CHAPTER 1

Introduction

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1.1 Research Background

Small and Medium Enterprises (SMEs) play a pivotal role in the economy of both developed and developing countries. SMEs improve domestic production, export earnings, promote employment generation, and contribute effectively to foreign exchange earnings with low overhead on imports (DST Report, 2012). According to SMB Chamber of Commerce and the Ministry of Micro, Small, and Medium Enterprises, SMEs in India have witnessed aggressive growth in the last decade. As of recent estimates, around 48 million SMEs are operational in India. This sector plays a major role in the growth of Indian economy, contributing around 8% to Gross Domestic Product (GDP), having more than 40% share in product output, producing over 8000 value-added products, and contributing nearly 45% of the overall export from the country (Jaswal, S.S., 2014). SMEs are considered as one of the biggest employment generating sectors after agriculture, providing 1.3 million jobs every year (Aluvala, R., 2014).

SMEs drew more attention than before from government of India in 2014. A fund of Rs. 10,000 crores earmarked from the Union Budget of 2014-15, act as a catalyst for the MSME sector (Union Budget, 2014-15). The Micro, Small & Medium Enterprises Development Act, 2006 (MSME, Govt. of India), of Government of India gave a clear developmental vision to state governments to setting up industrial policies which are region specific to promote this sector. The MSME ministry also has schemes for technology up-gradation, establishing mini tool rooms, creating market linkages, ER development programs, and so on, to enhance the competitiveness of the MSME sector. Apart from the UP, Maharashtra, Tamil Nadu, West Bengal, and Andhra Pradesh, the state of Karnataka is one of the major states of India for MSME businesses (KSMBOA, Karnataka).

According to Davidson, P. & Griffin, R.W., (2003), small businesses have contributed many innovative ideas and technological breakthroughs to the society. Nazi’s, (2005) study on the issue of attracting high caliber and experienced employees to SMEs, points out there is an increased tendency among people to join larger organizations, for better career prospects. Retaining specialized employees is another key challenge in SMEs, because of limited opportunities for career progression (NA Razak et. al., 2013). Adding
to these issues, SMEs lack explicit knowledge repositories; each manager/owner works as a knowledge bank. The time is apt to exploit the existence of common knowledge among employees and focus on knowledge transfer, sense making, and application. Practicing Knowledge Management (KM) has become essential requirement to address knowledge loss problem and facilitate knowledge banking in SMEs.

1.2 Knowledge Management

The KM is a process through which knowledge creation, acquisition & sharing takes place. It is used to enhance learning and performance of an organization (Scarborough H., Swan J. & Preston J., 1999). Knowledge management is essential to enhance creativity and entrepreneurship building, helps in change management, and staff empowerment (Nonaka, I. & Takeuchi, H., 1995). With decreased product life cycles, environmental complexity and increased volatility, the need to manage knowledge is intensifying, particularly across the value chain (Nonaka, I. & Takeuchi, H., 1995). The literature on knowledge management delineates two prominent types of knowledge namely tacit and explicit. (Polanyi, M., 1969; Nonaka I., 1994). Tacit knowledge is hidden, which requires sophisticated techniques to capture, whereas explicit knowledge can be expressed in words, numbers, formulae, specifications, manuals, etc.

Even though, the term knowledge management implies managing the knowledge, but the primary focus is devising a process for maintaining the essential knowledge for the future growth of an organization. The KM empowers employee by making necessary knowledge available at the right time.

People are the organization’s most precious resource; knowledge management is based on the experience of people. Review of literature shows there is an increased interest among organizations over knowledge consciousness. Knowledge management has become important mechanism, which identifies involvement of knowledge in various job profiles and qualifies a staff as a knowledge worker rather than an employee who works with routine skills. It implies that every person in an organization should work for creating and sharing the knowledge.
Through the KM, knowledge assets can be effectively used to generate intellectual value in an organization. Growing interest in knowledge management systems helps the organizations to transform the knowledge into a planned corporate asset that needs to be generated, maintained, retained, updated, disseminated and applied to the future problems of the organization (Drucker, P.F., 1994). KM is seen from a different perspective by various researchers.

Some of the definitions on the KM available from the literature are listed below;

Nonaka, I. & Takeuchi, (1995) “The capability of an organization to create new knowledge, disseminate it all over the organization and symbolize it in terms of products, services, and quality.”

Skyrme, D.J. (1997) “Knowledge management is the explicit and systematic management of critical knowledge and its related aspects of creating, gathering, organizing, diffusion, use, and exploitation. It requires converting personal knowledge into corporate knowledge that can be widely shared throughout the organization and properly applied.”

Allee, V., (1997) “KM is a process of managing knowledge for efficient decision-making process thus, creating value for all its stakeholders.”

Davenport T.H., (1998) “KM is managing the organization knowledge base through the systematic and scientific process for acquiring, organizing, sustaining, applying, sharing, and renewing both the tacit and explicit knowledge of employees.”

Ermine J.L, (2000) “KM is defined as the management of organizational knowledge.”

Gupta, B., et al.(2000) “KM is an organization-wide approach that helps the organization to identify, accept, organize, and transfer knowledge that will help improves day-to-day transactions.”
Based on the above definitions, the Knowledge Management can be defined as “The conglomerate of art, science and technology to make the best use of available organizational knowledge.”
1.3 Knowledge Management in SMEs

Like any other large enterprises and global industries, SMEs equally have to face challenges in the liberalized and globalized industrial scenario. The creation of intellectual competencies is an important outcome of knowledge management. The superior products are the outcomes of accumulated skills and knowledge, which was refined over time. The intellectual capital enables a company to explore competitive advantage with its customers.

