

# Organizational Forgetting and Service Innovation Performance: The Mediation Role of Absorptive Capacity: A Moderated Analysis

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**Abstract** -This study aims to explore the effect of organizational forgetting on service innovation performance with absorptive capacity as mediation and to investigate the moderation role of transformational leadership. According to the results of previous studies and empirical theories related to the learning process and organizational innovation, this study was designed to collect data by a purposive sampling method from 232 service managers in the national headquarter, provincial, and district level of Indonesian Red Cross. The findings of this study are first, the positive influence among organizational forgetting and service innovation performance. Second, there is the mediating role of absorptive capacity and the moderating role of transformational leadership. The managerial implication of research for organizations is to increase the part of leaders in encouraging and ensuring and accustoming organizational forgetting for a better change and increasing organizational competitive and sustainable advantage.

**Keyword:** Organizational Forgetting, Absorptive Capacity, Service Innovation Performance, Transformational Leadership

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## Introduction

Performing innovative services in organizations is important in the current situation. Increasing organizational capacity by increasing absorption capacity and learning in organizations is very important to do to carry out innovation. Organizational forgetting is a strategy in organizational learning. Besides that, the leadership style and absorptive capacity have affected organizational performance. The intentional aspect of organizational forgetting has the potential to add an important new aspect to strategic thinking about knowledge management. Second, organizational forgetting has the potential to affect knowledge management practice significantly.

Organizational Forgetting is a consequence of the learning process in the organization. It is therefore considered important to link it with the learning process because sometimes it can interfere with the learning process in question. In its development in general organizational forgetting is often ignored in the learning process (Remor et al., 2010).

Organizational forgetting can also be used as one of the strategies in efforts to increase organizational progress. Refer to the previous study by Holan & Phillips (2004), the important roles or contributions of organizational forgetting are organizational forgetting, which intentionally has the potential to add important new aspects to strategic thinking about knowledge management in organizations. Both organizational forgettings have the potential to influence knowledge management practices significantly. On the other hand, we know a lot about learning and learning. However, knowledge of "forgetting" is still small, even though it is essential, and the third organizational forgetting provides new directions for improving knowledge management strategies. Organizational forgetting is one of the core

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things in strategic management in organizational learning. as companies or organizations become increasingly clever in the creation of knowledge, collaboration, and innovation, then a better understanding of organizational forgetting becomes more critical (Saudi, 2018).

The best service is the main goal of every service business. In the current industrial situation, good and innovative service is a pre-condition that must be fulfilled by service providers to win the competition for the profit organization or industrial and improve the image and trust from the community for non-profit organizations. Service innovation performance is important because, in it, there is consistency from the management of the organization to ensure employees are encouraged to be able to meet all service needs of the customer (Hu, Horng, & Sun, 2009). Successfully service innovation will depend on the understanding of managers who understand the role of leaders, absorptive capacity, government support, learning orientation, and performance (Ratten, 2016).

The previous study by Fernandez & Sune (2009) stated that organizational forgetting is closely related to innovation. The result of organizational forgetting in the internal innovation process will be intentional because the specific purpose of innovation is to abandon the use of prior knowledge. if innovation is an obvious need, the resulting organizational forgetting will be unintentional. innovations that occur are not managed internally by an empirical framework but are external forces. These are in line with the previous studies related to linking organizational forgetting with service innovation performance is also in line with previous studies (Feizi & Ardebili, 2013; Huang et al., 2018; Remor et al., 2010; Zhao, Lu, & Wang, 2013; Smith, Lyles, & Tsang, 2011 and Asger, Umer & Hanif, 2018).

Several previous studies explain that the performance of service innovation is also influenced by other variables, one of which is the absorptive capacity. Absorptive capacity has a mediating role on the effect of organizational forgetting and service innovation performance (Tseng, Pai, & Hung, 2011; Huang et al., 2018 and Raisal, Tarofder, & Haleem, 2019). Absorptive capacity also has positive effect among service innovation performance (Tseng et al., 2011; Liu et al., 2017; Ratten, 2016; Lee & Hidayat, 2018 and Cohen & Levinthal, 1990), the other several studies find that absorptive capacity has a moderating role for service innovation performance (Noor & Aljanabi, 2016 and Wang, Yang, & Xue, 2017).

