

Influence of absorptive capacity and emotion regulation on business performance through the mediating role of knowledge management



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ARTICLE INFO

Article history:

Received 11 May 2023

Received in revised form

9 September 2023

Accepted 30 October 2023

Keywords:

Knowledge management

Absorptive capacity

Emotion regulation

Business performance

ABSTRACT

This study aims to explore the impact of absorptive capacity, emotion regulation, and knowledge management on performance, in Vietnam. The qualitative method is based on an overview of previous studies, the research team builds the first scale. For the quantitative research, data was collected using the convenience sampling method from a total of 536 Small and Medium Enterprises in the Mekong Delta. Owners, directors, and managers were targeted to be interviewed. The methods of exploratory factor analysis (EFA), confirmatory factor analysis (CFA), and structural equation modeling (SEM) are used to analyze the data. The findings revealed that the quality of the supervisor-employee relationship is a crucial factor in enhancing business performance. Specifically, the study found that absorptive capacity and emotion regulation have a positive influence on performance through the mediating role of knowledge management. The study suggests that enhancing absorptive capacity and emotion regulation in the enterprise and promoting the role of knowledge management can contribute to increasing business performance. This has great implications for firms looking to remain competitive in the market. By investing in these areas, firms can ensure that they are utilizing their resources effectively and efficiently to drive growth and success.

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1. Introduction

The spread of the COVID-19 pandemic has directly impacted the global economy and tended to decline. Specifically, in 2021, the inflation index in China is the highest in the past 15 months, reaching 2.3% compared to the same period last year (data from the General Statistics Office of China). In Japan, for the first time in many years, the Tokyo government does not have to worry about deflation. The life of Russian people is more difficult because the price index on the domestic market in November 2021 increased by more than 8% compared to the previous month. For the first time since 1982, Americans have an inflation rate of nearly 7%. In the Eurozone, the public has forgotten about global inflation for 20 years. In the past 12 months, the price index in France has increased by an average of

more than 3%, and in Belgium, it is 7% or in Germany 6% (according to the Journal of the Vietnam Petroleum Association). The political instability of some countries has been making the situation worse. According to the journal of the Vietnam Oil and Gas Association, after Russia entered Eastern Ukraine, the price of crude oil surpassed the threshold of 100 USD/barrel - the highest price since 2014. Therefore, Vietnamese enterprises need to have reasonable and appropriate orientations and strategies suitable to the characteristics of enterprises to achieve the goal of sustainable development and the trend of integration into the global economy.

At the same time, the keyword "performance" in the post-COVID-19 context has also received special attention and research by researchers. Many research approaches have been conducted to identify the factors that impact business performance. However, the research for groups of business capabilities such as absorptive capacity and emotion regulation is still limited. As a result, it is crucial to conduct research on absorptive capacity and emotion regulation to gain a deeper understanding of how they impact business

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<https://doi.org/10.21833/ijaas.2023.11.010>

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performance. Absorptive capacity refers to an organization's ability to acquire, assimilate, and apply new knowledge and technology to improve its business performance. It involves the ability to recognize the value of new information and incorporate it into the organization's existing knowledge base. Emotion regulation, on the other hand, refers to the ability of individuals and organizations to manage their emotions in a way that enhances their performance.

The importance of absorptive capacity and emotion regulation in business performance cannot be overstated. Research works have shown that organizations with high absorptive capacity are more innovative and have a higher likelihood of success. Similarly, organizations that effectively manage their emotions are more likely to have a positive work environment and high levels of productivity.

Despite the importance of absorptive capacity and emotion regulation, research in these areas is still limited. Therefore, it is essential to conduct further research in these areas to gain a deeper understanding of their impact on business performance. The following article will analyze in detail some groups of business capabilities (Absorptive capacity and emotion regulation) that affect SMEs' business performance in Vietnam.

