

MARKETING | RESEARCH ARTICLE

Revisiting the Past to Innovate the Future: The Mediating Impact of Absorptive Capacity on Organizational Forgetting and Innovation Performance in SME

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ABSTRACT

Organizational forgetting is one of the keys to success in improving innovation performance in a business for Small and Medium Enterprises (SMEs). This study examines the direct and indirect effects of organizational forgetting on innovation performance through absorptive capacity. This study was conducted on 135 SME owners in Jakarta and Tangerang. PLS-SEM was used as the analysis method of this study. The results show that organizational forgetting plays an important role directly and indirectly in innovation performance through absorptive capacity. Absorption capacity has a significant direct effect on innovation performance. The ability of SMEs to receive information and knowledge can improve their business ability to innovate. The findings of this study indicate the importance of organizational forgetting or not learning in SMEs.

Keywords: Organizational Forgetting, Absorptive Capacity, Innovation Performance, Small and Medium Enterprises.

JEL Code: O30, M10.

I. Introduction

The external environment makes small and medium enterprises must be adaptive to the complexity of external factors. Complexity in the external environment can lead to a loss of dynamism and competitiveness for businesses that continue to adopt outmoded processes (Huang et al., 2018). Small Medium Enterprises (SMEs) are one of Indonesia's key drivers of national economic development. Various studies and support have been carried out for SMEs. Research conducted by (Budiono and Bongso, 2024) shows that innovation performance in SMEs in Tasikmalaya can be caused by organizational forgetting. Unlike major firms in industrialized nations, SMEs in developing countries such as China rely more on these development techniques since their internal resources are inadequate (Lu et al., 2021). There is still little research conducted to improve innovation performance through organizational forgetting in SMEs. Innovation performance in small and medium business owners is caused by factors such as inability to adapt, unwillingness to change (status quo), tight competition, adaptation, and technological literacy.



Organizational forgetting is important in resolving rapid change. Organizational forgetting is a strategy that can be used by an organization to face changes or business competition. Organizational learning involves developing practical solutions to problems or improving current ones (De Holan & Phillips, 2004). Organizations must abandon some current knowledge through organizational forgetting. A firm's ability to absorb knowledge is crucial for creating value internally. Absorb knowledge is often known as absorptive capacity. Absorptive capacity refers to a firm's ability to recognize, digest, and apply new information for commercial purposes (Xie et al., 2018). Organizational forgetting leads to the development of enterprise absorptive capacity, which is essential for innovation to thrive. The organization should employ external information to generate new processes and products through identification and transformation. Small and medium business owners still do not know the term organizational forgetting, especially in big cities such as Jakarta and Tangerang. The large number of SMEs in Jakarta and Tangerang is one of the attractions for conducting this research. No previous research has tested organizational forgetting on innovation performance through absorptive capacity in Jakarta and Tangerang. There has been limited research on the impact of organizational forgetting on innovation performance in SMEs using absorptive capacity. The goal of this study is to help SMEs improve their innovation performance.

II. Literature Review and Hypothesis Development

Innovation performance refers to businesses' success through innovations such as new goods, technologies, and services (Lu et al., 2021). Innovation performance in SMEs is related to how these SMEs can utilize technology, such as e-commerce, website development, and digital marketing tools, to use systems or cash registers (point of sales). Innovation performance is helpful in positively impacting businesses or small and medium enterprises. (Asmaraningtyas et al., 2024; Irfandi et al., 2024). Enhanced Innovation Performance is unlikely to appear when digital and environmental approaches are pursued. Small liabilities might limit resources and undermine efforts to develop and implement strategies (Ardito et al., 2021).

The effect of organizational forgetting on innovative performance was examined using a static resource-based perspective (Huang et al., 2018). To boost organizational forgetting, corporate owners should intentionally foster forgetting habits, remove barriers to learning, and speed up the quest for knowledge. Organizational forgetting positively increases innovation in small and medium enterprises in Tasikmalaya (Budiono & Bongso, 2024). Organizational forgetting can not only be applied to large companies but can also be applied to small and medium businesses. Organizational forgetting is commonly confused with "unlearning," but there is a key distinction. "unlearning" and "forgetting" refer to the loss of organizational information. However, unlearning refers to deliberate attempts to discard unpleasant knowledge, whereas forgetting refers to unintentional knowledge loss (Easterby-Smith & Lyles, 2011). Organizational forgetting can encourage innovation when natural forgetting processes, such as memory deterioration or non-repetition of routines, are insufficient to keep up with rapid change.

