# How to Build Innovation Capability in the RAC Industry to Face Industrial Revolution 4.0?

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ABSTRACT--Nowadays, innovations are much talked about, discussed, written and discussed in small to large classrooms, meeting rooms for managers and leaders. Innovation is associated with the need to survive amidst the industrial era 4.0. Innovation cannot be separated from personal knowledge and communal knowledge. Whereas knowledge consists of tacit and explicit knowledge both of which require good and continuous management. This study aims to measure the effect of tacit and explicit knowledge on innovation capability mediated by organizational learning. Data collection was carried out by simple random sampling via electronics in a population of Refrigeration and Air Conditioning (RAC) technicians in Indonesia. The results of the questionnaire returned were 632 and valid were 620 samples. Data processing using SEM method with SmartPLS 3.0 software. The results of this study are explicit and tacit knowledge has a positive and significant effect on innovation capability, both directly and through mediating organizational learning. This research novelty is proposing a model of building innovation capability in the RAC industry through tacit & explicit knowledge transfer with organizational learning as mediation. This research can open the way to increase readiness index in the RAC industry to deal with industrial revolution 4.0.

*Keywords-- Explicit knowledge, industrial revolution 4.0, innovation capability, organizational learning, tacit knowledge,* 

# I. INTRODUCTION

A new challenge that is currently affecting the existence and sustainability of the RAC industry is the dramatic change that has come from Industrial Revolution 4.0. This industrial revolution requires quality human resources that are more qualified, agile, adaptive and responsive to rapid change. Business organizations also need an environment that continues to grow positively and is conducive to competition in the global market. Therefore, it

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cannot be denied that the RAC industry needs a synergy between human resources and the work environment that is able to make continuous improvements in innovation and performance. The point is that in this era of knowledge economy emerging knowledge societies need innovation and flexibility as energy to survive competition. Therefore, the company's strategic development in the future is to increase knowledge resources that open space for innovation, rapid growth.

Industrial players for companies are as organizational entities that make or provide goods or services for consumers. The spirit of a business is generally formed to generate profits (profit oriented) and increase prosperity for their owners (self interest). It can be simply concluded that the vision of the industry for industry players is the vision of those who are institutionalized and organized in the company to achieve maximum profits. Serve consumers essentially serving their own interests / goals. The implications of this industrial work procedure target all good people involved in the production process to end users (end users / consumers). The choice is only two to become a player with all the risk (risk taker) or the user by accepting the risk (risk maker).

To ensure that business organizations can be competitive and adaptive, organizational employee need to be educated and involved in pumping organizational performance. As a result, organizations must become organizational learning. Organizational learning is very important for corporate organizations operating in unpredictable environments changes. So the speed of response to changes is an absolute requirement to win the competition with competitors.

Objectively, it cannot be denied that the current industrial revolution holds a variety of advantages and great challenges that must be faced for each of the entities involved in it. Especially the economic problem for a nation and state. One of the benefits gained is finding new opportunities but also being followed by new challenges. On the other hand, this situation has led to increasingly fierce competition both among domestic individuals / companies and with foreign companies. This competition actually increases the internal and external quality of each individual / company.

The knowledge of individuals and organizations becomes intellectual capital which quickly becomes a new icon that illustrates the economic value of a company organization. This is the new paradigm of industry 4.0. Dependence on traditional productive assets such as raw materials, land and other tangible assets is no longer a major investment contribution in the future. Productive and sustainable assets in the future are intangible assets in the form of knowledge. This study seeks to understand the effect of learning process and individual knowledge sharing (tacit and explicit knowledge) of RAC technicians in Indonesia that are associated with increasing their innovation capability.