2. Literature review and hypotheses

2.1. Absorptive capacity

The concept of absorptive capacity has resonated in various organizational theories since its first appearance (Volberda et al., 2010). Absorptive capacity structures have two components: internal and external absorptive capacities (Lewin et al., 2011). Companies should identify the most promising external knowledge sources and harmonize their respective absorptive capacities (Grimpe and Sofka, 2009). Absorptive capacity refers to a company's ability to recognize, assimilate, and apply new values of external knowledge for commercial purposes (Flatten et al., 2011). This definition implies certain conditions for the successful absorption of knowledge. The structures and mechanisms of the enterprise are designed to make knowledge circulate beyond internal and external boundaries (Aribi and Dupouet, 2015). From this definition, the absorptive capacity has the following dimensions: (1) Record knowledge, (2) Assimilation of knowledge, (3) Knowledge application. Cohen and Levinthal (1994) suggested that the absorptive capacity has functions and characteristics.

The function of absorbance is as follows: (1) absorptive capacity allows companies to understand and use new advances in a particular area of knowledge; (2) absorptive capacity allows companies to assess the implications of current technological developments and more accurately

predict future types of technological advancements and commercial applications.

The characteristics of the absorptive capacity include the following components: The way a company or individual learns is specifically formulated based on what has been learned before; the formation of knowledge accumulation will be more effective in the coming periods (Bazaiah, 2023). Gold et al. (2001) introduced another term for absorbability, processability. This redefining does not change the content of the existing absorbance dimensions as follows: Acquiring knowledge, assimilation of knowledge, knowledge transformation, and exploiting knowledge. These four dimensions can be classified into potential and actual absorptive capacity. Potential absorptive capacity includes the first two dimensions of knowledge acquisition and assimilation. Absorptive capacity has the last two dimensions of knowledge transformation and exploitation (Zahra and George, 2002).

Emotion regulation can be defined as a specific form of motivation (Huy and Zott, 2019). Motivation is often referred to as a more general concept without making any specific assertions, as to whether emotions are involved. Managers can motivate other individuals in their organization with non-emotional motives, such as economic benefits (salaries), bonuses, and other benefits. However, emotional catalysis began to be realized in many studies when management practice showed that physical stimuli were not always helpful. Empirical research on emotion regulation appears later in motivational studies (Kaplan et al., 2014).

Accordingly, there are many views and definitions for this scientific concept. Most typically, according to Gross (1998), emotion regulation refers to the efforts people make to deal with their emotions, be it for their happiness or to achieve goals, or specific targets. This approach mainly focuses on the emotional aspect of the subject. Expanding and no longer limited to individual emotions, Gross and John (2003) jointly stated that: emotion regulation refers to actions and behaviors intended to maintain or regulate emotional states. This approach paves the way for managing and influencing the emotions of those around, a necessary capability for managers.

From there, Huy and Zott (2019), emotion regulation refers to managing and modifying one and others' emotions for a specific purpose. Emotionally-centered managerial behavior is how managers deal with emotions caused by strategic events and concerns, that is, how they regulate their own and those of others' emotions. In general, managers can regulate their emotions before they fully develop them by actively doing something to change the relationship between people and the environment. For example, managers can change their opinion, and re-evaluate things to help them have the desired emotion. Managers can also regulate emotions after they arise, such as suppressing emotions they don't

want or dealing with problems that could exacerbate unwanted emotions (Schutte et al., 2009).

The ability to regulate a leader's emotions is known as the processes and behaviors involved in assisting employees to tailor their emotional experiences to facilitate the achievement of organizational goals (Kaplan et al., 2014).

2.2. Knowledge management

According to Kiessling et al. (2009), in the long term, the success of a corporation depends highly on knowledge management activities. Knowledge is considered a company's intangible asset. Nonaka (2007) also asserted that in an economy where the only certainty is uncertainty, a lasting competitive advantage of the business is knowledge. Therefore, knowledge management plays a very important role in the process of formation and development of the company. To achieve superior and sustainable performance, Bogner and Bansal (2007) also argued that companies must have knowledge management, especially new knowledge that makes a significant impact on the markets in which they operate. Knowledge management is seen as a prerequisite for greater productivity and flexibility in both private and public enterprises (Mårtensson, 2000).

Grant's (1996) approach recognized that knowledge management is viewed as a way of integrating the expertise of many individuals to produce goods and services through the coordination of corporate management. Sharing the same view, Kogut and Zander (1996) further recognized that the company is an organization that represents the social knowledge of cooperation and learning among members of the organization.

