

Current Approaches Regarding the Knowledge Management Impact on SMEs Performance

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ABSTRACT

Managing knowledge is a critical capability for small to medium-sized enterprises (SMEs) to master because it helps them leverage their most critical resource. Organizational knowledge is the most salient resource at the disposal of SMEs in terms of availability, access, and depth. Successful SMEs are those who can leverage their knowledge in an effective and efficient manner, so as to make up for deficiencies in traditional resources, like land, labor, and capital. The purpose of this article is to identify the knowledge management impact on SMEs performance and to compare knowledge management in SMEs with knowledge management in large companies. The research discovered that SMEs do not manage knowledge the same way as larger organizations.

KEYWORDS: *knowledge management, performance, SMEs.*

JEL CLASSIFICATION: *L25, M11.*

INTRODUCTION

Small to medium-sized enterprises (SMEs) are a vital part of any national economy. According to the Organization for Economic Cooperation and Development, SMEs comprise about 95 percent of enterprises in a nation, and are responsible for employing 60-70 percent of the workforce (OECD, 2000, 2002).

The success of a small business or an SME can be linked to how well they manage their knowledge (Brush & Vanderwerf, 1992; Dollinger, 1984, 1985). Knowledge is know-how, expertise, tradecrafts, skills, ideas, intuitions, and insights. Knowledge management has been shown to a powerful ingredient in the success of organizations (Davenport & Prusak, 1998; Souza & Evaristo, 2003; Nonaka & Takeuchi, 1995).

Organizations who are successful in leveraging knowledge, normally witness increased efficiencies in operations, higher rates of successful innovations, increased levels of customer service, and an ability to have foresight on trends and patterns emerging in the marketplace. Besides the traditional reasons for managing knowledge, SMEs in particular must pay close

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attention to knowledge management for several salient reasons. SMEs compete on their know-how and hence have to use knowledge to their advantage, even more so than traditional resources. SMEs normally do not have deep pockets to spend on resources such as land, labor, and capital. They must do more with less (Desouza & Evaristo, 2003).

Knowledge housed in the SME, must be leveraged so that goals can be achieved in an effective and efficient manner. While an SME might be constrained by not enough capital or labor, their knowledge is bountiful and, in many cases, an unlimited resource. The only way an SME can limit this resource is by not using it effectively.

Individuals who open up SMEs do so because they have knowledge in key areas of competencies and think they can compete using such knowledge. It is hence important that they remain successful in leveraging knowledge. Having knowledge is one thing, and using it effectively towards organizational ends is quite another. It will be useful for an SME owner to house knowledge in his/her mind, and not use it for business decision-making.

1. SMEs PERFORMANCE IN THE CONTEXT OF KNOWLEDGE MANAGEMENT

The performance and the survival of an enterprise are determined by the speed with which the company manages to develop knowledge-based skills (Lupu, 2009).

The knowledge and the intellectual capital are considered as the enterprise-based skills and knowledge according to the authors and Nonaka Bell, an enterprise's competitive advantage lies in its knowledge (Daundi et al., 2010).

All management activities have become omnipresent knowledge management in the last decade. Independent researchers were not able to demonstrate that knowledge management activities create value.

The knowledge management activities to meet both large companies and small enterprises, but only some of the of SMEs managers, named them as Knowledge management activities (Salojarvi et al., 2005).

SMEs should all be able to improve their performance and competitive advantage through a more conscious and systematic knowledge.

A number of researchers have conducted empirical studies at the international level, to identify the relationship between knowledge management and organizational performance. One of these studies was to identify appropriate strategies to help businesses to invest and deploy resources as effectively as knowledge. The results of this study showed that organizational structure, knowledge acquisition, application and protection of knowledge is significantly related to organizational performance, technology, organizational culture and knowledge conversion as having a significant impact (Mills & Smith, 2011).

Given that the company is moving rapidly towards knowledge-based economy and organization, it is important to consider the extent to which companies and/or decision makers of SMEs are familiar with such concepts. In this regard, a study on SMEs in Romania, which it revealed that only 43.15% of SMEs knows the concept of knowledge-based business (CNIPMMR, 2010).

This percentage is extremely low considering the fact that one of the fundamental objectives laid down in the Lisbon summit the European Union to member countries is to

build knowledge-based economy by 2010, as shown in Figure 1.

