

# Chapter 5

## Innovation and Inclusiveness Through Knowledge Management in Indian SMEs

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### ABSTRACT

*Small is the new big. Globally SMEs are taking a centre stage in the promotion of economic development to employment generation and women empowerment. The SMEs constitute over 90% of total enterprises in most of the economies. Due to changing global economic scenario SMEs are visualizing a ray of hope. On the other hand, due to fierce competition they are forced to work on competitive advantage for sustainable growth. Innovations are required to achieve competitiveness. and for Innovation requires proper Knowledge Management. Intellectual capital is a new buzz word. Globally organizations have acknowledged the importance of knowledge workers and their knowledge. Many SMEs have also realized the importance of Knowledge Management and implemented it successfully, while some are working on it.*

### INTRODUCTION

Small is the new big—Globally SMEs are taking a centre stage in the promotion of economic development to employment generation and women empowerment. The SMEs constitute over 90% of total enterprises in most of the economies. Due to changing global economic scenario SMEs are visualizing a ray of hope. On the other hand due to fierce competition they are forced to work on competitive advantage for sustainable growth. Innovations are required to achieve competitiveness. and for Innovation requires proper Knowledge Management. Intellectual capital is a new buzz word. Globally organizations has acknowledged the importance of knowledge workers and their knowledge. Many SMEs have also realized the importance of Knowledge Management and implemented it successfully, while some are working on it.

This chapter focuses mainly on Indian SMEs (Small and Medium Enterprises) for discussion specifically because of two main reasons. Firstly India has nearly three million SMEs, which account for almost 50 percent of industrial output and 42 percent of India's total exports. They are the second biggest employ-

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ment generators after agriculture. These account for 50 percent of private sector employment and 30 to 40 percent of value-addition in manufacturing. Secondly as a result of globalization and liberalization, coupled with WTO regime, SMEs have been passing through a transitional period. Today the SMEs are facing certain sustainability challenges in the form of poor financial resources, low R&D, lack of skilled human capital, lack of apt leadership and consultancy, lack of latest technological up-gradations.

Government was and is putting efforts to promote and foster the growth of SMEs with the help of certain initiatives. The Government's vision is every indication that the SME sector is set to witness incredible growth in the years to come. To come out of this impending scenario the SMEs has to put much emphasis on creation of Innovative quality products at cheaper cost. Knowledge Management is the activity or initiative that any organization puts in place to enable and facilitate creation, sharing and use of knowledge for organizational benefit.

The chapter focuses on Knowledge Management in SMEs mainly from perspective of innovation and organisational learning.

## **BACKGROUND**

The global economic scenario has become very dynamic. Small and medium enterprises (SMEs) have started acting as a catalyst in boosting up economies of the developing countries. Developing countries are getting benefited from their SMEs. This importance of Small and medium enterprises (SMEs) has started gaining because the large firms are getting attracted more towards working on downsizing and outsourcing strategies of functions. The outcome of this downsizing and outsourcing strategies is that people has started taking a path of entrepreneurship for their earnings. Apart from this the new generation are the flag bearer of "Sense of Achievement" perception. All this and many other factors has increased the scope of entrepreneurship. For the SMEs, being active on the market means to be known, to be visible among others, and to become the first option for their clients in the purchase (Epure, Lianu & Epure, 2009). To combat the fierce competition and to accomplish sustainable growth Small and medium enterprises (SMEs) are using Knowledge Management as competitive advantage strategy. In order to cope with the current external opportunities and threats, it is argued that organizations have to acquire new knowledge and skills that will improve their existing and future performance (Shiaw-Tong Haa et.al 2015; Child, Faulkner, & Tallman, 2005; DiBella, 1998; Ortenblad, 2001). The major competitive advantage of a firm lies in its knowledge (Lee & Lan, 2011; Liu & Deng, 2015; Bell, 1973; Nonaka, 1994). But for the success of this strategy one has to acknowledge the importance of knowledge workers and their knowledge. Business enterprises today are mostly practicing Knowledge Management as an essential input of all business activities to ensure a high standards of business performance and accomplishments (Moffett et. Al, 2002). Knowledge Management is rapidly become an integral business activity for business enterprises as they realize the competitiveness around decision makers knowledge (Grover & Davenport, 2002). This has motivated the researchers, academicians and business strategist to study the importance of knowledge creation and its impact on the economic growth, business growth and sustainability. Some researchers had successfully found the correlation between Business growth and the Knowledge Management practices. Higher the growth of the firm, higher the practicing of Knowledge Management will be (Salojarvi et al, 2005). On the other hand Small and medium enterprises (SMEs) are constantly coming across the various challenges like technological evolution, shorter product life cycles, increase of players in the market (Lin, Che, Ting, 2011; Plessis 2007) which expects them to

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