

# Chapter 6

## Role and Room for Knowledge Management in Small and Medium Enterprises

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### ABSTRACT

*In the present day, success and worth of businesses depend more on intellectual capital. So, knowledge is a critical resource, for any organizational growth and sustainability. For small and medium enterprises (SMEs) the latent knowledge seen as the principal component for success often tends to be over guarded. That itself is sometimes detrimental to the SMEs growth. This outlook towards knowledge by SMEs has to undergo a change as there is vast room for knowledge management (KM). Abundant studies and research exist on KM, but the focus on SMEs is limited. Current scenario of globalization, technological advances, higher returns on intellectual capital, growing significance of knowledge-intensive industries makes KM a strategic and competitive tool for SME growth, sustainability, and development. KM is indispensable for successful and sustainable business in this contemporary complex economy. Thus, the overall aim of this study done by in-depth literature review and contextual analysis is to enhance the understanding of the role and room for KM in SMEs in this globalized world.*

### INTRODUCTION

In developing countries, a vast majority of SMEs are suffering from market failures due to insufficient provision for integrated, reliable, relevant and solution-oriented business information. SMEs need support for effective linking with global markets both for their inputs and outputs. Businesses leveraging knowledge resources can make decisions faster and closer to point of action (Baporikar, 2015). It also helps in mitigating risk, exploiting business opportunities and better understanding of market signals. Economic globalization and explosive growth in flow of information have transformed the basic tenets of small and medium enterprise (SME) development strategy. Protection, developmental initiatives in

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terms provision for infrastructure and credit and fiscal incentives are now proving to be less efficient and helpful in their sustainable growth. Structural changes and realignment in the economy, import liberalization, fierce competition and increasing quality consciousness make run-of-the-mill units less viable (Baporikar, (2014b)). While various researchers and vendors have developed and implemented Knowledge Management Strategy (KMS) for large organization, many SMEs still face the challenge of selecting affordable and suitable frameworks including strategies, tools, and methods to fit their needs. A successful KMS should not only impact a critical business process, but should also build the necessary momentum for innovation and growth. Thus for SME enterprise KMS must facilitate and contribute directly to innovations, organizational strategy, productivity, and bottom line. The study accessed the status of KM in SMEs and also examined the factors that influence the adoption of KM for SMEs with focus on developing countries. Many organizations have profited from KM because they recognize the importance of the KM in business growth and development. However the study found SMEs in general and SMEs in developing countries in specific have not realized this and hence, still vulnerable. The study takes this factor into consideration and proposes a KM approach specific to SMEs. The study contributes on KM and SMEs literature and hopefully aids the researchers and practioners specially in developing economies in recognizing and understanding the role and room for KM in SMEs in this globalized world.

## **BACKGROUND**

One of the most significant evolutions in the business environment over the past decade is the dawn of the new economy. In particular, the management of knowledge assets may provide small firms new tools for survival, growth and maintaining a sustainable competitive advantage (Omerzel & Antoncic, 2008). There is a general accord in business practices and academia on the fact that SMEs are falling behind large companies in developing KM practices and benefits of KM has not fully exploited by these firms. This is reflected in a literature gap where little research efforts have been carried out on this topic. There is abundance of literature describing how various large companies are successfully practicing KM, but the reasons why small firms show poor usage of KM tools are still unclear. In fact, little empirical studies have been conducted to identify the factors influencing KM adoption in SMEs (Finkl & Ploder, 2009). In addition, there is a growing need for qualitative analysis of the effects of knowledge management practices of networked SMEs (Valkokari & Helander, 2007). The potential which KM offers in improving efficiency and innovation has been cited as a key source of competitive advantage (MacKinnon et al., 2002).

KM is a field that consists of two important elements: either from the Information Technology (IT) and Information System (IS) research or from Strategic Knowledge Management perspectives. Alexander, Neyer. & Huizingh, (2016) elaborated the difference between 'Knowledge-based Management' and 'Strategic Knowledge Management' stating that the prior is technologically driven and dominated by 'hard' system theories. While the later, arises from softer theories such as Resource based theory (Barney 1991) and is particularly relevant for studies of dynamic capabilities (Teece, 2000). This particular research leans towards the soft theories defining strategic knowledge as resources that fits the valuable, rare, inimitable, non-substitutable, and is believed can be collectively organised for sustainable competitive advantages. These two elements of KM are illustrated by Ling (2011) as technology-centred KM strategy and people-centred KM strategy in their study testing the interaction effects of KM strategy on intellectual capital and global performance relationship. The technology centred KM strategy is IT-driven

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