The purpose of this study was to explore the effect of organizational forgetting on service innovation performance with the mediation role of absorptive capacity. This study also investigates the moderation role of transformational leadership to service innovation performance in nonprofit organizations.

Several previous studies about *organizational forgetting* and service innovation performance mostly use moderation role from an external factor, dan According to the previous study (Huang et al., 2018), this study uses the transformational leadership as moderation variable. An interesting thing is also to examine the urgency of organizational forgetting that is still not widely calculated, compared to organizational learning (Alsalamy, Behery, & Abdullah, 2016 dan Song, 2015). On the other hand, several studies mostly conduct in manufacture or profit companies, and this study has conducted in nonprofit organizations.

## **1. Literature Review and Hypotheses Development**

### **1.1. The relationship between Organizational Forgetting and Service Innovation Performance**

The concept of organizational forgetting was first introduced by Herberg, who stated that organizations could deliberately dispose of their knowledge. Organizations must carefully get rid of existing and useless knowledge. If they don't, the survival of the organization will be at risk. Although it is not directly stated that organizational forgetting consists of intentional and unintentional (Mohammadpour et al., 2017).

Organizational forgetting is defined as the loss of organizational knowledge voluntarily or forced, intentionally or unintentionally, which results in changes in the organization's capability (Holan & Phillips, 2004b). According to Easterby et al., (2011), organizational forgetting has been examined as a loss of organizational knowledge, which is not planned or intended. Organizational forgetting includes aspects of cognitive views, behavioral views, and social views. As a learning process, organizational forgetting is influenced by internal factors and external factors of the organization. Still, organizational forgetting can be considered as a corporate strategy to gain a competitive advantage (Turi et al., 2019).

Service innovation is an approach or development for the design of new services, modifying old services that focus on the needs of external parties, namely customers, and meet the requirements of internal service management. Service innovation performances are something new or something that is improved and done by the company to create significant added value either directly to the company or straight to customers. (Hu et al., 2009). Service Innovation

Performance must ensure better collaborative functions, increased flexibility, and higher efficiency results (Ratten, 2016).

According to Hanif & Asgher (2018), the typology of service innovation is new things in service products, service processes, and service business models. The multi-dimensions of service innovation will significantly influence the service innovation performance. New service development is the process of managing new ideas or being adopted to be efficient to create sustainable competitive advantages for companies or organizations. Therefore, service providers need to encourage and motivate their employees for the process of developing innovation in gaining a competitive advantage (Lee & Hidayat, 2018).

Organizational forgetting allows individuals in organizations to discard unused knowledge and experience to do something new and innovative programs. (Feizi & Ardebili, 2013). By discarding unnecessary knowledge or experience, there is a tendency to find something new that is better in exchange for the old one thrown away. With an effective organizational learning process, namely by analyzing the strengths and weaknesses of the organization, what is the competitiveness of the company or organization, it can be identified things that must abandon and what new things to do that feel better. In line with research from (Holan & Phillips, 2004a) that without an active and effective learning process, an organization cannot develop itself and maintain its competitiveness. The link between organizational forgetting and innovation gives the critical role of organizational forgetting in learning in organizations (Mieres, Sánchez, & Vijande, 2012; Fernandez & Sune, 2009; Huang et al., 2018; Aydin & Gormus, 2015 and Remor et al., 2010). Related to previous studies, we expect that:

**H1: Organizational Forgetting has a positive influence on service innovation performance**

### **1.2. The relationship between Organizational Forgetting and Absorptive Capacity**

Organizational forgetting is not only an instrument for ignoring old knowledge that is considered useless but also a regulatory way to create a space for change and find something new learning. The individual's absorption capacity strongly influences the organizational forgetting process (Raisal et al., 2019). Absorption is the ability of each individual to absorb learning from an event and then analyze whether a knowledge needs to be replaced or maintained.

