Management was found to have a positive and significant influence on Organizational Performance with a t-value of 2.937 and a coefficient of 0.518. This finding reinforces that the effectiveness of digital knowledge management is a key factor in improving overall organizational performance. In other words, DKM serves as a strategic bridge connecting knowledge absorption, innovation, and digital transformation processes to organizational performance achievement.

### **R-Square Test, Direct and Indirect Effects, and Specific Indirect Effects**

The R Square value describes the proportion of variability in the dependent variable that can be explained by the independent variables. The results of the R Square test in

this study are presented in the following table:

**Table 8. R Square Result**

	R Square
Digital Knowledge Management	0.791
Organizational Performance	0.820

The R Square test results show that the Digital Knowledge Management variable has a value of 0.791. This means that 79.1% of the variation in Digital Knowledge Management can be explained by the independent variables in the model, while the remaining 20.9% is explained by other factors outside the scope of this study. This value falls into the strong category, indicating that the model can substantially explain the influence of independent variables on Digital Knowledge Management.

Furthermore, the Organizational Performance variable obtained an R Square value of 0.820, indicating that 82% of the variation in organizational performance can be explained by the constructs in the model. This value is also in the strong category, indicating that the research model is very effective in explaining the factors that influence organizational performance.

**Table 9. Direct and Indirect Influence**

Direct Influence		Indirect Influence		Total
Absorptive Capacity & Digital Knowledge Management	0.355			0.355
Ability to Innovate & Digital Knowledge Management	0.467			0.467
Digital Transformation → Digital Knowledge Management	0.250			0.250
Intellectual Capital → Digital Knowledge Management	-0.045			-0.045
Digital Knowledge Management & Organizational Performance	0.518			0.518
Absorptive Capacity → Organizational Performance	0.396	AC - DKM - OP (0.355 × 0.518)	0.184	0.184
Ability to Innovate & Organizational Performance	0.153	AI - DKM - OP (0.467 × 0.518)	0.242	0.395
Digital Transformation → Organizational Performance	-0.085	DT - DKM - OP (0.250 × 0.518)	0.130	0.045
Intellectual Capital → Organizational Performance	0.084	IC - DKM - OP (-0.045 × 0.518)	-0.024	0.061

Referring to Table 9, the results of testing the four indirect effects show that there are two variables, namely Absorptive Capacity and Intellectual Capital, which have a greater total effect than their direct effects.

**Table 10. Specific Indirect Effects**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Absorptive Capacity → Digital Knowledge Management → Organizational Performance	0.184	0.176	0.100	1.842	0.066
Ability to Innovate → Digital Knowledge Management → Organizational Performance	0.242	0.238	0.107	2.253	0.024
Digital Transformation → Digital Knowledge Management → Organizational Performance	0.130	0.120	0.065	1.981	0.048
Intellectual Capital → Digital Knowledge Management → Organizational Performance	-0.024	-0.035	0.058	0.406	0.684

The results of the mediation effect analysis reveal different dynamics of each variable on Organizational Performance through Digital Knowledge Management (DKM).

First, Absorptive Capacity has an indirect effect on Organizational Performance with a path coefficient of 0.184, a t-statistic value of 1.842, and a p-value of 0.066. Although this result is not significant at the 95% confidence level, the t-value approaching the critical threshold indicates the potential for a relevant positive effect that warrants further investigation.

Second, the influence of Ability to Innovate through DKM on Organizational Performance shows significant results, with a path coefficient of 0.242, a t-statistic of 2.253, and a p-value of 0.024. This finding confirms that effective innovation can directly contribute to improving organizational performance when integrated through digital knowledge management practices.

Third, the indirect influence of Digital Transformation through DKM on Organizational Performance is also significant (coefficient 0.130, t-statistic 1.981, p-value 0.048). This result confirms that digital transformation efforts not only impact technological adaptation but also enhance the quality of digital knowledge management, ultimately leading to improved organizational performance.

Fourth, Intellectual Capital showed insignificant results in its indirect influence on Organizational Performance through DKM (coefficient -0.024, t-statistic 0.406, p-value 0.684). This indicates that intellectual capital, although theoretically important, has not yet been able to contribute meaningfully to organizational performance through the mechanism of digital knowledge management in the context of this study.

In general, leather craft MSMEs in West Java show good conditions in all aspects studied. Their absorptive capacity shows the most prominent level of ability, indicating that these MSMEs are very adept at absorbing, managing, and applying new knowledge, including that related to environmentally friendly innovation. Innovation capacity is also at a high level, supported by conducive leadership, solid team dynamics, and a strong knowledge-sharing culture. However, Digital Transformation, although classified as good, is an area that still has room for further improvement, particularly in terms of technology, processes, and human resource readiness. On the other hand, Intellectual Capital and Digital Knowledge Management have been well implemented, indicating that MSMEs have managed their knowledge assets and utilized digital strategies effectively. Overall, the organizational performance of these MSMEs is relatively optimal in various dimensions, including finance, operations, human resources, and sustainability.

