

Knowledge Management, the Role of Strategic Partners, Good Corporate Governance and Their Impact on Organizational Performance

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Abstract. This study aims to examine the role of knowledge management, the role of strategic partners, and good corporate governance and their impact on the performance of hospital organizations. Knowledge management consists of knowledge management enablers (strategy and leadership, organizational culture, information technology, and organizational information systems), and knowledge management processes (socialization, externalization, combination and internalization). An approach that refers to agency theory and knowledge-based theory is used to explain the performance of hospital organizations. The survey was conducted by distributing questionnaires to the level of managers and directors at the hospital. The data analysis technique used is a structural equation modelling (SEM) approach. The results show that knowledge management enabler is able to encourage the role of knowledge management processes that influence improving organizational performance. The role of doctors as strategic partners has a significant effect on corporate governance. The results also prove the good corporate governance has a significant effect on organizational performance.

1. Introduction

Organizational performance is a strategic aspect in management that plays a role in developing, implementing, and evaluating a strategic plan [1] [2]. Organizational performance measurement is expected to evaluate how well an organization achieves its goals. In measuring performance, some companies consider if they only believe in financial indicators to measure performance, it can bring short-term results. Thus, financial performance only is not enough to assess organizational performance. Kaplan and Norton [3] introduced a balance scorecard that offers measurement of financial performance and non-financial performance as well as to assess organizational performance. Non-financial performance includes intangible assets in organizations related to knowledge. Knowledge management can be applied as a strategy towards organizational success [4] [5]. Knowledge is an important factor in business development. Although some forms of intellectual creativity can be transferred, intrinsic knowledge is not easily transferred. Therefore, the main objective of management is to improve the process of acquisition, integration and utilization of knowledge which is better known as knowledge management [6]. Knowledge management still has obstacles. One of the obstacles is that organizations sometimes do not understand what they know [7]. Certain skills and knowledge that employees have sometimes have no value to their colleagues and superiors, because those who can use this knowledge do not understand and are not aware of their existence [8]. Therefore, understanding knowledge management elements is expected to improve performance. Research by [9] [10] [4] shows there are effects of knowledge management towards organizational performance. Research on knowledge management is mostly done in the knowledge-intensive and innovative manufacturing sector [11] [12], but research in the health services industry has received less attention such as hospitals in Indonesia.

1.1 Knowledge Management and Strategic Partners

Knowledge management (KM) consists of a variety of different elements. Factors affecting interrelated knowledge management are explained by 7 enablers, namely collaboration, learning, trust,

centralization, formalization, t-shaped skills, and information technology. To manage knowledge information effectively through the knowledge management process, it emphasizes on socialization, externalization, combination and internalization [13].

KM is closely related to human resources. Strategic planning formulated to achieve organizational performance depends on the capabilities of human resources who will compile and realize the strategic plan. Human resource executives (HR) are seen as strategic partners with other executives and actively involved in strategic decision making. In the hospital, the role of doctors and paramedics is considered a strategic partner. The role of strategic partners focuses on activities that match HR practices and strategies with company strategies [14]. HR strategy practices and innovation performance by mediating the capacity of knowledge management are shown by [11]. [15] shows the significant influence of strategic partners on the capacity of innovation and business performance. While strategic partners associate HR with organizational performance [14]. Referring to the importance of strategic partners in the health service industry that requires high knowledge, technology and skills, the role of human resources as strategic partners is expected to improve the performance of hospital organizations. Knowledge management (KM) consists of a variety of different elements. [13] shows the effect of enablers on knowledge management and knowledge management processes. Factors affecting interrelated knowledge management are explained by 7 enablers, namely collaboration, learning, trust, centralization, formalization, t-shaped skills, and information technology. To manage knowledge information effectively through the knowledge management process emphasizes socialization, externalization, combination and internalization.

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1.2 Corporate Governance

Corporate governance is positively associated with organizational performance [16] [17], as well as [18] explaining that good corporate governance can predict future performance. Many research results explain the relationship between corporate governance and organizational performance using secondary data, the concept refers to agency theory. The level of association is indicated by the size of the audit committee, independent audit committee, foreign ownership, institutional ownership, large board size, board expertise, management expertise, length of CEO positions, dividend policy, and annual meetings related to organizational performance. But relatively less research is directed to use questionnaire surveys in the health industry using the principles of good corporate governance. Thus, the contribution of studies in hospitals related to corporate governance and organizational performance can improve organizational performance. Partial improvement in organizational performance can be influenced by many factors including intellectual capital and knowledge management [19], knowledge management and the role of strategic partners [14], good corporate governance [17] [20]. This research is considered important to answer and contribute empirical results on the role of knowledge management enablers, knowledge management processes, strategic human resources partners and corporate governance on improving organizational performance. This research is a development of [19], [14] and [18].