Absorptive capacity is a series of routines and processes in an organization where companies or organizations acquire, assimilate, change, and exploit knowledge to produce dynamic organizational capabilities. Absorption is the intensity of the business, and corporate speed in identifying and gaining the knowledge needed for its operations obtains from the external environment. Organizational ability to examine or assess previously owned knowledge, synthesize knowledge, and combine knowledge acquired from external sources. (Zahra & George, 2002).

Absorption capacity is the ability of an organization to recognize the value of new external information, assimilate and apply it to the benefit of the organization. The absorption capacity of an organization will depend on the absorption capacity of the individual or its members. In developing absorptive capacity, the organization expects to grow essential investments in developing individual absorptive elements. Organizational absorption is not just as simple as combining the ability of its members, and therefore it is important to consider my aspects of what is organizational clear. Organizational absorption capacity does not only refer to the acquisition or assimilation of information by the organization but also the organization's ability to exploit it. To develop sufficient absorption capacity, whether related to general knowledge, problem-solving, or learning skills, it is not enough to simply expose someone briefly to the relevant prior experience (Cohen & Levinthal, 1990).

The organizational forgetting uses the competitive advantages of a company as standard and in the procedure referred to individuals in the organization brought to recall things that have been done and identified positive and negative aspects. The method of analyzing meant if done regularly and the more often it is practiced, the better the absorption capacity of individuals in the organization.

That is in line with several previous studies that the organizational forgetting, would affect the capacity of the individual's absorption capacity in the organization concerned. (Remor et al., 2010; Raisal et al., 2019; Fernandez & Sune, 2009; Holan & Phillips, 2004a; Zhao et al., 2013; Turi et al., 2019 and Zhao et al., 2013). To sum up, we hypothesize:

**H2: Organizational forgetting has a positive relationship with absorptive capacity**

### **1.3. Mediation role of absorptive capacity**

In creating innovative services in non-profit organizations, absorptive capacity has an important role, and absorptive capacity influences organizational performance or performance (Chen, Lee, & Chen, 2017). The absorption capacity of individuals in organizations directly will be able to increase innovation because the ability to

absorb things that are not good and must be replaced with new ones, will make individuals or employees do innovative things. Several previous studies have also explored much about the effect of absorptive capacity on organizational performance both directly and indirectly (Nätti, Hurmelinna, & Johnston, 2014; Ratten, 2016; Y. S. Chen, Chang, & Lin, 2014; Lee & Hidayat, 2018; Liu et al., 2017; Cohen & Levinthal, 1990; Huang et al., 2018; and Martelo et al., 2018). Based on the result of previous studies, we assume:

**H3: Absorptive capacity has a positive relation with service innovation performance**

From **H2** and **H3**, the absorption capacity is possible to be able to mediate the relationship between organizational forgetting and service innovation performance.

#### **1.4. The role of transformational leadership**

Transformational leadership is a style of leadership where leaders encourage their teams to be creative, independent in achieving the organization's vision, and inspire their teams to achieve extraordinary results. Transformational leaders support followers to grow and develop into leaders according to the needs of each individual and empower them with the achievement of organizational goals that in line with the goals and objectives of individuals, leaders, groups, and larger organizations (Bass & Riggio, 2006). A right transformational leadership style will be able to add job satisfaction to employees or subordinates that will encourage the creation of excellent performance (Syah, 2018).

Transformational leadership has a strong correlation with innovative work behavior. It positively influences the formation of ideas and employee creativity on the one hand and the implementation of plans on the other (Afsar, Badir & Saeed, 2014). Transformational leadership will increase employee involvement in organizations (Syah et al., 2019). Transformational leadership will encourage the creation of innovation in organizations and will directly improve organizational performance. Transformational leadership allows for openness and learning in organizations (Noruzy et al., 2013)

Several previous studies find that transformational leadership is believed to have a positive influence on employee performance and will directly or indirectly encourage innovation in service. Leaders with transformational style will tend to listen, involve, and accompany their subordinates. Openness and the opportunity for new things to emerge, transformational leadership is a leadership style that gives assistants the chance to be innovative (Reuvers et al., 2008; Alsalamy et al., 2016; Arif, 2018; and Noruzy et al., 2013). Extrapolating from previous research, we hypothesize:

**H4:** The transformational leadership will increase the relationship between organizational forgetting and absorptive capacity

**H5:** Transformational leadership has a positive influence on service innovation performance.

## **2. Research Design and Methodology**

Based on the above theoretical analysis, the conceptual model shown in figure 1.

