

## Chapter 6.15

# Small Business Transformation Through Knowledge Management

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### INTRODUCTION

In the last decade, the importance of knowledge as a source of sustainable competitive advantage has gained widespread acceptance. Business practitioners and academics alike recognize that what is “between the ears” (Tiwana, 2000) of their employees represents the source of creativity and innovation that nourishes and sustains the organization. Furthermore, the ability to harness the intellectual capital in an organization probably represents the most important aspect relating to the creation of an intelligent enterprise.

However, most research on the topic of knowledge management (KM) and intellectual capital has focused on larger organizations. Because small businesses account for a major portion of

the total number of businesses, jobs, and growth in many world economies (Wong & Radcliff, 2000), it is important to understand the impact of knowledge management on small businesses as well. We need to understand the correlation between knowledge management practices, the ability of a small business to transform itself into an intelligent enterprise and any resulting performance or competitive improvements KM may provide.

Because a “build it and they will come” approach to knowledge management usually does not work, this article discusses and integrates the concepts of adoption and diffusion of innovations with knowledge management theories to help transform a small business into an intelligent enterprise. The ultimate goal of this chapter is

to provide small businesses with some consistent theories and practices that may help improve their competitiveness in a turbulent world.

## **KNOWLEDGE MANAGEMENT IN SMALL BUSINESS**

### **What is Knowledge Management?**

Karl Wigg is credited with coining the term “knowledge management” (KM) at a 1986 Swiss Conference sponsored by the United Nations International Labor Organization. He defined KM as “the systematic, explicit, and deliberate building, renewal, and application of knowledge to maximize an enterprise’s knowledge-related effectiveness and returns from its knowledge assets” (Wigg, 1999). Thus, KM represents an organization’s ability to capture, organize, and disseminate knowledge to help create and maintain competitive advantage. It is becoming widely accepted as a key part of the strategy to use expertise to create a sustainable competitive advantage in today’s business environment. It enables the organization to maintain or improve organizational performance based on experience and knowledge. It also makes this knowledge available to organizational decision-makers and for organizational activities (Beckman, 1999; Pan & Scarbrough, 1999). Therefore, we can assert that knowledge management represents a key strategy in creating and sustaining an intelligent enterprise, capable of outperforming its competitors.

### **Using KM in Small Business**

Why is it important for small businesses to use knowledge management to become “learning organizations” or “intelligent enterprises”? According to Wong et al. (1997), “Many of the factors which have promoted the growth of SMEs also require their managers to acquire new skills.

In fast-growing small firms, the management team will be constantly developing and the skills needed will change as both cause and effect of the development of the firm itself.” The bottom line is that for a small business to succeed and thrive in a changing world, it must continually learn and adapt better and faster than its competitors. Knowledge management provides the tools and strategies to achieve this (Anderson & Boocock, 2002).

Guimaraes (2000) further suggests that small businesses face greater pressures from chains owned by large corporations, increased regulations and politics, and greater competition due to increasing business globalization. He asserts that innovation, facilitated by knowledge management, may be the key to their survival and success in difficult times. Chaston et al. (2001) support this view in their statement: “Organizational learning [knowledge management] is increasingly being mentioned in the literature as a mechanism for assisting small firm survival”. It is “the most effective and practical way through which to increase Small and Medium-Size Enterprise (SME) sector survival rates during the early years of the new millennium”. They contend that by assisting employees and facilitating their learning and knowledge sharing, they can creatively develop new products, better and more efficient processes, and identify new ways of building better relationships with customers. Thus, it appears that knowledge management techniques of acquiring, sharing and effectively using knowledge may represent a crucial means of transforming a small business into an intelligent enterprise, resulting in improved performance by facilitating innovation, idea creation, and operating efficiencies.

### **Influence of Adoption and Diffusion**

How do adoption and diffusion factors influence KM in small businesses and their goal of becoming an intelligent enterprise? By understanding

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