In addition, the purpose approach of Nickerson and Zenger (2004) shows that knowledge management-based managers maintain above-average income by continuously acquiring new knowledge or ways that information through which organizations can acquire, develop, measure, distribute, and profit from their intellectual property (Barker and Angelopulo, 2005). Moreover, knowledge management can also help the company to excel, not only requiring ownership of assets of knowledge but also uniqueness and the ability to reproduce dynamic capabilities (Koshelieva et al., 2023). Dynamic capability is the ability to sense, exploit new opportunities, reconfigure, and protect knowledge assets, capabilities, and complementary assets to achieve sustainable competitive advantage (Augier and Teece, 2009). Teece (2007) added knowledge management elements. There are learning, knowledge transfer, expert integration, expert achievement, and protection of intellectual property rights.

In terms of the role approach, Andreeva and Kianto (2012) identified successful knowledge management projects associated with the use of information and communication technology, including a combination of data processing capabilities and information technology (i.e.,

information technology), as well as the creative and innovative capacity of human resources. Gurteen's (1998) research argued that knowledge management is a set of organizational design and operating principles, processes, organization structures, applications, and technologies that help knowledge workers improve their skills, creativity, and ability to deliver significant business value. In a nutshell, knowledge management is known as the assets of a firm's manager, including knowledge, experience, and data, to protect, create, and develop. Effective knowledge management will help businesses develop sustainably and easily integrate into the global economic context. Moreover, the world has been and is in the early stages of the Industrial Revolution 4.0, and improving knowledge management in enterprises is a prerequisite.

2.3. Performance

Business performance is a research topic that often receives interest in most areas of management. Believed to be a set of analytical and evaluation processes that enable business managers to pursue and achieve pre-selected goals (Zin and Manaf, 2019), performance results are both consistent and well-regarded. Theoretical researchers and experimental managers are interested. In different contexts and approaches, business performance is defined by scientists in other ways.

Esmaeel et al. (2018) evaluated business performance from a financial perspective using criteria such as ROI and profit margin. These metrics are commonly used to assess the financial health of a business. However, there are other perspectives that can supplement and generalize financial indicators. In this study, the authors identified several non-financial indicators to measure business performance. These include sales growth, profit growth, a significant increase in market share, and resource efficiency.

While financial indicators are important, they only tell part of the story. Non-financial indicators can provide a more holistic view of a company's performance. Sales growth, for example, can be an indication of customer satisfaction and market demand. Profit growth can demonstrate a company's ability to manage costs effectively. A significant increase in market share can be a sign of successful marketing and sales strategies. Resource efficiency can indicate responsible and sustainable business practices.

Non-financial performance indicators are becoming increasingly important in management research. One such indicator is satisfaction. For business owners, satisfaction is evaluated based on the development of the unit. This means that they assess whether the unit is meeting its goals and objectives and whether the performance is up to the expected standards. From the customer's perspective, satisfaction refers to the perception of service or product quality. This means that customers evaluate whether the product or service

meets their expectations and whether it provides value for money. It is important for businesses to measure both types of satisfaction, as they are both crucial for the success of the business. By monitoring and improving satisfaction levels, businesses can improve their overall performance and achieve their objectives.

In another dimension, non-financial indicators also include staff satisfaction, customer satisfaction, and brand loyalty. Staff satisfaction is an indication of how content employees are with their jobs, their salaries, and their overall work environment. Customer satisfaction is the satisfaction that customers have with the products and services that the company provides. [Abreu-Ledón et al. \(2018\)](#) proposed that performance should be evaluated through a variety of criteria throughout the operational process. This evaluation process should then be used to measure performance using indicators of the level of the operating plan (or progress). Examples of these indicators include inventory, cycle time, delivering results, and system flexibility ([Abreu-Ledón et al., 2018](#)). By evaluating performance through these criteria and indicators, it is possible to get a comprehensive overview of the performance of the operational plan. This evaluation also allows for any necessary changes to be identified and implemented in order to ensure that the operating plan is as successful and effective as possible.