# II. RESEARCH HYPOTHESIS

Based on the problem formulation, theoretical study, and conceptual framework of the research hypothesis as follows:

H1: Explicit knowledge direct effect on innovative capability

- H2: Tacit knowledge direct effect on innovative capability
- H3: Explicit knowledge direct effect on organizational learning

H4: Tacit knowledge direct effect on organizational learning

H5: Organizational learning direct effect on innovative capability

H6: Explicit knowledge indirect effect on innovative capability through mediation organizational learning

H7: Tacit knowledge indirect effect on innovative capability through mediation organizational learning



Figure 1: Research Model

## III. LITERATURE REVIEW AND HYPHOTESES

#### Industrial Revolution 4.0

Globalization has entered a new era called the Industrial Revolution 4.0. (Shwab, 2016). The fourth Industrial Revolution Era is dominated by intelligence artificial (artificial intelligence), super computers, genetic engineering, nano technology, automatic cars, and innovation. These changes occur in its exponential speed will have an impact on the economy, industry, government and politics. In this era more and more visible form the world that has become a village global. (Prasetyo & Trisyanti, 2018).

The definitions regarding Industry 4.0 vary because still in the research and development phase. German Chancellor, Angela Merkel (2014) argues that Industry 4.0 is a comprehensive transformation from all aspects of production in the industry through merging digital and internet technology with conventional industry. Schlechtendahl et al (2015) emphasize the **definition** of the speed element of information availability, which is an industrial environment where all the entities are always connected and capable share information with one another. A more technical understanding is conveyed by Kagermann, Lukas & Wahlster (2013) that Industry 4.0 is integration of Cyber Physical System (CPS) and the Internet of Things and Services (IoT and IoS) into the process industry includes manufacturing and logistics and processes the other. CPS is a technology to combine between the real world and the virtual world. Merging this can be realized through integration between physical processes and computing (embedded computers and technology network) in a closed loop (Lee, 2008). Hermann, Pentek & Otto (2016) added that Industry 4.0 is a term to refer to a collection of technologies and organizations value chains such as smart factories, CPS, IoT and IoS. Smart factory is a modular factory with technology CPS which monitors the physical process of production later display it virtually and do decentralized decision making. Through IoT,

CPS able to communicate with each other and work together in a way real time including with humans. IoS is all service applications that can be utilized by each internal and external stakeholders between organizations. There are six industrial design principles 4.0 namely interoperability, virtualization, decentralization, real time capabilities, service oriented and are modular. Based on some of the explanations above, Industry 4.0 can be interpreted as an industrial era in which the whole entities in it can be mutually communicate in real time anytime with based on the use of internet technology and CPS in order to achieve the goal of achieving new value creations or optimization of the value that already exists from each process in the industry (Prasetyo & Sutopo, 2018)

#### Tacit Knowledge

Knowledge is classified into two types including: tacit knowledge and explicit knowledge (Polanyi, 1966). The definition of tacit knowledge is knowledge that is still in the human mind and is very personal (Chen et al, 2018; Holford, 2018; Khoshorour & Gilaninia, 2018; Zebal, Ferdous & Chambers, 2019; Agyemang & Boateng, 2019; Perez-Fuillerat et al, 2018), it is difficult to be formulated and divided naturally (Deranek, McLeod & Schmidt, 2017; Wang & Liu, 2019; Asher & Popper, 2019) so that the transformation requires personal interaction (Lee, 2019). This tacit knowledge is rooted in one's actions and experiences, including his idealism, values, and emotions (Boske & Osanloo, 2015; Kawamura, 2016; Hartley, 2018).

Based on his understanding, tacit knowledge is categorized as personal knowledge or in other words knowledge obtained from individuals or individuals (Nonaka & Toyama, 2015; Munoz et al, 2015; Stewart et al, 2017; Razmerita et al, 2016; Jaleel & Verghis, 2015; Wang et al., 2016; Serna et al., 2017; Jou et al., 2016; Rothberg & Erickson, 2017). The experience gained by each employee varies according to circumstances and conditions that cannot be predicted. Tacit knowledge is not easily articulated and converted to explicit knowledge (Mohajan, 2016; Prasarnphanich et al, 2016; Addis, 2016; Cairo Battistutti, 2017; Zang et al, 2015; Spraggon & Bodolica, 2017). Nevertheless, tacit knowledge can be empowered by the process of knowledge spiral or SECI Model (Li, Liu & Zhou, 2018; Nonaka & Hirose, 2018; Chatterjee et al, 2018; Sasaki, 2017; Lievre & Tang, 2015; Stanica & Peydro, 2016 ; Norwich et al., 2016; Hodgins & Dadich, 2017; Balde et al., 2018; Okuyama, 2017; Huang et al., 2016).