Knowledge management resources relate to human resources. Therefore, to optimize strategic planning and implement it effectively in order to achieve organizational performance is largely determined by the capabilities of human resources. The role of human resources as strategic partners is directed at efforts to monitor and adjust human resource practices and strategies and corporate strategies. In this

case the executive acts as a strategic partner that encourages the success of the company's strategy to achieve the desired organizational performance. [11] shows that strategic human resources affect performance. The researcher is more focused on strategic human resources only as an administrative expert, not as a strategic partner. Research into the role of human resources as strategic partners in hospitals is difficult to obtain. Based on this, the main problems which need to be addressed are to what extent knowledge management, the role of HR strategic partners, and good corporate governance can have an impact on the organization's performance.

1.3 Knowledge Based and Agency Theory

The relationship perspective of Jensen and Meckling agency theory is able to explain corporate governance issues [21]. Eisenhardt revealed that the main focus in agency theory to overcome agency problems is how to determine the optimal contract design between agent and principal. There are three assumptions of human nature in agency theory, namely self-interest, limited future insight (bounded rationality), and risk aversion. Based on these characteristics, management as an agent who is given the task of managing the company tends to make decisions according to personal interests rather than for the interests of the principal, perhaps because the agent has more information about the condition of the company than the principals. Organizations are encouraged to adopt the application of good corporate governance to improve organizational performance and to protect the interests of shareholders [17]. Thus, the existence of corporate governance is expected to reduce agency costs. A study in Hong Kong that is strong with family, makes several things in corporate governance unable to function properly. The main issue in the Hong Kong market which becomes the agency conflict is between insider and outside shareholders [18]

The relevant theory to show the importance of the role of knowledge management is the knowledge-based theory developed by Grant [10]. The source of competitive advantage in a dynamic business environment is not the knowledge that lies with the organization, because such knowledge values are easily eroded obsolescence. Competitive advantage is precisely determined by the knowledge that is not possessed in the form of knowledge contained in individuals. Because knowledge is owned by individuals and not organizations, an important element of competitive advantage is the ability to integrate specialization with individual knowledge. The main idea of this theory is that the organization exists in its way, because its ability to manage knowledge more efficiently than other forms of organizational structure. In short, organizations are social entities that use and store internal knowledge, competencies and capabilities that are vital to the sustainability of the company, grow and succeed [22]. Based on the background of the problem and the literature review above, the following hypothesis can be formulated:

- H1a: KM enabler affects the role of strategic partners
- H1b: KM enabler affects good corporate governance
- H1c: KM enabler affects organizational performance
- H1d: KM enabler affects the knowledge management process
- H2a: KM process affects the role of strategic partners
- H2b: KM process affects good corporate governance
- H2c: KM process affects organizational performance
- H3a: The role of strategic partners affects organizational performance
- H3b: The role of strategic partners affects good corporate governance
- H4: Good corporate governance affects organizational performance

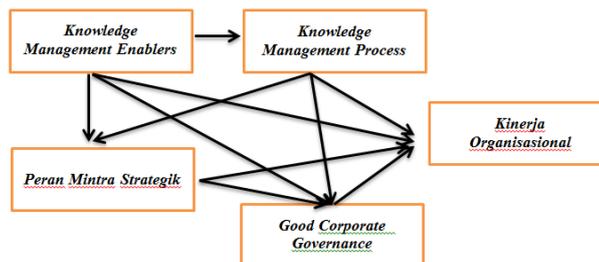


Figure 1. Research Model

2 Method

The data in this study were obtained through surveys by distributing questionnaires to respondents. This research was carried out in government hospitals and private hospitals in the city of Pekanbaru. Data collection was done through survey. Respondents of this study were leaders of upper level and middle level hospitals consisting of Directors, Deputy Directors, Managers, Heads of Departments / fields. They were chosen because at this level knowledge is needed with high professional mastery. At the hospital, 4 respondents were chosen representing the organization and the analysis unit was the organization. Reasons for choosing the Hospitals in Pekanbaru are because of variations in accreditation levels in hospitals representing hospitals in Indonesia that have hospitals with accreditation of National and International Hospitals. The variable size of knowledge management refers to [13], while the role of strategic partners is used by the measurement used by Sintaasih [14], good corporate governance refers to KNKG [20] and the size of the variable organizational performance refers to [23]. The data analysis technique used is a structural equation modelling (SEM) approach. The reason is because the variables used in this study cannot be measured directly or latently. SEM is used to analyse the pattern of relationships between latent constructs and indicators

3 Results

The results of the analysis for testing the effect of constructs presented in Figure 1 are a research model by observing the path diagram of the PLS analysis results at the final stage, so the relationship between constructs is illustrated as shown in Figure 2.

