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Reviewer 1,

Prof. Dr. Drs. Made Kembar Sri Budhi, M.P.

NIP. 19580212 198601 1 001

Fakultas Ekonomi dan Bisnis Universitas Udayana

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Reviewer 2,


Dr. Dra. I Gusti Ayu Wimba, MM

NIP. 19600917 198703 2 002

Fakultas Ekonomi, Bisnis dan Pariwisata Universitas Hindu Indonesia

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The Concept and Implementation of Knowledge Management in the SME Sector

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The Concept and Implementation of Knowledge Management in the SME Sector

Ni Nyoman Reni Suasih, Putu Yudy Wijaya

Udayana University, Denpasar, Bali, Indonesia / Faculty of Economics, Business, and Tourism – Hindu Indonesia University
reni_kenanga@yahoo.com / yudywijaya333@unhi.ac.id

Abstract. Managing knowledge and human resources is an important element in running all types of businesses. Knowledge management is considered the best strategy used by business people to win the competition because knowledge is a strategic source that enables them to obtain a higher level of competitiveness and innovation. Therefore, the potential for knowledge management and intellectual capital as a source of innovation and renewal, business strategies must focus more on these issues. Knowledge management involves knowledge acquisition, knowledge sharing, and application of knowledge. The overall aim of knowledge management is to utilize information and competency knowledge that is the main source of the company's main source of competitive advantage. Knowledge management emerges as an important concept and is often cited as an antecedent of innovation, competitiveness, and also business performance of SMEs.

Keywords. Knowledge management, knowledge sharing, knowledge acquisition, knowledge application.

1. Definition and Concept of Knowledge Management

Managing knowledge and human resources is an important element in running all types of businesses, but few individuals understand this challenging field. Knowledge management is an integrative systematic process to clearly coordinate organizational activities, identify cognitive needs, obtain, transfer, store, share, and apply knowledge related to business culture and strategy (Alrubaiee et al., 2015; Byukusenge et al., 2016).

Knowledge management has an important role in creating better values and benefits through the knowledge possessed (Alrubaiee et al., 2015). Knowledge management is considered the best strategy used by business people to win the competition because knowledge is a strategic source that enables them to obtain a higher level of competitiveness and innovation (Byukusenge et al., 2016). Therefore, the potential for knowledge management and intellectual capital as a source of innovation and renewal, business strategies must focus more on these issues (Stewart, 1997). This opinion is also supported by Carneiro (2000) who states that management is increasingly aware of the importance of knowledge for the development of its organization, so that knowledge becomes more useful because management takes into account the value of creativity, which enables the transformation of one form of knowledge into the next. Knowledge is one of the intangible assets, through which the company's knowledge has the capability and is able to adapt to changes that occur. Today knowledge management is still a relatively difficult concept to understand, therefore various concepts of definitions and issues emerge in various literatures.

Knowledge management emerges as an important concept and is often cited as an antecedent of innovation and competitiveness (Carneiro, 2000; Darroch and McNaugh, 2002). Therefore, advocacy of knowledge based theory (KBT) states that a company's competitive advantage comes from intangible assets such as company specific knowledge (explicit knowledge), tacit knowledge of its people, and the ability to apply knowledge sources. Increased knowledge leads to improved performance when managed properly. KBT shows that knowledge management practices such as knowledge acquisition, knowledge creation, knowledge sharing, knowledge storage, and application of knowledge play an important role in achieving superior performance. Companies in order to remain competitive must strive harder to manage their sources of knowledge, so as to be able to increase profits, sales growth and their market share.