Approaching from the enterprise perspective, business performance is defined as the result of the core tasks of the enterprise ([Wu et al., 2006](#)). With that perspective, [Wu et al. \(2006\)](#) argued that operating results encompass both market results and financial results. This proposition is further supported by [Kim and Lee \(2010\)](#), who posit that business performance encompasses both market results and financial results. The combination of market and financial results is a clear indication of business performance and can be used to measure the success or failure of a business. More generally, [Bhasin \(2008\)](#) advanced the concept of business performance by introducing a five-component performance evaluation framework. These components are financial performance, market/customer, process, human development, and future values. Financial performance evaluates the monetary returns of a business, such as its profit and loss, liquidity, and cost efficiency. Market/customer performance evaluates the customer-centricity and market-drivenness of the business, such as its competitive advantage and customer loyalty. Process performance examines the operational efficiency of the business, such as its production and delivery. Human development performance evaluates the quality of the workforce, such as its knowledge, skills, and motivation. Finally, future value performance evaluates the sustainability of the business, such as its scalability and innovation.

Financial indicators and business performance are evaluated by [Esmaeel et al. \(2018\)](#) through two components. Components of financial indicators

include ROI and profit margin. Composition of non-financial indicators, [Esmaeel et al. \(2018\)](#) used criteria such as market share, sales growth, and many successful new services/products to evaluate business performance.

For these reasons, the author believes that evaluating the business performance of enterprises based on quantitative criteria is difficult to implement and does not guarantee reliability. Evaluation method based on perception chosen by the author to measure business performance. By assessing by perception, the business performance can also be evaluated based on financial and non-financial criteria ([Ahmad and Seet, 2009](#)). From those analyses, the performance of enterprises is measured by the author in this study by surveying the perception of criteria for evaluating results from both financial and non-financial perspectives.

2.4. Hypotheses and research models

There have been many studies conducted to confirm the influence of knowledge management on firm performance. This relationship is tested in many different spatial and temporal contexts, with different approaches to performance. Typically, the study of [Tanriverdi \(2005\)](#), [Kiessling et al. \(2009\)](#), [Andreeva and Kianto \(2012\)](#), and [Darroch \(2005\)](#) found that knowledge management has a positive effect on company performance.

Explaining this positive influence, the author argues that it is the nature of knowledge that creates the effect. When knowledge is seen as a company's intangible asset, in an economy where the only certainty is uncertainty, a lasting competitive advantage is knowledge ([Nonaka, 2007](#)). It is the competitive advantage gained from knowledge that has turned knowledge management into a competitive advantage. Management ability that has enabled businesses to outperform competitors and achieve good results. From another point of view, from approaching the essence of knowledge management, [Gurteen \(1998\)](#) asserted that knowledge management is a set of organizational design and operating principles, processes, organizational structure, application uses, and technology that help workers significantly enhance their creativity and ability to deliver business value. It is clear from the scientific organization of enterprises that makes it possible for one business to operate smoothly, and achieve better efficiency and effectiveness than other businesses, helping to increase operational performance in all fields.

H1: Knowledge management positively affects firm performance.

Research on the topic of absorptive capacity as well as its influence on management aspects is limited. However, there is still reliable scientific evidence to confirm the existence of a positive relationship between absorptive capacity and knowledge management. [Preece \(2015\)](#) identified

four sub-capabilities of absorptive capacity, including acquisition, assimilation, transformation, and knowledge exploitation to influence Knowledge management.

It must be determined that absorptive capacity refers to the ability to recognize, assimilate, and apply new values of external knowledge for commercial purposes (Flatten et al., 2011), it is a capability that makes the management and use of knowledge more effective, creating a seamless knowledge system. Knowledge is inherently considered an intangible asset of the business. Knowledge management is always done to preserve, increase, and apply knowledge to operational aspects of the business. From that, it can be seen that the essence of absorptive capacity is to increase knowledge and create better conditions for applying that knowledge in business activities. From those arguments, in the research context, the author proposes the corresponding research hypothesis as follows:

H2: The absorptive capacity of managers positively affects the knowledge management of enterprises.

Emotional regulation is defined as the processes and behaviors involved in assisting employees to tailor their emotional experiences to facilitate the achievement of organizational goals (Kaplan et al., 2014). Through regulation and managing emotions, business managers can effectively mobilize and

utilize business resources, thereby increasing all aspects of business performance. Research by Huy and Zott (2019) suggested that specific emotional regulation is the emotional foundation of dynamic management competencies. In other words, by having the ability to regulate emotions according to goals, managers can develop dynamic competencies, thereby increasing other aspects of management in the business. In addition, the strategic shift associated with pursuing business opportunities, goals, and associated expectations in the business can foster intense emotional aspects (Baron, 2008). Huy and Zott (2019) also asserted that differences in managers' focus on regulation emotions influence and create differences in their ability to mobilize and use resources to pursue market opportunities in business activities. A manager with a good ability to regulate emotions can eliminate these errors in management, helping the organization to move towards common goals, in the context of research being the main goal of knowledge management. From those observations, the study proposes the hypothesis that:

H3: Emotion regulation positively affects the digital orientation of enterprises.