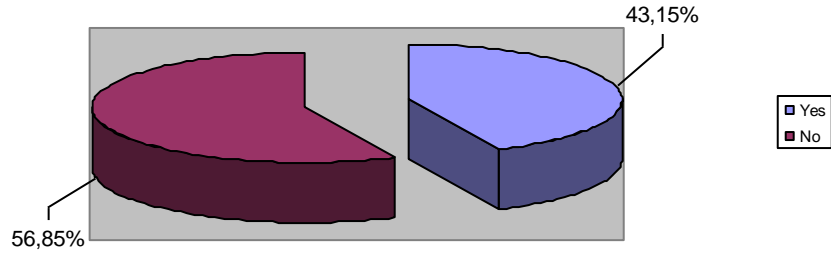


Figure 1. Frequency concepts of knowledge economy and knowledge-based organization SMEs in Romania

Source: adapted from CNIPMMR (2010), p. 192

If we classify firms according to their sizes, we see that awareness of the concepts of knowledge-based economy and organization increases with size, as can be seen in Figure 2.

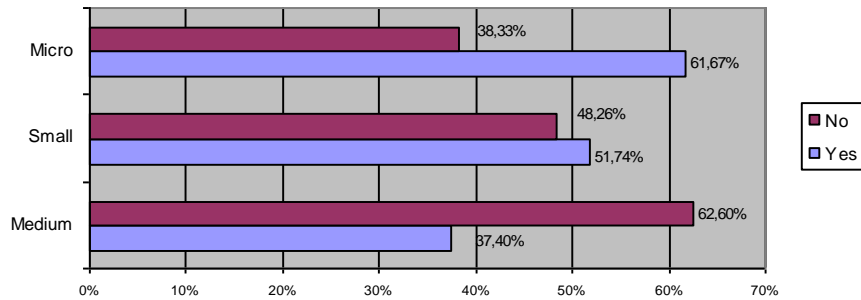


Figure 2. Frequency of knowledge of the concept of knowledge organization based on the size of SMEs

Source: adapted from CNIPMMR (2010), p. 193

If we distribute all the companies according to on domain activity, we find that the level of awareness of the concept of knowledge-based organization is the highest at SMEs in the services (51.35%) and lower in SMEs in Commerce (33.11%), as shown in Figure 3.

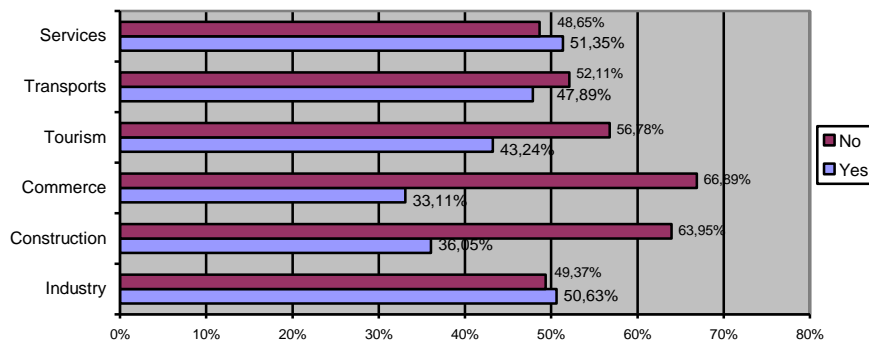


Figura 3. The frequency concept of knowledge organization based on knowledge of the branch in which SMEs operate

Source: adapted from CNIPMMR (2010), p. 194

Also study on SMEs in Romania has found a correlation between the overall performance of companies in 2009 compared to 2008 and level of education entrepreneurs, as can be seen in Figure 4.