Knowledge management involves knowledge acquisition, knowledge sharing and application of knowledge (Wang et al., 2009; Yusof and Abu-Bakar, 2012; Sarkindaji et al., 2014; Byukusenge et al., 2016; Al-Sa'di et al., 2017; Obeidat et al., 2016; Kumarawadu, 2008; Oztekin et al., 2015; Migdadi et al., 2017). The overall aim of knowledge management is to utilize information and competency knowledge that is the main source of the company's main source of competitive advantage (Stewart, 1997). In this study the dimensions of knowledge management adopted by Wang et al., 2009; Sarkindaji et al., 2014; Byukusenge et al., 2016; Oztekin et al., 2015; Obeidat et al., 2016; Al-Sa'di et al., 2017; Migdadi et al., 2017) which includes knowledge sharing, knowledge acquisition, knowledge application. The dimensions of knowledge management can be explained as follows.

1.1. Knowledge sharing

Companies that innovate must have knowledge as the main guideline. According to Byukusenge et al. (2016) knowledge sharing is the exchange of knowledge, experience and skills of employees, business people throughout the organization. Knowledge is an intangible asset that has an important role for the progress of a business venture. Knowledge has a characteristic form that can be transferred, and shared in various forms (Supartha and Ratih, 2017). Knowledge sharing is a basic means for business people to be able to exchange knowledge and contribute to the application of knowledge, innovation as to create competitive advantage for companies (Wang and Noe, 2010). When members of an organization share and exchange knowledge, the level of participation increases, so that knowledge is able to contribute to the development of innovative ideas. Knowledge sharing helps companies use existing resources in the easiest way by transferring best practices from one section to another.

Knowledge sharing is an important factor in an organization's ability to respond quickly to changes and innovations to achieve competitive success (Migdadi et al., 2017). Small companies need to manage knowledge like large companies but generally through informal processes. SMEs must have the ability to seek and share knowledge (especially across corporate boundaries) to synthesize existing knowledge, and reuse or apply new knowledge (Hutchinson and Quintas, 2008).

Migdadi et al. (2017) suggested that intra-organizational knowledge sharing refers to the transfer of existing knowledge between different organizational actors, both within and between departments and hierarchical levels. Knowledge sharing helps companies use available resources in the easiest way by transferring best practices from one department to another, from one project or client to another.

The dimension of knowledge sharing according to Hoof and De Ridder (2004), Hooff and Weenen (2004) can be grouped into two namely: (1) Providing knowledge (knowledge donating) is channeling/spreading knowledge or intellectual capital to others that involves communication between individuals. Dissemination of this knowledge can be between leaders

and employees, or between employees in accordance with the knowledge and experience they have gained previously in other companies. (2) Knowledge collecting is seeking/collecting knowledge or intellectual capital by consulting with others. Knowledge gathering can be done by finding new information via the internet, by asking other employees, or looking for other new knowledge. Huang and Li (2009) describe knowledge sharing based on the dimension of knowledge shared between supervisors and subordinates, knowledge shared among colleagues, knowledge shared across units. In this study the dimension of knowledge sharing is reflected based on indicators: information sharing and the development of new ideas adopted from research by Hoof and De Ridder (2004), Hooff and Weenen (2004), Huang and Li (2009).

1.2. Knowledge acquisition²³

Alrubaiee et al. (2015) defines knowledge acquisition refers to the process of creating and shaping knowledge, and its components within the organization by transforming implicit knowledge into explicit. The same opinion is also explained by Costa and Monteiro (2016) who defines knowledge acquisition as a process or way by which organizations obtain knowledge. Knowledge acquisition is the first step in the knowledge management process. Knowledge must be managed, and obtained in several useful forms, for example. stored in ontology, this is a complex process that is traditionally expensive, so also the main limitations are cost, time and subjectivity (Obeidat et al., 2016).

¹⁵ Al-Sa'di et al. (2017) defines knowledge acquisition as the process of gaining knowledge from internal and external sources. Knowledge acquisition can be seen as a work process, activity, infrastructure, technology, or operational culture for managing company assets and knowledge. Knowledge acquisition refers to the company's ability to identify, acquire and collect knowledge (both internal and external) that is important for its operations (Migdadi et al., 2017). Knowledge acquisition as a process of developing and creating insights, skills and relationships. If the company is able to master knowledge acquisition as a routine activity, it will be able to improve the organization's knowledge and abilities. Knowledge acquisition refers to the search, identification, selection, collection, organization and mapping of information/knowledge (Obeidat et al., 2016).

