Chapter 5
Knowledge Management Process and Organizational Performance in SMEs

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ABSTRACT
The benefits of knowledge management are recognized mainly for the large organization. Small and medium-sized enterprises (SMEs) can also achieve the real benefits of KM. This paper investigates the relationship between the KM process and the organizational performance of SMEs. The objective of this paper is to assess the KM process and its relationship to different components of organizational performance in small and medium enterprise application service providers in Thailand. A survey approach was used with a sample of 81 respondents. The results show that knowledge organization, and retention and knowledge utilization improve individual performance, product performance, and overall organizational performance. Only knowledge organization and retention increases process performance. Knowledge dissemination influences customer satisfaction and reputation and cost reduction. These results demonstrate the benefits of the KM practices on the organizational performance in SMEs.

INTRODUCTION
Knowledge management is defined as the competitive capabilities that an organization uses to create value in its process, product, and service (Martensson, 2000). There are an increasing number of KM studies. However, KM research in SMEs is limited. Most are focused on the KM of SMEs in developed countries. KM in SMEs differs from that in a large organization (Lim & Klobas, 2000; Wong & Aspinwal, 2004). The specific characteristics of SMEs require a unique application of KM. The principles that apply to large organizations cannot easily be scaled down and transferred to SMEs. There is a need for research on practical approaches of KM in SMEs especially in developing countries.

There is also little research on the relationship between the KM process and organizational performance (Hong & Kim, 2002). SME executives
who would like to adopt KM need evidence that the KM process will increase performance. This paper will explore the impact of the KM process on different components of organizational performance in SMEs.

The context of this study is the growing enterprise software market in Thailand. The value of this market has increased by almost 18% in 2007, to 1,776.40 million US dollars (Software Industry Promotion Agency, 2007). Enterprise application service providers are consulting companies providing complete professional services for enterprise applications such as ERP, CRM, and SCM systems. There are two types of organization in this business sector. One is the enterprise application business partner which forms an alliance with the application owner to sell and implement the system. Another is the self-developer who designs, sells, and implements its own applications. Some are Thai owned companies while others are subsidiaries of multinational companies. They are knowledge-intensive organizations which use KM as a core competence for continuous innovation (Dingsoyr & Royrvik, 2003). They are also project-based organizations which determine their service delivery.

This paper begins with the theoretical framework for KM related to SMEs, followed by the research methodology. The next section presents the analysis and discussion. The managerial implications and the conclusions are presented in the last section.

BACKGROUND

Knowledge Management and SMEs

Knowledge management is usually adopted by large organizations because they have a wide range of knowledge available. Large organizations have sufficient resources and capabilities for KM adoption. They have the technical competence and social processes necessary for the effectiveness of a KM system (Kim et al., 2003; Gandhi, 2004). However, the organization culture in large organizations to support KM is difficult to change because of the inertia related to size. The adoption of KM often causes employee resistance or turnover.

SMEs need a competitive advantage in a dynamic business environment (Huin, 2004). They require employees to be able transform individual knowledge to become organizational knowledge as well as to apply and create new knowledge for better business results.

Research on SMEs has suggested the potential of adopting KM and identified the current applicable KM practices. There are major differences in the perspectives and understanding of KM adopted by SMEs (Wong & Aspinwall, 2004; McAdam & Reid, 2001). Knowledge management in SMEs is usually at the operational level and relates to daily working activities (uit Beijerse, 2000; Disterer, 2002). Many SMEs do not have formal KM practices (Salojarvi et al., 2005). Limited resources are the main reason why SMEs do not adopt a formal and systematic KM system. The capabilities of SMEs in generating new knowledge internally, scanning the industry environment, or maintaining organizational knowledge repositories are limited (Muzyks et al., 1997; Lim & Klobas, 2000). However, SMEs have some advantages in KM adoption (Wong & Aspinwall, 2004). For example, an informal communication environment supports SMEs to capture tacit knowledge they have more effectively (Salojarvi et al., 2005).

Knowledge Management Process

In this study, the KM process relates to the integration of active enterprise-wide practices to manage knowledge beginning with creating or acquiring business knowledge from both internal and external sources. Value is added by categorizing and storing knowledge to make it accessible. Communication infrastructure supports knowledge flow within and between organizations to