Through testing the relationships between variables, it was found that the measurement tools used in this study were able to produce consistent and accurate results. Absorptive Capacity contributes significantly and provides a boost to Digital Knowledge Management (DKM). This confirms that the better the ability of MSMEs to absorb and internalize knowledge from outside, the more effective their digital knowledge management will be. The findings of this study support the research on "Cepeda-Carrion et al. (2022 ), Kastelli et al. (2022 ), Liu et al. (2023 ), and Vigren et al. (2022). Innovation Capacity also has a significant and positive influence on DKM, indicating that strong innovation capacity is highly beneficial in enhancing the effectiveness of digital knowledge management. The results of this study support the research conducted by Lam et al.(2021), Ngo et al. (2022 ), Ramadan et al. (2023 ), and Than et al. (2022). Digital transformation also shows a significant and positive influence on DKM, indicating that success in digital transformation encourages the knowledge management process to become more adaptive and integrated. The results of this study support the research conducted by Muduli & Choudhury (2024) and Ramadan et al.(2023). However, Intellectual Capital does not show a clear influence on DKM, although generally important, its contribution to digital knowledge management in the context of this study is not dominant and tends not to have a positive impact. The results of this study support research conducted by Al-Omoush (2021 ), Izzo et al., (2021 ), Z. Zhang et al. (2022).

In relation to Organizational Performance, the research results indicate that Digital Knowledge Management (DKM)

has a significant and positive impact on Organizational Performance. This emphasizes that effective digital knowledge management is a key factor in improving the overall performance of SMEs. The results of this study support research conducted by Al Omoush et al.(2023), Anatan & Nur (2023 ), Kallmuenzer et al.(2024). Additionally, Absorptive Capacity also demonstrates a significant and positive influence on Organizational Performance. The findings of this study align with research conducted by Kastelli et al. (2022), Sancho-Zamora et al. (2021 ), and Singh et al.(2020). However, Innovation Capability, Digital Transformation, and Intellectual Capital do not show a clear direct influence on Organizational Performance in this study, indicating that although important, their direct impact may not be as strong as other factors in the performance measurement conducted. The results of this study support the research conducted by Aljuboori et al. (2021 ), Appio et al. (2021 ), Chen & Chen (2021).

This study also explores the mediating role of DKM. It was found that Innovation Capability has a clear indirect influence on Organizational Performance through DKM. This means that effective innovation can contribute to improved organizational performance if the knowledge generated from innovation is managed well digitally. Digital Transformation also shows a clear indirect influence on Organizational Performance through DKM. Digital transformation efforts are not only focused on technology but also on improving the quality of digital knowledge management, which ultimately has a positive impact on organizational performance. Relevant studies discussing the influence of innovation capabilities and digital transformation on organizational performance through digital knowledge management include those by C. Ge et al. (2023), Lin & Mao, (2023 ), Sarwar et al. (2023 ), Yu et al. (2022 ), and Yu & Moon,(2021). Absorptive Capacity has the potential for an indirect influence on Organizational Performance through DKM, but this impact is not yet fully clear. Unfortunately, Intellectual Capital does not show a clear indirect influence on Organizational Performance through DKM, indicating that in this study, intellectual capital has not been able to contribute significantly to organizational performance through digital knowledge management (Ibarra-Cisneros et al., 2021; Q. Liu et al., 2023; Migdadi, 2021).

Overall, this research model has a strong ability to explain changes in the dependent variables. Most changes in Digital Knowledge Management can be explained by the independent variables in the model, indicating a strong relationship. Similarly, the variables in this model are highly effective in explaining most changes in Organizational

Performance, indicating that the factors tested in this study are important determinants of performance. Digital Knowledge Management (DKM) emerges as a crucial element that directly improves the performance of leather craft SMEs in West Java. DKM also acts as a strategic link, enabling Innovation Capability and Digital Transformation to indirectly influence Organizational Performance. While Absorptive Capacity has a direct impact on performance, the role of DKM as a mediator for Absorptive Capacity still requires further exploration. On the other hand, Intellectual Capital does not show a significant influence, either directly or through DKM mediation, in the context of this study. These findings highlight how the relationships between variables are highly complex and influenced by various contextual factors in optimizing SME performance.

## CONCLUSION

Digital Knowledge Management (DKM) is a key factor that directly enhances Organizational Performance in Micro, Small, and Medium Enterprises (MSMEs) in the leather craft industry in West Java, demonstrating a significant positive influence. Furthermore, DKM also plays a strategic role as a mediator. The ability of to innovate and undergo digital transformation indirectly contributes to improved Organizational Performance through the effective mediating role of DKM. On the other hand, Absorptive Capacity has a direct positive impact on Organizational Performance. However, the indirect influence of Absorptive Capacity through DKM requires further exploration as it has not yet reached clear significance in this study. Unfortunately, Intellectual Capital does not show a significant influence, either directly or through DKM, on Organizational Performance in the context of this study. This finding reinforces that the overall research model has a strong ability to explain the dynamics of DKM and Organizational Performance, highlighting the complexity of interactions among various factors in achieving optimal performance of SMEs.

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