Based on previous discussions of scholars, the proposition of the initial model is summarized in Fig. 1.

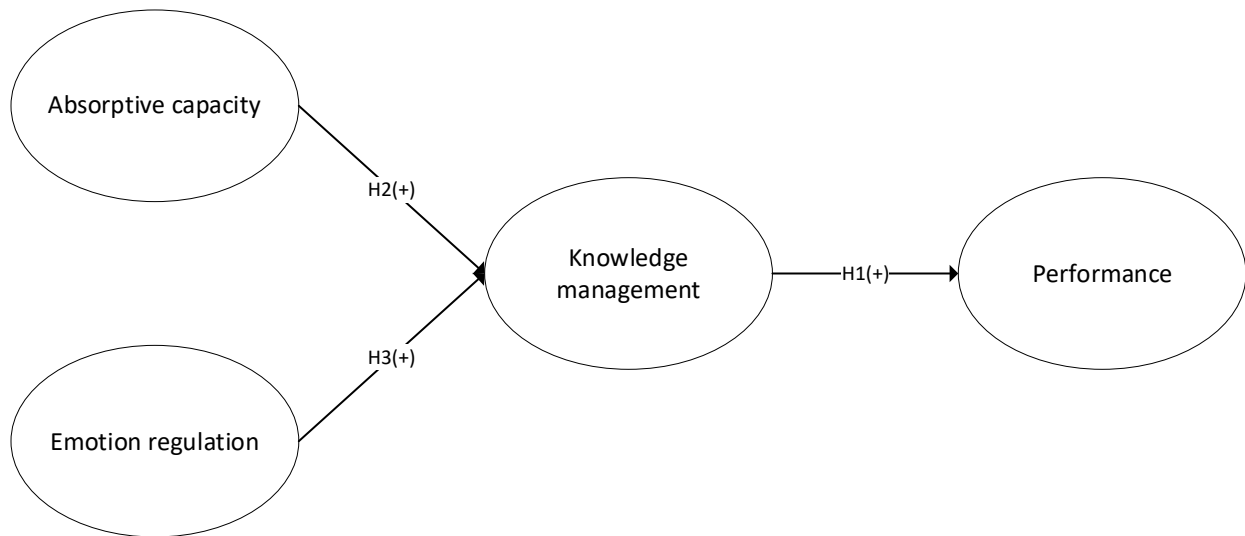


Fig. 1: Research model

3. Research methods

A primary data source is collected by direct survey method. The target audience is the managers of enterprises in the Mekong Delta, Viet Nam. Respondents to interviews and surveys in qualitative and quantitative research are managers of enterprises. The survey period is from September to October 22, thematic is carried out from November 2022. Owners, directors, and managers from 536 Small and Medium Enterprises in Mekong Delta were targeted to be interviewed. From the concept of firm

performance, the authors use scales, inherited from the scales of Adomako and Tran (2022), the original scale of the absorptive capacity of Naqshbandi and Tabche (2018), and the original scale of Fathi and Derakhshan's (2019) for emotional regulation capacity.

The official research sample after removing unsuitable variables includes 20 observed variables, analyzed and loaded into 4 factors. With 536 observations, the sample was used in the formal analysis to address the primary quantitative research objective.

4. Research results

In this research study, the author uses the Cronbach's Alpha tool, provided by SPSS software to examine the combination of the components of the scale analysis in each factor. This test step will allow a conclusion as to whether the observed variables being measured perform the same factor. This connectivity feature can be implemented to a large extent of the total Cronbach's Alpha. The higher this value, the higher the cohesion of the scale components. If Cronbach's Alpha coefficient is greater than 0.6, then the scale is considered appropriate, achieving coherence.