Absorptive capacity refers to the processes by which organizations acquire, assimilate, convert, and utilize information to create dynamic organizational capacity (Chen et al., 2009). Absorptive capacity relates to how organizations or businesses can manage information and use it as knowledge for value creation. Transformation of knowledge refers to a company's capacity to create procedures that combine existing and newly acquired knowledge. Thus, the research model framework is obtained as follows:

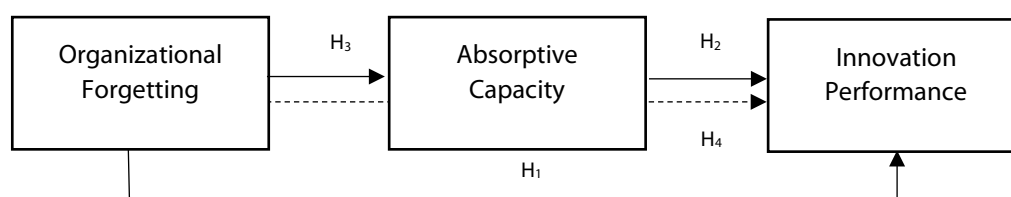


Figure 1. Research Model

Based on Figure 1, this study has four hypotheses. Hypothesis 1-3 (H1 - H3) is a full arrow, which is interpreted as a direct influence. Hypothesis 4 (H4) is a dotted arrow that indicates an indirect influence. Hypothesis 1 is that organizational forgetting has a direct positive and significant effect on innovation performance. Hypothesis 2 is that absorptive capacity has a direct positive and significant effect on innovation performance. Hypothesis 3 is that organizational forgetting has a direct positive and significant effect on absorptive capacity. Finally, hypothesis 4 is that organizational forgetting indirectly affects innovation performance through absorptive capacity.

III. Research Method

3.1. Instrument Design

This research is quantitative research using the SEM Analysis method. The survey in this study used a questionnaire with a Likert scale of 1-5 (Strongly disagree - strongly agree). Each variable is measured based on adopted statements from previous studies. Innovation performance is measured by five statements (IP1-IP5). Innovation performance statement items (Huang et al., 2018) are the proportion of new product sales to overall sales (IP1), the success rate for promoting new items (IP2), and improvements to process technology and equipment (IP3). At the same time, other statement items (Lu et al., 2021) are the quantity of new items or services (IP4) and the novelty of new items or services (IP5). In measuring absorptive capacity (Huang et al., 2018) using five statements (AC1-AC5), namely the ability of a company to recognize external knowledge (AC1), resources for enterprises seeking external knowledge contributions (AC2). While other statement items (Lu et al., 2021) are that we frequently communicate with external companies to gain fresh expertise (AC3), we can immediately identify new opportunities to offer our customers (AC4); we can quickly examine and interpret shifting market demands (AC5). Organizational forgetting is measured by five statements (OF1-OF5). Organizational forgetting statement items (Huang et al., 2018) include our business will introduce new knowledge that contradicts prior expertise and skill (OF1); our business can adjust the new product development process based on changes in the external environment (OF2); our business can continuously improve its team decision-making process (OF3); our business can modify its internal information exchange process (OF4); our business is willing to obtain new technology from various sources (OF5).

3.2. Data Collection

The population in this study were SME owners in the Jakarta and Tangerang areas. The minimum sampling used in this study was 30 respondents. So, in this study, 150 questionnaires will be distributed to SME business owners in Jakarta and Tangerang. The sampling technique used is judgment sampling, where the sample must meet the specified criteria. The criteria determined in this study are that respondents must have a business and not have a turnover of more than 4.8 billion in 1 year. So, 15 respondents did not match the filtering question in the form of turnover (must not exceed 4.8 billion per year). So, only 135 respondents were declared eligible. Based on 135 respondents in this study, they were tabulated using Microsoft Excel and processed with the SmartPLS tool. Based on 135 respondents, 89, or 65.9%, were men, while 46, or 34.1%, were women. Based on education, most respondents had a bachelor's degree (S1) of 78 respondents, or 57.8%. Respondents with high school/vocational school education were 31 respondents or 23%, junior high school education was 15 respondents or 11.1%, and elementary school education was 11 respondents or 8.1%.

3.3. Data Analysis

After the data is obtained based on the distribution of the questionnaire, the data will be tabulated using Microsoft Excel tools in CSV format. Furthermore, the data will be analyzed with SmartPLS tools to conduct structural equation modeling testing. The analysis data used in this study uses PLS-SEM. At the PLS-

SEM testing stage, an outer model evaluation will occur in factor loading, validity, and reliability. Meanwhile, hypothesis testing will be carried out using direct and indirect effects in the inner model.