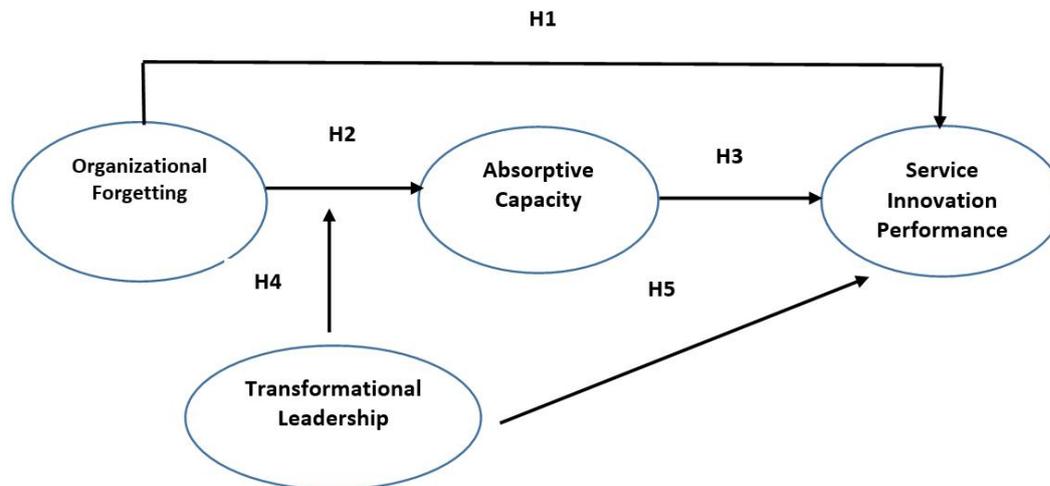


Figure 1: The conceptual model

### 2.1. Data Collection

Data collection in this study used a survey method by distributing questionnaires both directly and online questionnaires. The respondents of this study were selected using the purposive sampling method in the Indonesian Red Cross. They are representative of PMI Offices at the national headquarter, provincial, and district levels. They are a service manager or staff in the services unit that had worked for at least three years. The underlying assumption that a minimum time of three years is considered sufficient to see aspects of absorptive capacity and service innovations carried out. The Indonesian Red Cross (PMI) was chosen as the object of research finding that PMI is the oldest humanitarian organization in Indonesia and has a big and global network of representatives from each Province and regency. It is also a member of international humanitarian organizations, namely the International Federation Red Cross and Red Crescent (IFRC) and ICRC.

The research design using SEM, where the determination of the number of samples was at least five times the number of questions (Hair et al., 2014), and the number of samples in this study were 232 people.

### 2.2. Measurement

In this study, the measurement scale refers to several previous studies. All items measure with a seven-point Likert scale (1 = totally disagree and 7 = absolutely agree. *Organizational Forgetting* (OF) variable was adopted from (Huang et al., 2018), consist of 5 questions. The absorptive capacity variable was taken from (Huang et al., 2018) consist of 12 items. Measurements of transformational leadership adopted from (Sally & Alexander, 2000) with 7 questions. Service innovation performance refers to scale from (Hu et al., 2009), consist of 14 items; total of all variables are 38 items.

Data collection techniques began with the distribution of the initial questionnaire (pre-test) to 38 respondents. The study was a quantitative study using the Structural Equation Model (SEM) method, and data processing and analysis using SPSS 25 and Lisrel 88 software. Based on the pre-test analysis, the researchers conducted a factor analysis for the validity and reliability test with SPSS. The Validity test uses the measurement value of Kaiser-Meyer-Olkin (KMO) and Measure of Sampling Adequacy (MSA). KMO and MSA value must be greater than 0.5, which means that factor analysis is appropriate. Reliability tests use Cronbach's Alpha measurements. The better is reliable and valid items if the Cronbach's Alpha value approaches 1(Hair et al., 2014). After analyzing the results of the pre-test, the organizational forgetting variable, and the transformational leadership variable were all declared valid. The absorptive capacity variable of 12 questions, only 8 were accurate, and the service innovation performance variable out of 14 items, only 9 were declared valid. Thus for the number of questions on this study totaled 29 items.