Every organization must utilize its employees' tacit knowledge by encouraging them to share knowledge and keep learning. Companies like this will be more creative, innovative in leading the industry era 4.0. Organizations can facilitate the management and use of tacit knowledge that is outside the consciousness that is stored under the subconscious mind by embedding and sharing approaches (Ma et al, 2018; Ferreira et al, 2018; Borges et al, 2019; Ferraris et al, 2018; Guo et al., 2018; Tsai & Hsu, 2019; Swierczek, 2019; Cantwell & Zaman, 2018).

#### Explicit Knowledge

Explicit knowledge is one type of knowledge that is easily documented and formed (Choi & Lee, 2003; Sousa & Rocha, 2019; Borrego et al, 2019; Wokcik et al, 2019; Cifariello, Ferragina & Ponza, 2019; Che et al, 2018; Tang et al, 2016; Bashir & Farooq, 2019; Attia & Salama, 2018), easily articulated (Haamann & Basten, 2018) and usually constitute knowledge inherent in the organization (Afsar, Masood & Umrani, 2019). In addition, explicit knowledge can be created, written and transferred between organizational units (Lombardi, 2019). Explicit transfer of knowledge among employees is more easily driven by a conducive mechanism and organizational culture.

## **Organizational Learning**

Good organizational learning will be more resilient to crises (Starbuck, 2017). Dimensions such as desire, discipline, decision making, democracy, and dividends are presented as important elements in which organizational learning (Wetzel & Tint, 2019; Urban & Gaffurini, 2018). Organizational learning is also an important performance indicator for evaluating overall organizational performance (Qi & Chau, 2018) which is able to help build the necessary knowledge resources and maintain organizational growth and sustainability. The ability to access knowledge is a distinguishing factor between organizations. The success of company's strategy is very significant related to the solid knowledge base owned by every person in the company.

#### Innovation Capability

The current industrial era 4.0 requires innovation capability as an organizational competitive advantage (Malik, 2019; Muscio & Ciffolili, 2019; Durana et al, 2019; Lund & Karlsen, 2019; Haseeb et al, 2019; Jakhar et al, 2018; Hamada, 2019; ), competitive strategy (Culot, Orzes & Sartor, 2019), the key to dealing with industry era 4.0 (Stachova et al, 2019) part of the quality of 21st century management (Gunasekaran, Sabramanian & Ngai, 2019), gives many benefits to businesses (Zambon et al, 2019; Parida, Sjodin & Reim, 2019). Innovative capability is recognized as one of the most important internal resources that can produce superior company performance (Zouaghi et al, 2018; Santoro et al, 2017; Castela et al, 2018; Ruiz-Torres et al, 2018; Huesig & Endres, 2019)

## Influence of Tacit and Explicit Knowledge on Innovation Capability

In the current industry 4.0 era, marked by increasingly fierce competition, sustainability remains an important concern and issue. Innovation capability is driving business sustainability. This performance depends on the culture of knowledge contained in the organization. Knowledge consisting of tacit and explicit knowledge. Many researchers discuss innovation capability which concludes that innovation is influenced by leadership (Samsir, 2018; Schuckert et al, 2018; Villaluz & Hechanova, 2019), employee involvement climate (Naqshbandi, Tabche & Choudhary, 2019) knowledge sharing (Kim & Shim, 2018) ) knowledge search (Wang, Chen & Chang, 2019) collaborative culture (Yang, Nguyen & Le, 2018) knowledge process (Imran et al, 2018). This study, would like to examine the effect of tacit and explicit knowledge on innovation capability in the RAC industry in context of welcoming industrial revolution 4.0. Previous researchers have proven the positive and significant influence of tacit and explicit knowledge on innovation capability (Ganguly et al, 2019; Aulawi, 2018; Rumanti et al, 2018 & 2019; Torres & Liang, 2016; Li et al, 2019). More specifically, many researchers conclude that tacit knowledge has a positive and significant effect on innovation capability (Perez-Luno et al, 2018).