Knowledge acquisition has an important role in reducing production cycle times, and increasing operating efficiency, and allows companies to shorten their product development time. Companies that conduct knowledge acquisition will be able to increase employee productivity and performance, improve product quality and customer service, modernize and redesign businesses, and provide innovative products and services, and increase flexibility. Knowledge management can help in achieving organizational goals. This is done by developing the knowledge and expertise of business people to be easily shared, and accessed, and to promote the use of available sources of information, skills and experience. Knowledge acquisition can effectively increase the knowledge possessed by members of the organization and facilitate the rapid dissemination of knowledge within the organization so that later it can increase the value of the company (Al-Sa'di et al., 2017).

Bykusenge et al. (2016) states that the acquisition of new knowledge will be able to increase the capacity of employees, business people to produce something new. When acquiring new knowledge that is shared among employees, leaders, it will contribute to the development of innovative ideas. The ideas obtained will be used to introduce new things / better than existing ones. This condition shows that when a business improves the way it manages its sources of knowledge, the company has innovated primarily in the form of product, process and market innovations.

Bykusenge et al. (2016) describes that knowledge acquisition is the process of acquiring available knowledge in a place and refers to the use of existing knowledge or absorbing new knowledge. Internally, companies can gain knowledge by using explicit knowledge from

existing documents or tacit knowledge from employees or business people. Externally, a business can gain knowledge by hiring individuals who have knowledge according to the needs of the company, including buying copyrights such as patents and research documents.

A close relationship with customers enables business managers to have an immediate and fast flow of knowledge. This condition will help them improve their ability to gain customer knowledge, competitors' actions and behavior, market trends and other developments. When new knowledge is gained by employees in the company, the capacity of employees increases and they are able to transform the new knowledge to produce new ones. Knowledge will improve business performance, if it is able to take advantage of new opportunities by applying and exploiting the acquired knowledge. Knowledge to be able to produce innovative things, the knowledge obtained from alliance partners must be able to create organizational knowledge so as to encourage innovation (Byukusenge, et al., 2016).

Darroch and McNaughton (2002) describe that knowledge acquisition based on organizational indicators values the attitudes and opinions of employees, the organization has a well-developed financial reporting system, the organization is sensitive to information about changes in the market, has a profile about science and technology and human capital, organizations work in partnerships with international customers, organizations get information from market surveys. The research results obtained by Darroch (2005) found that knowledge acquisition consists of six factors: (1) Assessing employee attitudes and opinions and encouraging employees to the maximum skills; (2) Has a well-developed financial reporting system; (3) Become a market focus by actively getting customer and information of SMEs; (4) Be sensitive to information about changes in the market; (5) Employ and retain a large number of people trained in science, engineering or mathematics; (6) Work in partnership with international customers and get information from market surveys.

Furthermore, Huang and Li (2009) describe knowledge acquisition based on the dimension of knowledge obtained from customers, knowledge obtained from sales, knowledge obtained from employees. Costa and Monteiro (2016) measure knowledge acquisition based on the dimensions of technological knowledge, ways to serve the market, customer problems and acquisition of market knowledge. Obeidat et al. (2016) explain the dimensions of knowledge acquisition can be seen based on manageable tasks, focus on the representation of expertise according to domain experts, and the ability to resolve conflicts when aspects of knowledge about a particular domain become uncertain. Knowledge acquisition refers to knowledge that is available outside the company with various external sources is a very rich source of knowledge to be utilized. Organizations need to know how to identify what is interesting and useful in the external environment, obtain this knowledge, spread it and apply it (Migdadi et al., 2017). In this study the dimension of knowledge acquisition is reflected by indicators: (1) new knowledge from employees, (2) training for employees, (3) information interaction with other companies, adopting research from Darroch (2005), Huang and Li (2009), Obeidat et al. (2016), Migdadi et al. (2017).