### 3. Result

In this study, we focus on the service unit in the Indonesian Red Cross (PMI) that present by managers of the service department that was work for more than 3 years. Based on the research result, from 232 respondents, 4 persons from PMI national headquarter, 33 people from the provincial level, and 195 employees from the district office. According to construct reliability (CR) and variance extracted (VE) analysis, all component indicated appropriate with the standard of CR and VE test from (Hair et al., 2014) that CR values are more than 0,60 and VE test not less from 0,50. Organizational Forgetting (CR=0,921; VE=0,648), transformational leadership (CR=0,949; VE =0,750), absorptive capacity (CR=0.932; VE =0,637) and service innovation performance (CR=0.915; VE=0,577).

The structural equation analysis indicated by  $R^2$  values.  $R^2$  values have a function to describe how the independent variable can indicate relations with the dependent variables. SEM analysis indicated firstly, Absorptive capacity (AC) is influenced jointly between organizational forgetting (OF) and moderation role of transformational leadership (OFTL) with  $R^2$  value is 0,73. That describes that there is 27%; absorptive capacity may be influenced by the other variables from this study. Second, service innovation performance (SIP) has influenced by absorptive capacity (AC), organizational forgetting (OF), and moderation role from transformational leadership (OFTL) with  $R^2$  value is 0,64.

The fit model analysis in this study indicated a good fit in the *Chi-Square*, *ECVI*, *AIC*, *CAIC*, *Fit Index*, *Critical N*, and *Goodness of Fit*. Almost all of the goodness of fit is in a *good fit*, although there is a *marginal fit* in several items.

This study obtains a positive result on all hypotheses. That suggests that organizational forgetting is positively direct influences service innovation performance. Absorptive capacity will mediate the relationships between organizational forgetting and service innovation performance. Transformational leadership provides a positive adjustment between organizational forgetting and absorptive capacity. Transformational leadership will moderate the strength of the mediated relationships between organizational forgetting with service innovation performance through absorptive capacity, such that the mediated relationship will be stronger under high transformational leadership than lower under low transformational leadership.

