

## Chapter 7.2

# Managing Knowledge in SMEs: What are Some Peculiarities?

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### ABSTRACT

In this chapter we discuss seven peculiarities about knowledge management practices at small-to medium-sized enterprises (SMEs). We draw our findings from a nine-month investigation of knowledge management practices at 25 SMEs. Managing knowledge is a critical capability for 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. In our research, we discovered that SMEs do not manage knowledge the same way as larger organizations do. Viewing SME knowledge management

practices as scaled down versions of the practices found in larger organizations is incorrect. SMEs have understandable resource constraints, and hence have to be creative in working around these limitations in order to manage knowledge. Therefore, the goal of this chapter is to describe peculiarities in SME knowledge management practices, with the hope of enticing scholars and practitioners to follow-up with more detailed research undertakings.

### 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% of enterprises in a nation, and are responsible for

employing 60-70% of the workforce (OECD, 2000, 2002). In Asia-Pacific Economic Cooperation (APEC) member economies, SMEs make up 90% of enterprises and employ between 32 and 84% of the workforce of individual APEC economies (APEC Committee on Trade and Investment, 2004). In the United Kingdom, more than 95 % of all businesses are SMEs; they employ nearly 65% of the workforce, and account for 25% of the gross domestic product (Ballantine, Levy, & Powell, 1998). Statistics on the prominence of SMEs are equally impressive in other countries. For instance, in Australia, SMEs provide 96% of all employment, and in New Zealand, SMEs produce 35% of the national economic output (ABS, 2002; MOED, 2000). With these enticing statistics, management scholars cannot ignore SMEs as a viable and interesting research space.

All SMEs start out with the *S*, small, and then through tireless efforts, struggles, and victories, they get to *M*, medium. If their success continues, SMEs will become larger, expand in scope and reach, and become dominant players in their industries. The success of a small business or an SME can be linked to how well they manage their knowledge (Brush, 1992; Brush & Vanderwerf, 1992; Dollinger, 1984, 1985). In this chapter, we use the term to knowledge to represent 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; Desouza & 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 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. 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 that 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.

Besides, using the knowledge directly, the owner of SMEs must also transfer knowledge to his/her employees. Seldom do SMEs have the capabilities to recruit the best minds in the business; hence they must settle for less qualified but motivated individuals. These individuals must be trained and taught how to be successful employees. Training calls for transferring knowledge to the new hires, a function of knowledge management. Moreover, in cases where the SME has plans of expansions, they must be able to duplicate knowledge and the apply knowledge across geographic locations. In one restaurant that we studied, the owner spent three years training his protégé about the ins and outs of managing a restaurant before he decided to open a new location.

In the final analysis, SMEs are judged by the external world, such as lending institutions, investors, suppliers, and customers, on their knowledge and knowledge-exploitation capabilities. The external world puts a burden on the SME to show the depth of their expertise, and their capabilities in leveraging this know-how. Many large companies who have thoughts of buying out smaller enterprises do so because of their know-how. Even if an SME is not brought out, and decides

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