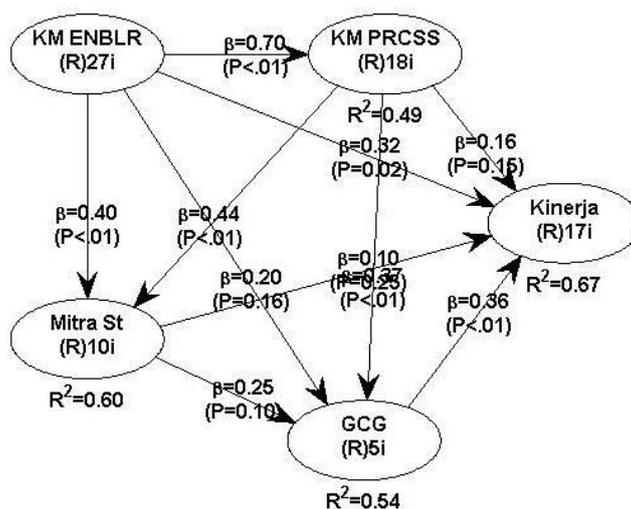


Figure 2. Pathway diagram resulting from hypothesis testing

Based on the path diagram the relationship between KME and KMP with path coefficients 0.7 and $p < 0.01$ means a positive and significant effect. This means that knowledge management enabler influences the knowledge management process. Thus, H1d is accepted. Knowledge management process will run better if supported by KME. Knowledge management regarding collaboration, trust, learning, centralization, formalization, t-shaped skills and information technology support can influence the process of socialization, externalization, combination and internalization of knowledge. The

relationship between KMP and Performance can be shown by the path coefficient 0.16 and $p = 0.15$. This shows a positive effect on KMP on performance but not significant because $p > 0.05$ thus H2c is rejected. While the relationship between KME on Performance is shown by the path coefficient of 0.32 and $p = 0.02$ which means that there is a positive and significant relationship so H1c is accepted. The relationship between the KME towards the role of strategic partners (PartnersSt) is shown by the path coefficient 0.4 and $p < 0.01$, thus H1a is accepted. The KMP calculation for St Partner is indicated by the path coefficient 0.437 and $p < 0.01$. The process of knowledge management for socialization, externalization, combination and internalization affects the role of strategic partners or in other words H2a is accepted.

The relationship of strategic partner roles to GCG is indicated by the path coefficient 0.25 and $p = 0.1$ significant at $p = 0.1$ in other words the H3b hypothesis is accepted. While the relationship between KME to GCG is indicated by the path coefficient 0.201 and $p = 0.16$ thus H1b is rejected. For KMP calculation of GCG, the path coefficient results are 0.366 and $p = 0.006$, so H2b is received. For St Partner's calculation of organizational performance path coefficient = 0.101 and $p = 0.246$ where $p > 0.1$ so hypothesis 3a is rejected. While the relationship between GCG towards organizational performance is shown by the path coefficient 0.36 and $p < 0.01$ so that H4 is accepted. The principles of good corporate governance can affect organizational performance.

Table 2. Conclusion of the Testing results

Article I. fect	Ef	Article II. Path	Coeff.	Article III. value	P	Article IV.	Description
Article V. ME towards KMP	K	Article XV. Article XVI.	0,701 0,404	Article XXV. 001	<0,	Article XXXV.	Significant
Article VI. ME towards Partners St	K	Article XVII. Article XVIII.	0,201 0,319	Article XXVI. 03	0,0	Article XXXVII.	Not significant
Article VII. ME towards GCG	K	Article XIX. Article XX.	0,437 0,366	Article XXVII. 59	0,1	Article XXXVIII.	Signi ficant
Article VIII. ME towards Performance	K	Article XXI. Article XXII. Article XXIII. Article XXIV.	0,156 0,245 0,101 0,357	Article XXVIII. 16 Article XXIX. 001	0,0 <0,	Article XXXIX. Article XL. Article XLI.	Significant Significant Not significant
Article IX. MP towards Partners St	K			Article XXX. 06 Article XXXI. 46	0,0 0,1	Article XLII. Article XLIII.	Not significant Not significant
Article X. MP towards GCG	K			Article XXXII. 99	0,0	Article XLIV.	Significant
Article XI. MP towards Performance	K			Article XXXIII. 46	0,2		
Article XII. itra St towards GCG	M			Article XXXIV. 02	0,0		
Article XIII. itra St towards Performance	M						
Article XIV. CG towards Performance	G						

4 Conclusion

The effect of KM enablers on organizational performance proves to be significant, while the influence of KM on organizational performance is not mediated by KM processes. Thus, the efforts to improve organizational performance are driven by increasing enablers. KM regarding strategy and leadership can improve organizational performance, organizational culture can affect organizational performance. Elements that become enablers in KM can directly affect organizational performance. The role of strategic partners in organizational performance has a positive but insignificant effect. While good corporate governance has a positive and significant effect on organizational performance. In general, KM, the role of strategic partners and GCG influence organizational performance.

From the results of this study, KM processes can be of particular concern to the company. In addition to improving organizational performance, it can also enhance the role of strategic partner HR in the internal company. However, research results may be different because of differences in conditions in geographical areas with different organizational cultures.

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