Performance (Cronbach's Alpha = 0.906) in this study was measured by five observed variables (Adomako and Tran, 2022). Knowledge management (Cronbach's Alpha = 0.761) in this study was measured by four observed variables (Lam et al., 2021). Absorptive capacity (Cronbach's Alpha = 0.912) in this study was measured by six observed variables (Naqshbandi and Tabche, 2018). Emotion

regulation (Cronbach's Alpha = 0.917) in this study was measured by five observed variables (Fathi and Derakhshan, 2019). The correlation coefficients of the total variables are all > 0.3. The indicators showed that the component concepts of the scale all meet the requirements (Nunnally and Bernstein, 1994).

With a survey sample size of 536, this study sample was used in the confirmatory factor analysis (CFA). The criteria for evaluating the fit of the model such as Chi-square/ df = 2.055 ≤ 3; RMSEA = 0.044 < 0.08; and the values GFI, TLI, CFI ≥ 0.90. The CFA showed that the model fit indicators were all met. This shows that the general scale model fits the market data (Bentler and Bonett, 1980).

Based on the analysis results, the study will test the proposed research hypotheses. Through the results of SEM analysis, all hypotheses proposed in the proposed research model are accepted. The normalized estimates are shown in the following Fig. 2.

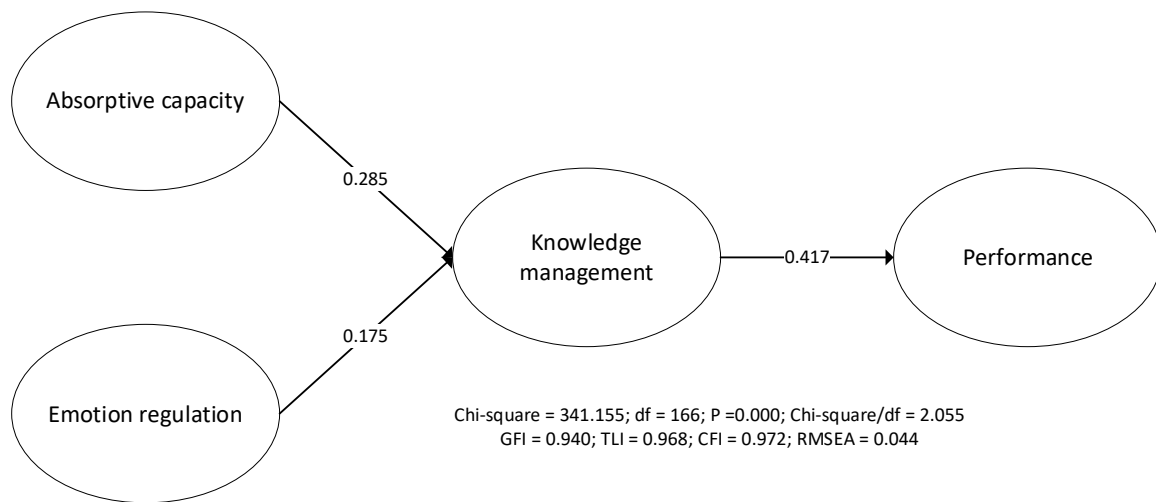


Fig. 2: SEM estimate

Table 1 reports the results of the model path analysis. As it can be noted from the path analysis of the associated standardized regression weights. However, six of the hypotheses were not confirmed with the required statistical significance. Note that

the significance threshold for this study was set at the P-value of 0.05. In Table 1 with the P-values, the P-values given as three asterisks (***) refer to the P-value of less than 0.001.

Table 1: Model estimate

| Hypotheses | Relationship | Estimate | Standard error | Critical ratios | P | Evaluation |
|------------|---|----------|----------------|-----------------|------|------------|
| H1(+) | Performance <--- Knowledge management | 0.417 | 0.057 | 7.257 | *** | Confirmed |
| H2(+) | Knowledge management <--- Absorptive capacity | 0.285 | 0.057 | 4.991 | *** | Confirmed |
| H3(+) | Knowledge management <--- Emotion regulation | 0.175 | 0.057 | 3.043 | .002 | Confirmed |

***: Significant at P ≤ 0.001

The study also shows that Emotion regulation and absorptive capacity positively affect knowledge management in enterprises. Since then, knowledge management directly affects business performance. The results of this study are true and consistent with the reality of enterprises and are also similar to related previous studies.