#### Influence of Tacit and Explicit Knowledge on Organizational Learning

Learning organization is one of the strategies for organizations to study the dynamics of their business environment (Senge, 1990; Zhu et al., 2018; Kasim et al., 2018; Darwish et al., 2018). Organizations with managed learning routines will produce knowledgeable individuals, both explicit and tacit knowledge (Hussain et al, 2018). Some researchers conclude that organizational learning is influenced by collaborative culture and knowledge

sharing (Nugroho, 2018). Tacit knowledge was found to be a very significant predictor for the development of organizational learning (Muthuveloo, Shanmugam & Teoh, 2017).

## Influence of Organizational Learning on Innovation Capability

Knowledge creation conditioned by organizational learning will trigger and spur innovation capability and organizational performance (Asbari, Purwanto & Santoso, 2019; Vijande & Sanchez, 2017; Lin & Lee, 2017). Organizational innovation will be sustainable when it is based on a culture of learning that adds value. This learning culture that makes organizational members interact with each other so that their current and new acquired knowledge can be effectively transferred, exchanged and combined into organizational intelligence and knowledge (Lin & Lee, 2017; Lee et al, 2016; Chang & Lin , 2015).

# **IV. METHODS**

#### **Operational Definitions of Variables and Indicators**

The method used in this study is quanitative method with a correlational research approach. Data collection was carried out by simple random sampling via electronics in a population of Refrigeration and Air Conditioning (RAC) technicians in Indonesia. The results of the questionnaire returned were 632 and valid were 620 samples. In total, the response rate is 98.10 percent. The instrument used to measure explicit knowledge sharing was adapted from Liebowitz & Chen (2001) and Wang & Wang (2012). Tacit knowledge sharing was adapted from Holste & Fields (2010), Lin (2006), and Wang & Wang (2012). Organizational learning is measured from instruments adapted from Jiménez-Jiménez and Sanz-Valle (2011). Innovation capability was adapted from Lee & Choi (2003). The questionnaire was designed closed except for questions / statements about the identity of respondents in the form of a semi-open questionnaire. Each closed question / statement item is given five answer options, namely: strongly agree (SA) score 5, agree (A) score 4, disagree (DA) score 3, disagree (DA) score 2, and strongly disagree (SDA) score 1. The method for processing data is by PLS and using SmartPLS software version 3.0 as a tool.

#### **Population and Sample**

The population in this study is the Refrigeration and Air Conditioning (RAC) Industry technician in Indonesia. The questionnaire was distributed electronically with a simple random sampling technique. The results of the questionnaire returned were 632 and valid were 620 samples. In total, the response rate is 98.10 percent.

## V. RESULTS AND DISCUSSION

Sample Description

Criter	ia	Amount	%	
Age (per Oktober 2019)	< 30 years old	138	22.25%	
	30 - 40 years old	259	41.75%	
	> 40 years old	223	36.00%	

Table 1: Sample Descriptive Information

Working period as a permanent	< 5 years old	65	10.50%
employee	5-10 years old	369	59.50%
	> 10 years old	186	30.00%
Last formal education	Bachelor degree	67	10.75%
	Senior High School	468	75.50%
	/ Equal		
	$\leq$ Junior High	85	13.75%
	School		

## Test Results Validity and Reliability of Research Indicators

The testing phase of the measurement model includes convergent validity, discriminant validity and composite reliability testing. The results of the PLS analysis can be used to test research hypothesis if all the indicators in the PLS model have met requirements of convergent validity, discriminant validity and reliability testing.

## 1. Convergen Validity Testing

Convergent validity test is done by looking at the loading factor value of each indicator to the construct. For most references, a factor weight of 0.5 or more is considered to have validation that strong enough to explain latent constructs (Chin, 1998; Hair et al, 2010; Ghozali, 2014). In this study the minimum limit on the size of loading factor received was 0.5, with requirement that the AVE value of each construct > 0.5 (Ghozali, 2014).



