Chapter 1

Knowledge Management in Small and Medium Enterprises

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ABSTRACT

Today, success and worth of a business depend more on intellectual capital than physical capital. Hence, knowledge that exists within an organization is a sustainable source of competitive advantage, which makes Knowledge Management (KM) a critical input in the growth of any organization and more so in the case of Small and Medium Enterprises (SMEs). Even though much has been researched and written on the subject of knowledge management in large and multinational organizations, very little focus and research has been done on KM in SMEs. Globalization of supply chains, rapid technological advances, superior returns on intellectual capital, and the growing importance of knowledge-intensive industries make KM a strategic tool in the growth and success of all businesses. Access and integration of SMEs with regional, national, and international supply chains require bridging the gaps between the requirements of supply chains and efficiency of SMEs’ KM systems. KM-enabled SMEs are essential for competitive and sustainable growth. Hence, a judicious approach for KM in SMEs is a must in the current scenario. The overall mission of this chapter is to aid researchers in recognizing and understanding the knowledge management spectrum for small and medium enterprises in a globalized world. This would be indispensable for successful goal attainment and sustainable business in a contemporary complex economy.

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. 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 Scale Industry (SSI) development strategy followed since independence. Protection, developmental initiatives in terms provision for infrastructure and credit and

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fiscal incentives are now proving to be less efficient and helpful in sustainable growth of SSI units. Structural changes and realignment in the economy, import liberalization, fierce competition and increasing quality consciousness make run-of-the-mill units less viable.

While various researchers and vendors have developed and implemented specialist Knowledge Management Strategy (KMS) for large organization, many small and medium enterprise (SME) organizations still face the challenge of selecting affordable frameworks including strategies, tools, and methods, which fit their objectives and needs as SMEs and then successfully implementing such frameworks. A successful KMS should not only impact a critical business process, but should also build the necessary momentum to create Innovation embed KMS (IeKMS) for SME enterprise - one where KMS contributes 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 importance 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 practitioners specially in developing economies in recognizing and understanding the knowledge management spectrum for small and medium enterprises in a globalized world.

BACKGROUND

One of the most significant evolutions in the business environment over the past decade is the dawn of the new economy. The velocity and dynamic nature of markets has created a competitive incentive among many companies to leverage their knowledge assets as a means of creating value and achieving a competitive edge. The focus on knowledge management (KM) is a critical area also for small and medium sized enterprises (SMEs). In particular, the management of knowledge assets may provide small firms new tools for survival, growth and maintaining a sustainable competitive advantage (Omerzel and Antoncic, 2008). There is a general consensus 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. Indeed, to date, there is an 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 and Ploder, 2009). In addition, there is a growing need for qualitative analysis of the effects of knowledge management practices of networked SMEs (Valkokari and 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). Despite this pressing need, it is widely accepted that small companies – even the most knowledge-intensive ones – are characterized by a lack of uptake of KM initiatives (Nunes et al., 2006). Perhaps due to the reason that KM systems are expensive to purchase, use and maintain. The aim of this study was to propose an alternative approach to developing KM systems for SMEs in developing economies. Instead of usual approaches, where KM needs heavy financial and other resources, study suggested solution centric approach (Patrick & Dotsika, 2007).

Small and medium enterprises (SMEs) make substantial contributions to national economies and are estimated to account for 80 percent of global economic growth (Pavic et al., 2007). Today