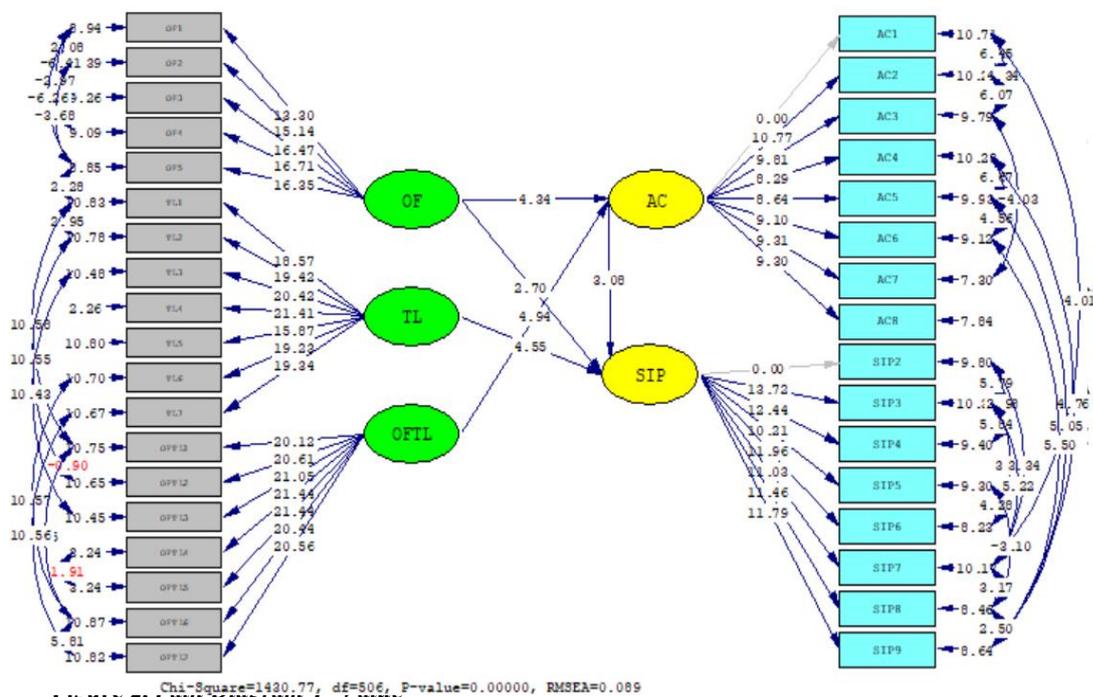


Table 1: Hypothesis Model Test Result

Hypothesis	Description	T- Value	Remarks
H1	Organizational Forgetting has a positive influence on service innovation performance.	2,70	Data support the hypothesis
H2	Organizational forgetting has a positive relationship with absorptive capacity.	4,34	Data support the hypothesis
H3	Absorptive capacity has a positive relation with service innovation performance	3,08	Data support the hypothesis
H4	Transformational leadership will increase the relationship between organizational forgetting and absorptive capacity.	4,94	Data support the hypothesis
H5	Transformational leadership has a positive influence on service innovation performance.	4,55	Data support the hypothesis.

Source: SEM Lisrel analysis (2020)

The T-Value test result above 1,96 that means this study support all hypothesis.

#### 4. Discussion

This study intends to explore the influence and linkages between Organizational Forgetting, Service Innovation Performance, and Absorptive Capacity as mediation moderated by Transformational Leadership. In testing the first hypothesis (H1), this study shows that organizational forgetting has a positive effect on the performance of service innovation. The stage in organizational forgetting include leaving old knowledge, no value matters are replaced by new things that are more useful, more simple, as needed, and are an essential part of facing the current dynamics of competition. As part of the dynamic learning process in organizations, organizational forgetting is a part of the strategy to get innovative ideas in doing services.

Organizational forgetting is a process that not different from organizational unlearning because both are stages of a dynamic learning process in organizations. This study is in line with the thoughts and findings of several previous studies related to organizational management. According to Zhao et al. (2013), Organizational unlearning is a process that can help organizations get rid of outdated and useless knowledge, which is an essential process of dynamic knowledge management. Organizational forgetting provides an extraordinary contribution to creating dynamic knowledge management. Organizational forgetting has the potential to be able to find or add new aspects and strategic thinking in knowledge management in organizations to bring up innovative ideas that are useful to improve organizational competitiveness.

The finding that organizational forgetting has a positive effect on the performance of service innovation can contribute to the learning process theory. This study recommended should be abandoned and encourage each individual in the organization to set new and innovative steps in dealing with organizational competition. That does not only add further information or knowledge to individuals in the organization but also invites to identify which processes and experience do not provide valuable benefits, which old ways. The results of the study are in line with and support the findings of several researchers. They emphasized the critical role of organizational forgetting in creating creative ideas, strategies, and innovative services according to the needs of the stakeholders and target beneficiaries of the organization. (Holan & Phillips, 2004b; Raisal et al., 2019; Nielsen, 2006; Bello & Adeoye, 2018; Song, 2015; Holan & Phillips, 2004a; Huang et al., 2018; Cavallaro et al., 2018 and Coghlan & Rashford, 2006).

This study has also proven that there is a positive effect of organizational forgetting with absorptive capacity (H2). The organizational forgetting activities through the stages of identification and trying to find things that must be abandoned and the organization will become accustomed to critical thinking and increase their capacity to absorb things over things the new one. Absorption capacity is the ability of individuals and organizations to absorb new information and knowledge and make adjustments to the new information and knowledge. Potential absorptive capacity shows the acquisition and assimilation of knowledge and realized absorptive capacity shows the capacity of a company or organization to transform knowledge and learning processes into operational processes (Sánchez, Morales, & Rojas, 2018). The diversity of information and knowledge gained by the organization while doing the learning process in the organization, especially organizational forgetting, will increase the absorption and accustomed to accepting new things.