IV. Results and Discussion

4.1. Outer Model Evaluation

In the outer model evaluation test, several tests will be carried out such as the factor loading test. The factor loading value is expected to be above 0.7 and then declared valid. In the AVE test, the value is declared valid > 0.5, while the reliability of the composite reliability and Cronbach's alpha values must be > 0.7 (Hair et al., 2022). The following is a table of the outer model evaluation test for this study:

Table 1. Outer Model Evaluation

Construct	Item	Validity		Reliability	
		Factor Loading	AVE	Composite Reliability (CR)	Cronbach's Alpha (CA)
Organizational Forgetting (OF)	OF1	0.646	0.619	0.889	0.844
	OF2	0.823			
	OF3	0.801			
	OF4	0.813			
	OF5	0.835			
Absorptive Capacity (AC)	AC1	0.906	0.690	0.916	0.885
	AC2	0.884			
	AC3	0.798			
	AC4	0.647			
	AC5	0.888			
Innovation Performance (IP)	IP1	0.801	0.763	0.941	0.922
	IP2	0.868			
	IP3	0.898			
	IP4	0.917			
	IP5	0.878			

Based on Table 1, the factor loading on the organizational forgetting variable shows that OF2 (0.823), OF3 (0.801), OF4 (0.813), and OF5 (0.835) have values above 0.7. However, OF1 (0.647) is close to 0.7. If the factor loading value is close to 0.7 (Hair et al., 2019), then it can be continued if the requirements such as Average Variance Extracted (AVE), composite reliability, and Cronbach's alpha are stated as appropriate. So, at AVE (0.619) > 0.5, while CR (0.889) and CA (0.844) are above 0.7, it is stated as reliable on the organizational forgetting variable. In the factor loading test of the absorptive capacity variable, it shows that AC1 (0.906), AC2 (0.884), AC3 (0.798), and AC5 (0.888) have values above 0.7. However, AC4 (0.647) is close to 0.7. then it can be continued if the requirements such as Average Variance Extracted (AVE), composite reliability, and Cronbach's alpha are stated as appropriate. So, at AVE (0.690) > 0.5, while CR (0.916) and CA (0.885) are above 0.7, it is stated as reliable on the absorptive capacity variable. The factor loading value on the innovation performance variable shows that IP1 (0.801), IP2 (0.868), IP3 (0.898), IP4 (0.917), and IP5 (0.878) have values above 0.7. In the AVE test (0.763), the reliability of the innovation performance variable has CR (0.941) and CA (0.922), which are stated as reliable. This study is declared feasible in the outer model evaluation test; furthermore, the inner model evaluation test will be carried out as hypothesis testing.

4.2. Inner Model Evaluation

The inner model evaluation test can be seen in Table 2 below:



Table 2. Hypotheses Testing

Hypotheses	Path	Path Coefficient (β)	T-Statistic	P-Value	Result
H1	OF \rightarrow IP	0.210	3.057	0.002	Significant
H2	AC \rightarrow IP	0.734	11.513	0.000	Significant
H3	OF \rightarrow AC	0.874	47.306	0.000	Significant
H4	OF \rightarrow AC \rightarrow IP	0.641	11.182	0.000	Significant

In Table 2, OF is called organizational forgetting, IP is innovation performance, and AC is absorptive capacity. The p-value in hypothesis testing must be below 0.05, then it is declared accepted or has a significant influence. In hypothesis testing 1 (H1), regarding organizational forgetting on innovation performance, it has a p-value of 0.002 < 0.05, which is stated to have a significant influence. The magnitude of the influence of organizational forgetting or the path coefficient value on innovation performance is 0.210. In hypothesis testing 2 (H2), regarding absorptive capacity on innovation performance, it has a p-value of 0.000 < 0.05, which is stated to have a significant influence. The magnitude of the influence of absorptive capacity or the path coefficient value on innovation performance is 0.734. In hypothesis testing 3 (H3), regarding organizational forgetting on absorptive capacity, it has a p-value of 0.000 < 0.05, which is stated to have a significant influence. The magnitude of the influence of organizational forgetting or the path coefficient value on absorptive capacity is 0.874. In testing hypothesis 4 (H4), regarding the indirect effect of organizational forgetting on innovation performance through absorptive capacity, it has a p-value of 0.000 < 0.05, which is stated to have a significant effect. The magnitude of the indirect effect of organizational forgetting or the path coefficient value on innovation performance through absorptive capacity is 0.641.