According to Pirnea I.C. et al., (2011) some of the advantages SMEs have over large enterprises to implement the KM practices are;

✓ Most of the SMEs have centralized decision-making system, due to managers being the owners.

✓ Time to take a decision is shorter compared to large organizations since it is less formal in nature.

✓ SMEs have a simple, flatter and less complex structure that facilitates easier change management.

✓ The homogeneous and demographic culture in SMEs unites the people under common beliefs and values.

✓ There exists broad common knowledge possessed by members of the SMEs.

Even though, SMEs lack explicit knowledge repositories, the manager/owner works like a knowledge bank; the existence of common knowledge helps the organizations to easily do knowledge transfer; most commonly SMEs follow the humanistic way to manage knowledge, which is the right way (Desouza & Awazu, 2006). Thorpe et al., (2005) suggests that SMEs will make use of their own institutional and policy frameworks to support knowledge production. Wong (2005) proposed a comprehensive model with eleven essential factors for knowledge management in SMEs such as leadership and
support, Culture, Strategy and purpose, Organizational infrastructure, Motivational factors, and so on.


1.4 Motivations for the Study

The creation of intellectual competencies' is an important outcome of knowledge management. The intellectual capital is the key enabler for SME to explore competitive advantage with its targeted customers (Cohen, S., & Kaimenakis, N., 2007; Edvinsson, L., & Malone, M. S., 1997). Due to globalization, there is an upcoming trend in inviting global investors both in the domain of SMEs and large enterprises; research pertaining to the KM is an essential requirement (Zanjani, S., Mehti, S.M. & Mandana, M., 2008; Uma M., 2012).

Further, with respect to the context of Indian SMEs, a number of inventions happening in SME is not suitably recorded and encouraged; the effective KM process will improve the scope of innovations (Krishna Kishore, et al., 2012; Mazlan, I. & Ahmad, R. S., 2006). The outcome of this study attempts to identify some of the knowledge management enablers which support knowledge creation in SMEs, and the model can be used by managers or decision makers, to improve the SMEs performance (Michael, Z. et al., 2009; Pillania, R.K., 2006).
1.5 Statement of the Problem

The study of KM pertaining to SMEs is imperative to enhance the performance of the organization. However, it has been observed that though there is a plethora of studies on SMEs, still there is a shortage of studies to identify various knowledge management enablers keeping SMEs operational context in mind; associating the identified KM enablers with selected knowledge creation processes, and aligning knowledge processes with the organizational performance of SMEs. Identifying those factors in the knowledge management process can help Indian SMEs to achieve organizational creativity and thus improves business performance. The new products and services by SMEs are the outcome of enhanced organizational creativity, which will enable firms to compete with their peers. It will assess the relationship between knowledge management enablers, knowledge management processes, and organizational performance.

1.6 Scope of the study

The KM framework developed in the current study considers various dimensions and perspectives. The key aspects considered are personal, team, organizational, and inter-organizational. The benefit and impact of the KM in each dimension has been analyzed by formulating pertinent questions. The validation and impact analysis of the proposed KM framework is carried out for some of the select SMEs located in Bangalore.

1.7 Research Objectives

After a detailed literature review, the following objectives have been framed:

i. To identify the status of the KM practices in SMEs by considering the sample set in Bangalore, drawn from both manufacturing and service sectors.

ii. To explore associations between knowledge management enablers, the knowledge creation processes, and organizational performance.

iii. To compare and contrast; KM enablers, Knowledge creation processes and organizational performance in small and medium industry segment.
iv. To compare and contrast; KM enablers, Knowledge creation processes and organizational performance in service and manufacturing SMEs.

v. To understand various problems to implement the KM in SMEs.

vi. To develop a model of knowledge management enabler, process and organizational performance in SMEs and test goodness of fit.

1.8 Research Procedure

The research steps adopted for this study is shown as in figure 1.1. The study starts with identifying research objectives, followed by literature review and analysis of the contemporary works in the field of knowledge management. A research questionnaire was prepared with the set of objectives in the context. A multi-item method based theoretical framework for research was used. Samples were collected from FKCCI listed SMEs in Bangalore, which includes both service and manufacturing domain. The result of the study was used meaningfully to establish the need for effective knowledge management in SMEs. Finally, the analysis was done to find a relationship between knowledge management enablers, knowledge creation processes and its impact on the organizational performance. From the academic perspective, this study provides a research framework for studying knowledge, knowledge management, knowledge management enabler, knowledge management process and organizational performance.

![Figure 1.1: Research procedure](image-url)
1.9 Limitations of the Study

Following are the limitations of the study:

- Some of the outcomes of improved performance may not be possible to observe in the stipulated time frame of research.
- Some latent variables may be difficult to capture.
- Some sectors have not been taken into consideration for which the result may not be generalized.

1.10 Overview of the chapter scheme

The complete dissertation is organized as follows. Chapter 2 provides required theoretical background for the proposed study. Chapter 3 summarizes the related research work. Chapter 4 discusses in detail the research methodology adopted for the study. Chapter 5 covers the profile of industries which come under the purview of this study. Chapter 6 covers the detailed results and analysis of the study. Finally, Chapter 7 concludes with a summary of findings, an assessment of research contributions, and the recommendations for future studies.