Figure 2: Valid model estimation

Based on the estimation results of the PLS model in the picture above, all indicators already have a loading factor value above 0.5 so that the model meets convergent validity requirements. In addition to looking at the loading factor value of each indicator, convergent validity is also assessed from the AVE value of each construct. The PLS model is stated to have fulfilled convergent validity if the AVE value of each construct is > 0.5 (Ghozali, 2014). The full AVE value for each construct can be seen in the following table:

Table 2: Items Loadings, Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE)

Variables	Items	Items Loadings	Cronbach's	Composite	AVE
	U	Alpha	Reliability		
Tacit Knowledge	TK1	0.734	0.859	0.895	0.586
(TK)	TK2	0.767			
	TK3	0.775			
	TK4	0.779			
	TK5	0.769			
	TK6	0.769			
Explicit Knowledge	EK1	0.765	0.870	0.902	0.606
(EK)	EK2	0.772			
	EK3	0.785			
	EK4	0.757			
	EK5	0.795			
	EK6	0.796			
Organizational learning	OL1	0.851	0.868	0.910	0.716
(OL)	OL2	0.846			
	OL3	0.847			
	OL4	0.841			
Innovation capability	IC1	0.808	0.812	0.876	0.639
(IC)	IC2	0.832			
	IC3	0.778			
	IC5	0.779			

## 2. Discriminant Validity Testing

Discriminant validity is carried out to ensure that each concept of each latent variable is different from the other latent variables. The model has good discriminant validity if the AVE squared value of each exogenous construct (the value on the diagonal) exceeds the correlation between the construct and the other construct (values below the diagonal) (Ghozali, 2014). The results of discriminant validity testing using AVE squared values, namely by looking at the Fornell-Larcker Criterion Value obtained as follows:

Variables	EK	IC	OL	ТК
EK	0.778			
IC	0.624	0.800		
OL	0.549	0.720	0.846	
ТК	0.629	0.600	0.483	0.766

## Table 3: Discriminant Validity

The results of the discriminant validity test in the table above show that all constructs have the AVE square root value above the correlation value with other latent constructs (through the Fornell-Larcker criteria) so that it can be concluded that the model meets discriminant validity.

#### 3. Construct Reliability Testing

Construct reliability can be assessed from the value of Cronbach's alpha and composite reliability of each construct. The recommended composite reliability and Cronbach's alpha values are more than 0.7. (Ghozali, 2014). The reliability test results in table 2 above show that all constructs have composite reliability and Cronbach's alpha values greater than 0.7 (> 0.7). In conclusion, all constructs have met the required reliability.

## Hyphoteses Testing

Hypothesis testing in PLS is also called the inner model test. This test includes a test of the significance of direct and indirect effects and measurement magnitude influence of exogenous variables on endogenous variables. To find out the influence of tacit and explicit knowledge sharing on organizational learning and innovation capability, a direct influence test is needed. The direct effect test is performed using the t-statistic test in a partial least squared (PLS) analysis model using the help of SmartPLS 3.0 software. With the boothstrapping technique, R Square values and significance test values are obtained as in the table below:

	Table 4: R Square Value	
	R Square	R Square Adjusted
IC	0.624	0.622
OL	0.333	0.331

Table	5.	Hypotheses	Testing

Hypotheses	Relationship	Beta	SE	T Statistics	<b>V-Values</b>	Decision
H1	EK -> IC	0.208	0.037	5.615	0.000	Supported
H2	TK -> IC	0.230	0.037	6.212	0.000	Supported
Н3	EK -> OL	0.405	0.050	8.022	0.000	Supported
H4	TK -> OL	0.229	0.048	4.790	0.000	Supported
Н5	OL -> IC	0.495	0.036	13.590	0.000	Supported
H6	EK -> OL -> IC	0.200	0.029	6.809	0.000	Supported
H7	TK -> OL -> IC	0.113	0.024	4.669	0.000	Supported

Based on table 4 above, the R Square OL value of 0.333 means that organizational learning (OL) variables can be explained by tacit knowledge (TK) and explicit knowledge (EK) variables by 33.3%, while the remaining 66.7% is explained by other variables not discussed in this study. Meanwhile, the value of R Square IC is 0.624 which means that innovation capability (IC) variable can be explained by variable tacit knowledge (TK), explicit knowledge (EK) and organizational learning (OL) by 62.4%, while the remaining 37.6% is explained by other

variables which is not discussed in this study. While Table 5 displays the T Statistics and P-Values which show the influence between research variables that have been mentioned.