4.3. Discussion

Based on the results of the hypothesis testing, it can be said that all hypotheses in this study are accepted. Innovation performance in SMEs can be improved by focusing on organizational forgetting and absorptive capacity. Organizational forgetting has a direct and indirect effect on innovation performance. Ayduğ & Ağaoglu (2023) research shows that organizational forgetting can affect innovation performance. Forgetting leads to the loss of knowledge in an organization. Organizational unlearning fosters radical innovation, while forgetting reduces radical innovation (Qian & Oe, 2024). In this study, organizational forgetting in SMEs is necessary because most of the respondents' demographics are mostly undergraduates, so it will make it easier for them to accept change and carry out unlearning. With the practice of organizational forgetting in SMEs, businesses will tend to be adaptive to external changes. Technological disruption related to SME businesses is very fast and forces the practice of organizational forgetting. Organizational forgetting can encourage innovation when natural forgetting processes, such as memory deterioration or non-repetition of routines, are insufficient to keep up with rapid change (Klammer & Gueldenberg, 2020). Business owners can promote creativity and innovation by addressing unlearning and forgetting while reducing the risk of losing vital knowledge. Innovation performance in SMEs is also caused by the business's ability in absorptive capacity. Previous studies have shown that absorptive capacity can significantly affect innovation performance (Hong et al., 2019; Kobarg et al., 2018). Absorptive capacity helps firms evaluate the value of external knowledge, acquire valuable knowledge, and integrate it with their existing knowledge to drive innovation. Absorptive capacity can improve a firm's innovation performance by processing external knowledge (Zou et al., 2018). A company's absorptive capacity can help locate and use external information, addressing some innovation-related issues. The ability of SME owners to absorb information and data and then process it into useful information for the business is essential. When a business can quickly absorb information and data, it will allow the business to increase value for innovation. Innovation is not only always about products but can be in the process, especially current issues related to sustainability for SMEs. Employees or members of SMEs play an important role in the operation of absorptive capacity (Mennens et al., 2018). Internal team members and external collaboration, including search breadth and partner diversity,

influence creative capacity and SME service innovation performance. In this study, SMEs in Jakarta and Tangerang need absorptive business capacity. This is because absorptive capacity has a large and significant direct effect on innovation performance.

Organizational forgetting has a more minor effect than absorptive capacity on innovation performance in SMEs in Jakarta and Tangerang. However, the findings of this study indicate that organizational forgetting has a significant direct effect on absorptive capacity. Organizational forgetting refers to the purposeful or unintended loss of accumulated organizational knowledge. This depends on the absorptive capacity of organizational memory and the organization's ambition to become more competitive (Nafei, 2017). Thus, the simple concept of organizational forgetfulness refers to the intentional or unintentional loss of organizational knowledge. This has a tremendous impact on the organization's standing and competitiveness. Organizational forgetting can impact an organization's readiness for change and ability to absorb capacity (Oo & Rakthin, 2022). The significant effect of organizational forgetting on absorptive capacity needs to be a concern for SMEs. This is because it can indicate a relatively sizeable indirect effect of organizational forgetting on innovation performance. SMEs in Jakarta and Tangerang who can practice unlearning/organizational forgetting must also be able to receive knowledge quickly. Of course, the speed of accepting new knowledge will improve their business performance, especially for innovation.

Organizational forgetting has a more significant indirect influence than a direct influence on innovation performance through absorptive capacity. The system of organization in SMEs needs to be a culture for all organization members. The tendency of businesses to do organizational forgetting will be seen when creative ideas emerge from brainstorming and a willingness to accept new ideas. The results of this study are new findings that show the direct and indirect influence of organizational forgetting on innovation performance in SMEs in Indonesia.

V. Conclusion

Organizational forgetting is an important aspect that is not only needed by large companies but also by SMEs. This study shows that SMEs that can carry out the unlearning or organizational forgetting process will tend to have more innovation performance in business. Of course, with high innovation performance, the possibility of business will be sustainable and grow. This study shows a significant direct and indirect influence of organizational forgetting on innovation performance through absorptive capacity. So that SMEs in Jakarta and Tangerang can focus on creating an organizational forgetting system to face technological disruption and rapid business competition. Absorptive capacity also shows a significant influence on innovation performance. Thus, absorptive capacity is needed in the SMEs' business systems. With high absorptive capacity, SMEs can gain insight from existing information and knowledge. This ability will encourage the creativity of business owners to encourage value creation in business. SMEs in Jakarta and Tangerang continue to experience tight competition. So, to limit and provide obstacles for new competitors, SMEs must have a business system that implements organizational forgetting or unlearning. Further research is expected to develop research models, predominantly exogenous variables other than organizational forgetting.

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