Thus the absorption capacity will also affect the ability to innovate in doing services or work. The third thing in this study is that the absorption capacity has a positive effect on the performance of service innovation (H3). The higher the level of absorptive capacity, the more innovative it can be. The capacity and ability of individuals in an organization or company to absorb new information or knowledge that enters will influence the level of creative thought and innovative action. There is a difference among individuals in an organization (Lowik, Kraaijenbrink, & Groen, 2017). Absorptive capacity has a role in facilitating knowledge management for innovative services (Nätti et al., 2014). That finding is in line with several previous studies about service innovations (Sánchez et al., 2018; Liu et al., 2017; Noor & Aljanabi, 2016; Cohen & Levinthal, 2006; Tseng et al., 2011 and Lee & Hidayat, 2018).

This study found that transformational leadership has a moderation role in the relationship between organizational forgetting and absorptive capacity. Transformational leadership will make a stronger relationship between organizational forgetting and absorptive capacity (H4). The leader that supports and gives motivations their teams to identify unless knowledge to analyze the improvement things will improve the individual absorptive capacity in the organization. Transformational leadership, where one of the main focuses is to motivate individuals to be able to work beyond expectations and improve their performance in all aspects of the organization, will strengthen the performance of individuals in the organization (Chang et al., 2018). Transformational leaders will increase the space to absorb new knowledge and motivate the innovative thinking of team members

The results of this study can contribute to reinforcing previous findings that transformational leadership has a role to strengthen the effect of organizational forgetting processes in particular and organizational learning in general on the ability of individual absorption in organizations. (Shafique & Kalyar, 2018; Syah & Rosady, 2018; Sánchez et al., 2018; Collins, 1999 and Noruzy et al., 2013).

Transformational leadership also has a positive influence on the performance of service innovation (H5). The character of transformational leaders who are open to providing opportunities and motivating teams to create and make positive changes in the organization will increase creativity and individual innovation power in the organization. Transformational leadership and organizational performance have strong relationships (Arif & Akram, 2018). Transformational leadership has a direct influence on the learning process and knowledge management in organizations. Furthermore, transformational leadership positively influences organizational innovation and company performance (Noruzy et al., 2013). Transformational leadership has a positive effect on employee creativity (Suifan & Al-janini, 2017).

Transformational leadership presents the organization's vision and mission clearly. The second transformational leader will motivate and inspires employees to work towards achieving that vision by building connections with employees, understanding employee needs, helping employees reach their potential to be able to innovate, and contribute to good results for the organization. The results of research on the influence of transformational leadership on innovation performance in organizations are in line with some of the opinions and findings of previous studies. (Fitzgerald & Schutte, 2010; Noruzy et al., 2013; Arif & Akram, 2018; Ocak & Ozturk, 2018; Shafique & Kalyar, 2018; and Afsar et al., 2014)

## 5. Conclusion and recommendation for future research

All the hypotheses built in this study have full proof that there is a relationship between organizational forgetting, absorptive capacity, and performance of service innovation and the role of transformational leadership in the relationship between these variables. However, this research still has some limitations. First, this research is limited to one non-profit organization, so it may not necessarily describe the conditions or represent other non-profit organizations. In the future, the same study can be done but involves not only one institution or organization. Second, the learning process and innovation in organizations are not simple processes and require time before changes occur. This study is cross-sectional can be less precise, and research that is long-term sustainable (more longitudinal) is more recommended. Third, there is the other factor that can influence absorptive capacities, such as the work environment, organizational culture, or even external factors as service demands from beneficiaries.

There are important managerial implications from this study: First, since organizational forgetting and absorptive capacity have stronger if there are transformational leadership styles, then managers or leaders must apply the principles of transformational leadership. Second, the leader must usually use the organizational forgetting process. The leader motivates and increases the team's ability to find new knowledge. Provide space to promote innovation among others by implementing a reward and recognize system for innovators in the organization so that all members are motivated to provide the best for the organization.

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