It reaffirms the influence of knowledge management on the firm performance. This relationship is tested in many different spatial and temporal contexts, with different approaches to

performance, typically the studies of Tanriverdi (2005), Kiessling et al. (2009), Andreeva and Kianto (2012), and Darroch (2005). On the other hand, the assertion that absorptive capacity affects knowledge management is similar to previous studies. Empirical evidence confirms the results similar to the study of Preece (2015), Flatten et al. (2011), and other researchers. Not only is that, but the influence of Emotion regulation capacity on knowledge management is also a highly valid assertion of the research. As evidenced by previous studies such as

those of Kaplan et al. (2014), Huy and Zott (2019), and Baron (2008) also believed this.

Research results have established a positive relationship between knowledge management and business performance. This discovery has practical implications for the long-term and sustainable development of the business. Therefore, businesses need to change, promote, and innovate the way they manage knowledge to achieve long-term profits. In the context of global economic integration, the application of a digital technology platform to the entire production and business process of enterprises, improving knowledge management is essential for businesses in developing countries.

5. Conclusion

Absorptive capacity is the ability of a firm to acquire, assimilate, and apply knowledge from external sources. Absorptive capacity is confirmed to have a positive impact on corporate results. Through the intermediary of knowledge management, this factor can help increase and improve business results. From there, we need to have the necessary solutions to promote the components of this capacity. Some typical solutions that businesses can implement are: Foster a culture of learning by encouraging employees to continuously learn and develop new skills. This can be achieved through training programs, knowledge-sharing sessions, and creating opportunities for employees to attend conferences and workshops. Build strong, sustainable relationships with partners outside the business. Partners such as suppliers, customers, research institutions, and educational institutions. This can provide the company with access to new sources of knowledge and insights. It also increases the overall absorptive capacity of the organization. The company should also increase the exchange and exchange of knowledge. This can be done by bringing together individuals from many different departments across diverse backgrounds of knowledge and expertise. From there, the communication and exchange between individuals from many units can facilitate knowledge transfer and promote innovation, creating an absorptive capacity for the organization. Investment in research and development is also a solution that businesses should think about. This is also a possible solution for this goal. Because allocating resources to research and development can help businesses discover new technologies and innovations. This can help the company rise above the competition and develop new products and services. Investing in research and applying research results will help businesses access and absorb the latest developments in knowledge as well as science and technology.

Emotion regulation in a corporate context involves managing emotions effectively to enhance individual and organizational outcomes. Research has proven that the better a business's ability to regulate emotions, the better the business results

will be. For that reason, it is possible to positively impact corporate results by improving this capability. The study also offers some recommendations to improve this problem. Start with increasing emotional intelligence. This is the ability to recognize and manage emotions, both in oneself and in the emotions of others. This ability is now one of the essential skills in the new era. Businesses should develop training programs to improve the emotional intelligence of employees in the organization, helping them understand themselves, their colleagues, and their customers better. On the other hand, managing emotions is only effective in a comfortable and conducive working environment. Therefore, businesses need to create a healthy working environment and provide resources to manage stress. Work stress is a common trigger for negative emotions. Resources such as employee support programs, counseling services, stress management workshops to help employees manage stress, psychological counseling centers, and trips will be helpful solutions for this problem.

In addition, business leaders also need to increase the balance of employees, especially the balance between work and private life. Businesses must promote work-life balance because an imbalance between work and personal life can lead to negative emotions such as stress and burnout. Need to facilitate and encourage employees to arrange flexible work and encourage self-care and family.

In general, increasing business results can be accomplished through a variety of solutions. However, the issues of emotional absorption and regulation capacity have not been given proper attention and investment. This gap in terms of science as well as practice and the problem that the research fills. As for the theoretical issue, the research has confirmed that the relevant competencies that can affect the performance of the business are rarely mentioned and paid attention to (absorptive capacity and emotion regulation). Regarding practical applications in enterprises, the article has also suggested some possible implications for businesses to improve business performance by positively affecting these capabilities.

However, the current research only stops at synthesizing and proposing, researchers can consider implementing income and research in a certain context, increasing the practical value of the topic. Moreover, the concept of knowledge management has been reviewed, analyzed, and proposed, but the approach is still short-sighted, researchers can approach and expand more aspects. The analyses on this topic are suggested for future research.

Compliance with ethical standards

Conflict of interest

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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