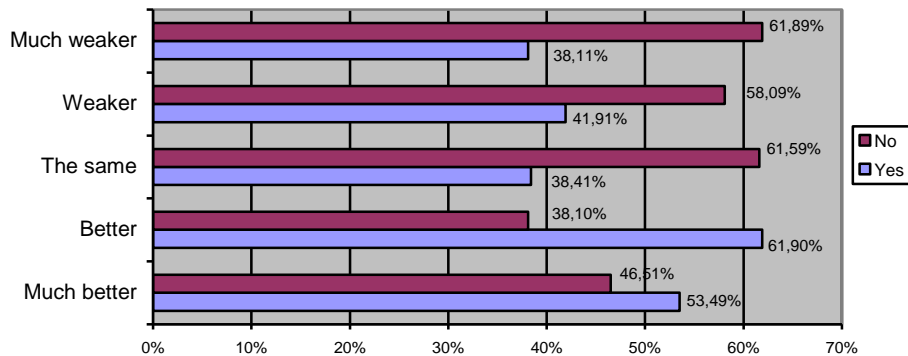


Figure 4. The correlation between the concept of knowledge organization based on knowledge and performance of SMEs in 2009 compared to 2008

Source: adapted from CNIPMMR (2010), p. 194

One can see that best performance occurred in SMEs where the notion of knowledge-based organization is best known.

Compared to large enterprises, SMEs have an advantage in terms of their structure for implementing knowledge management. SMEs have a simpler structure and fewer complexes which facilitate the change initiative at the enterprise level (Olaru & Stoleriu, 2008).

2. KNOWLEDGE MANAGEMENT IN SMES COMPARED WITH KNOWLEDGE MANAGEMENT IN LARGE COMPANIES

There has been much literature on the practise of knowledge management within large organisations and little information available on SMEs (small-to-medium-sized enterprises). This section aims to make a brief comparison between SMEs and large organisations. The comparison will primarily focus on the following:

2.1. Management

In SMEs, the managers are in most cases the owners, which imply that decisionmaking is centralized, and fewer layers of management. This means that decision-making is shorter than in large organizations (Ghobadian & Gallear, 1997). The advantage for the owners in SMEs, is that they become the key drivers for knowledge management implementations, assuming of course that they appreciate the importance of knowledge management. Another distinction to be made is that management of SMEs have to look after every aspect of the business which gives them limited time to focus on the strategic issues relating to knowledge management. Senior management in larger organisations in contrast have the power to delegate some of their responsibilities to lower management, thus freeing their time to focus on knowledge management strategies.

2.2. Structure

SMEs have an advantage over large enterprises in respect to their structure, in implementing knowledge management. 'They have a simple, flatter and less complex structure, which will facilitate a change initiative across the organisation since functional integration both horizontally and vertically is easier to achieve and fewer complications will be encountered' (Wong & Aspinwall, 2004). Whereas larger organisations have a bureaucratic structure, making them slower and less flexible in creating new schemes. One of the advantages that larger organisation have over SMEs is the level of specialization in their roles, which gives them better expertise in implementing knowledge management.

2.3. Culture

SMEs tend to have a more organic and fluid culture, than larger organizations (Ghobadian & Gallear, 1997). Smaller number of people are usually united under common beliefs and values, which implies that it easier for smaller organisations to change and implement knowledge management. It is easier to create a knowledge sharing culture in smaller organisation than in larger ones (Wong & Aspinwall, 2004). In smaller organisations the cultural values and beliefs of the employees can be influenced by the owners. This can be a problem if the owner does not trust his employees or does not encourage the culture of sharing and transferring knowledge. In this case, the owner can obstruct the development of knowledge rather than develop it.

2.4. Human resource

SMEs have a problem in attracting high calibre, experienced employees. These experienced people, tend to go to larger organisations, where they will be paid higher salaries and bonuses. Furthermore it also a problem for SMEs to retain, specialised employees, because of limited opportunities for career progression, and the constant appeal of larger organisations, who can provide better prospects. SMEs are mostly seen by some employee as a stepping-stone to move to larger organisation. The departure of highly knowledgeable employees is a major threat to SMEs, unless that knowledge is captured, codified, and transferred throughout the organisation.

CONCLUSIONS

In this paper we have analyzed the impact of Knowledge management on SMEs performance.

It would be wrong to assume that SMEs practice knowledge management in similar ways as larger organizations with the only difference being in magnitude or scale. We hope this article has opened up avenues for future research, by stressing some of the unique issues involved with managing knowledge at SMEs. Future research is needed to expand on our findings here, validate them across a larger sample, and even help improve the state-of-the art.

Compared to research on larger organizations, investigations into the intricacies of managing knowledge at smaller enterprises remain largely unexplored.

We hope this article has opened up avenues for future research, by stressing some of the unique issues involved with managing knowledge at SMEs.

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