

# IMPROVING SME'S PERFORMANCE THROUGH IMPLEMENTATION OF KNOWLEDGE MANAGEMENT: THEORETICAL AND EMPIRICAL REVIEW

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## ABSTRACT

Small and Medium Enterprises (SMEs) have a significant role in national economic development, so SMEs must pay attention to the performance of their businesses in order to survive and excel in competition. Improvement of SME performance is determined by the paradigm that initially relies on resource-based competitiveness into knowledge-based competitiveness through the role of leader support, employee training and learning opportunities, knowledge sharing processes, availability of ICT infrastructure, incentives, mutation or job rotation programs, skills and knowledge technology, knowledge sharing technology, and communication technology.

**Keywords:** Knowledge management and SME performance.

## INTRODUCTION

Small and Medium Enterprises (SMEs) have a significant role in national economic development, this can be seen from its contribution to Indonesia's Gross Domestic Product (GDP) which continues to increase every year. Based on the results of surveys and calculations by the Central Statistics Agency, the total contribution of SMEs to the national gross domestic product (GDP) this year could reach 65% or around Rp2,394.5 trillion. Besides that, SMEs was able to open new jobs. However, the development of SMEs must be accompanied by the development of HR (Human Resources) through HR competencies in entrepreneurship. Human resource competence can consist of knowledge, skills and behavior tailored to the field of work needed by the organization, so as to produce employee performance. (Dessler, 2000).

The rapid development of the number of SMEs requires SMEs to be able to survive and be ready to compete with other SMEs. SMEs must pay attention to the performance of their businesses in order to survive and excel in the competition. The performance of SMEs is influenced by many factors both positively and negatively. The success or failure of small and medium-sized businesses results in part from how entrepreneurs think in planning their business strategies (Singh & Pathak, 2013). Various aspects of entrepreneurial behavior have different effects on business performance and the organization must recognize the importance of managing and utilizing the knowledge of each individual in the organization as an organizational asset. Knowledge management has been going on since the foundation of an organization (Birkinsaw, 2001). Quality Human Resources is a major factor in achieving the performance objectives of SMEs

In the RBV theory it is said that knowledge is the main asset other than the intangible in an organization. Knowledge is a major resource and has an important role in achieving sustainable competitive advantage and achieving performance. As one of the competitive assets, knowledge must be possessed by each individual to be able to develop skills, so that through the acquisition of knowledge and skills individuals can manage their own careers. Therefore knowledge must be managed through a knowledge management system.

Knowledge management is the process of creating, acquiring, understanding, sharing, and using knowledge, wherever the knowledge is located to improve learning and organizational performance (Scarborough et al, 1999), including identification, creation, acquisition, transfer, sharing, and exploitation of knowledge (Chyntia et al., 2005). Knowledge management is an important component in business strategy (Iyer and Ravindran, 2009), because the value of HR becomes increasingly important for an organization's competitive advantage. With knowledge management core and organizational competencies can be centralized and developed (Choong and Wong, 2010), which covers aspects of the organization's core business processes in improving organizational effectiveness (Chen and Hatzakis, 2008).

Based on the description above this article examines the role of knowledge management in improving organizational performance, especially those based on entrepreneurship.

### **Theoretical Study SME Performance**

The success and success of managing an SME can refer to the performance achieved by the SME concerned. The performance of SMEs is influenced by many factors both positively and negatively. The success or failure of small and medium-sized businesses results in part from how entrepreneurs think in planning their business strategies (Singh & Pathak, 2013). Various aspects of entrepreneurial behavior have different effects on business performance. Entrepreneurs play an important role for the success and sustainability of their business lives. One dimension that is considered appropriate for measuring SME performance is operational performance (Bayraktar et al., 2009) namely: reduction of waiting time in production, forecasting accuracy, better planning of resources, better operational efficiency, reduced inventory levels, cost savings and more accurate financing. SME performance can be measured through: financial performance, customer loyalty, customer satisfaction, customer sustainability, and the performance received (Mahmmod et al., 2013). Measurement of business performance with an objective approach that is measured through economic performance or financial performance include: ROI, profit, sales, revenue growth, market share (Spillan and Parnell, 2006; Baker and Sinkula, 2009; Poudel et al., 2012; Dubihlela and Dhurup, 2014).

### ***Knowledge Management***

Knowledge Management is a way for companies to identify, create, represent, distribute, and enable the adaptation of insight and experience. Such insight and experience consists of knowledge, both those possessed by individuals as well as the knowledge inherent in the company's processes or standard procedures. The main purpose of Knowledge Management is to effectively maintain and transfer important knowledge to employees. According to King (2009), knowledge management is a planning, organizing, motivating, and supervising people, processes and systems in an organization to ensure that assets and potential associated with knowledge can

be used effectively and can also be increased . Knowledge management involves various issues in the world of management, this happens because of the transformation of the economic system, the transformation is in the form of a productive economic system for a society based on knowledge. Knowledge is considered as an important asset along with other resources such as land, employment and capital (Nonaka, 2006).

According to Young (2003) knowledge management is a creation and management of the work environment, which in turn will encourage the creation of knowledge that will be created, shared, studied, improved, organized and utilized for the benefit of the organization or company. This definition assumes that knowledge cannot be created by the company, but the company can only optimize the value of the knowledge possessed by employees through a management. A company that runs and develops is one of the signs of the success of knowledge management. Besides Knowledge Management is a process that transforms individual knowledge into organizational knowledge (Rasula et al., 2012).