#### Discussions

Based on the results of the study, it can be concluded that explicit knowledge and tacit knowledge have a positive and significant influence on innovation capability. Both directly and through organizational learning mediation. It means that the more explicitly explicit and tacit knowledge sharing is carried out by employees, the more conducive innovation capability of individual company employees will be. This finding is in line with previous studies namely Perez-Luno et al (2018), Terhorst et al (2018), Boadu et al (2018), Che et al (2019). Likewise, the better the tacit and explicit knowledge of an employee, the more positive the formation and development of organizational learning in the company. Likewise, the conclusions from the study of Qi & Chau (2018). It implies that the rarest and most valuable resources in the digital age are not ordinary labor and mediocre, but individuals who can create new ideas and innovations (Xu, David & Kim, 2018). For this reason, the scarcity of employees who have adequate and skilled tacit and explicit knowledge can stifle the company's innovation, competitiveness, growth and flexibility. No doubt, in the future, the talent and response of individuals in the process of knowledge sharing will represent an important factor of production. People with ideas and innovation will become luxury goods in competitive capital.

Based on the findings of this study also concluded that organizational learning has a positive and significant effect on innovation capability. Organizational learning also mediates the influence of tacit and explicit knowledge on innovation capability. It is consistent with the conclusion of Martinez-Costa (2018). This study also concluded that companies can manage past experiences to be combined with tacit and explicit knowledge possessed by today's employees. In essence, organizational learning is able to provide positive conditions in the process of knowledge creation. Whereas knowledge creation and knowledge management are closely related to industry performance in the current 4.0 era.

# VI. CONCLUSIONS AND SUGGESTIONS

#### Conclusions

To add the role of tacit knowledge as a predictor of innovation capability, organizations need to provide autonomy and breadth to share with employees. Therefore, organizations need to create organizational learning as positive environment that drives the competence and engagement of individual employees in the company. Indeed knowledge management will run effectively in the company if the individual performance of each employee is in good condition (Manaf et al, 2017).

Researchers continue to learn about knowledge as an important organizational resource and it can be said that knowledge transfer, both tacit and explicit knowledge, can significantly improve organizational performance (Thomas, 2019). Organizational learning transforms individual knowledge into organizational knowledge. This study concludes that organizational learning acts as a catalyst of the process knowledge sharing among individual RAC technicians.

#### Managerial Implications

Based on the conclusion of this research, management of RAC industry companies needs to build maximum involvement of all employees to conduct knowledge sharing both in the form of tacit knowledge and explicit knowledge. The SECI model can be used to carry out this process. Employee training in every part of the organization is a necessity with the level of intensity, content and context tailored to each employee's key performance indicator.

The process of sharing knowledge to build a company's innovation capability should not only be limited to the internal processes of the organization. However, management needs to expand the process of building this innovation through efforts to absorb, articulate, utilize and manage knowledge sourced from external partners such as customers, contractors, suppliers, campuses and educational institutions, even the industrial community on a wider scale. Management can activate learning from others when assigning employees to visits to suppliers, customers, campuses and other strategic partners. Because external knowledge, such as those from suppliers, clients, contractors and consultants supports the company's innovation capability (Simao & Franco, 2018)

In addition, commitment to learning and seriousness to be involved in managing the learning environment are things that need attention. Because the company can become organizational learning when all company members feel enjoy this learning process. Learning process becomes an organizational culture that encourages innovation (Asbari, Santoso & Purwanto, 2019). The key factors of organizational learning are trust, open communication, high involvement, the presence of industry challenges, and a creative work atmosphere. The task of management is to facilitate the fulfillment of these key factors.

#### Limitation

This study has several limitations. First, this study analyzes the effect of tacit and explicit knowledge on innovation capability both directly and indirectly through organizational learning variables. Because there may be several other variables that affect innovation capability, the authors strongly recommend finding, exploring and analyzing them. Secondly, this research was conducted in the RAC industry and may not be generalized to other industries. Therefore it is highly recommended that further research be carried out on this topic in other industries.

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