In its implementation, the knowledge accumulated within an organization can be utilized and used as a tool to find solutions to the problems being faced by the organization concerned. In addition, this knowledge can also be used to create new ideas and to improve ideas that already exist in the organization. Therefore, if not managed properly within a structured knowledge management framework, knowledge whose role is very important in this organization will not be able to bring improvement and certainly will not be able to also make the organization survive in the current era of globalization.

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Based on these definitions it can be concluded knowledge management is a set of business processes developed in organizations to create, store, facilitate, and apply knowledge. Knowledge management enhances the company's ability to study the surrounding environment and apply that knowledge in its business processes. The application of knowledge management will support the development of knowledge from employees over time, so we need a strategy to manage knowledge resources to be able to support the achievement of this.

### **Relationship between Knowledge Management and SME's Performance**

The knowledge-based resource view is an approach to understanding the relationship between organizational capabilities and organizational performance. Knowledge-based resource theory states that knowledge is the most strategically significant as an enterprise resource. Knowledge-based resources are usually difficult to emulate by other organizations and as a source of competitive advantage. The strategy of implementing Knowledge Management can be done

through two approaches, namely from the external and internal aspects. From the external side, the role carried out by the government is to carry out sustainable development, a comparative study of neighboring countries that has succeeded in developing SMEs, facilitating the dissemination of knowledge transfer, provision of information technology facilities and assisting SMEs in building networks. solutions that can be implemented easily face this challenge. One way is to create competitiveness through the application of knowledge management in SMEs. According to (Kosasih and Budiani, 2007)

In SMEs, one can identify two types of knowledge: 1) Knowledge embedded in products (artifacts), because this is the result of highly intellectual creative activities, 2) Knowledge, namely knowledge of the product and its process (Allawneh, 2009 ). According to a review conducted by Thorpe, et al (2005), research on KM in the context of SMEs can be broken down into three different fields: (1) SME managers or knowledgeable entrepreneurs; (2) knowledge systems and routines that are embedded in the context of companies and their direct networks; And (3) institutional and policy framework intended to support knowledge production among SMEs. Desouza and Awazu in Evangelista et al. (2010) discuss five main peculiarities that distinguish knowledge management practices in SMEs and large companies: 1). In SMEs there is a lack of an explicit knowledge warehouse. Instead, each manager / owner acts as a storehouse of knowledge. 2). General knowledge possessed by members of SMEs is very deep and broad. This general knowledge helps in organizing work by reducing the issues of knowledge transfer, flavor making, and application. 3) SMEs by their nature and because of the deliberate mechanism are very skilled in avoiding the traps of lost knowledge. 4) SMEs have the ability to utilize foreign sources of knowledge. Due to limited resources, and unable to spend a lot of effort creating knowledge, they look outside the organization for knowledge. 5) SMEs consciously or unconsciously, manage knowledge the right way - humanistic way.

Improved performance supported by the practice of knowledge management in organizations has been proposed by Stankosky (2005) and conducted previous research by Edwards et al. (2005) which shows that the successful implementation of knowledge management requires the integration of the four pillars of knowledge management, namely leadership, learning, organizational structure, and technology. Knowledge management factors are tools to improve the performance of both public and private organizations. On the other hand, Edwards, et al. (2005) identified people solutions, process solutions and technological solutions as KM elements that can influence organizational performance improvement. People solutions include employee motivation, training and networking. Process solutions refer to good instruction processes, bookkeeping procedure guides, internal communication, and knowledge sharing processes. Whereas Technological solutions consider effective use of databases and internet access.

Based on research indicators conducted by Chong, et al. (2011) there are nine supporting factors of knowledge management that influence organizational performance improvement, namely: leader support, training and work opportunities for employees, knowledge sharing processes, availability of ICT infrastructure, incentives, job rotation or job rotation programs, skills and knowledge of technology, technology share knowledge, and communication technology. The leader support factor is part of the knowledge management enabler that can create a process of sharing knowledge between leaders and their employees. If the process of sharing knowledge goes well, it will improve the performance of the Organization.

The implementation of knowledge management in improving the performance of SMEs has been conducted by several researchers Megantoro et al., (2014) concluded that knowledge management is a management tool that can be used to support the achievement of organizational goals and demonstrate competitive advantage so as to create good organizational performance. Daud & wan Yusuf (2008), revealed that the knowledge management process has a significant relationship with organizational performance, where knowledge acquisition is the main process that contributes to organizational performance. Knowledge acquisition consists of gathering, creating, acquiring, producing, capturing and collaborating new knowledge activities. Because of their small size, SMEs have the opportunity to gain direct and faster knowledge about competitors' actions, market trends and other developments.

In the research of Syed & Lin (2013), the need for knowledge management begins when knowledge is created and then shared. Empirical evidence presented here shows that sharing knowledge, building consistent processes and managing core competencies are the most important knowledge management practices, in this study knowledge management has a significant impact on company performance. Companies that facilitate good knowledge management and promote effective knowledge practices will have a competitive advantage in the future, thereby increasing the performance of SMEs

## **CONCLUSION**

Indonesia is a developing country, and SMEs have a contribution to the national economy, this is because SMEs are proven capable of living and developing when the crisis hit Indonesia. The development of SMEs is very much determined by the paradigm that initially relies on resource-based competitiveness into knowledge-based competitiveness.

Knowledge Management can be adopted to SMEs provided that they have knowledge-based management and use of Information Technology. While the factors that influence the implementation of knowledge management can adopt the indicators that have been done by Chong, et al. (2011) there are nine supporting factors of knowledge management that influence the improvement of SME performance, namely: leader support, training and work opportunities for employees, knowledge sharing processes, availability of ICT infrastructure, incentives, job rotation or job rotation programs, skills and knowledge of technology, technology share knowledge, and communication technology.

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