1.3. Knowledge application

Knowledge plays an important role in today's challenging business environment and contributes greatly to sustainable business performance. Generally, most companies including small business companies are determined to grow and succeed in their business (Yusof and Abu-Bakar, 2012).

According to Yusof and Abu-Bakar (2012) knowledge application is a process that is oriented towards the use of knowledge. Alrubaiee et al. (2015) defines knowledge application as a practical process to benefit from their knowledge in the field and is applied every day at work and this is measured by official programs and initiations in addition to scales and indicators to check the level of knowledge application. Ha et al. (2016) suggested that all

knowledge management processes are very important to improve company performance. Companies are advised to apply knowledge management continuously by creating new knowledge, turning knowledge into new insights or strategies, learning from previous experience, and protecting the knowledge to achieve better performance. Ha et al. (2016) also found that each dimension of knowledge management capabilities has a positive effect on the performance of outsourcing business processes. Knowledge application turns out to be the most significant dimension correlated with business performance. Knowledge management capabilities are an effective tool for improving performance because they provide a competitive advantage to organizations that are difficult for their competitors to copy.

Businesses will try to make full use of the knowledge they have that aims to improve their services to customers (Obeidat et al., 2016). New ideas or ideas will not provide real and solutions if they are not applied. The manager resolves a case by applying existing knowledge in new creative ways and the solution goes well, so as to obtain incentives. Knowledge application is considered as an output aspect of knowledge management. Knowledge application is a focus element in the knowledge management process. Knowledge-based views, the true value of individual and organizational knowledge exist when knowledge is applied because knowledge is spelled out in a knowledge application as a business process that allows effective storage and retrieval mechanisms to enable companies to access knowledge easily (Al-Sa'di et al., 2017). Migdadi et al. (2017) describes that the application of knowledge means making knowledge more active and relevant for companies in creating value.

Knowledge application has an important role in the organization or company as stated by Al-Sa'di et al. (2017): (1) related to the actual use of current knowledge to solve problems. (2), making knowledge as a basis for building relevant values in an organization. The efficient application of knowledge enhances an organization's ability to manage various sources of knowledge, reduces errors, and turns collective knowledge into advantages for the organization's innovative efforts. The application of knowledge is an important part of increasing product and process innovation in organizations. Organizations will face serious problems without the application of knowledge, they will not be able to use collective knowledge effectively to improve the performance of their innovations to the desired level (Al-Sa'di et al., 2017).

Darroch (2005) states that the application of knowledge can expand employee creativity, generate creative ideas, and improve product and process innovation. Huang and Li (2009) suggest that indicators for assessing knowledge applications are based on the effectiveness of managing different sources and types of knowledge by companies, using knowledge for practical use by companies. Migdadi et al. (2017) prove that the application of knowledge has a positive relationship with the level of organizational innovation when knowledge is applied and used correctly. Many organizations encourage organizational learning where individuals and teams can apply knowledge gained from initiatives such as developing new products with the ultimate goal of improving performance. Innovation for organizations is the creation of value needed to apply knowledge to the company's products and services. There are several ways to apply knowledge such as implementing knowledge, training, and motivation that have been learned to be applied creatively, and utilizing people's understanding of company processes, products and services (Migdadi et al., 2017).

This research dimension of knowledge application is reflected by indicators (1) knowledge application, (2) management of knowledge and resources, which adopted from the research of Huang and Li (2009), Al-Sa'di et al., (2017), Migdadi et al. (2017).

2. The Role of the Knowledge Management Process

Alrubaiee et al. (2015) suggested that the role of knowledge management processes to achieve the best performance can be summarized as follows:

- 1) To develop useful knowledge and store new knowledge, distribute it to facilitate the work of the organization.
- 2) To form a special team that is in charge of developing knowledge and applying it (apart from employees and leaders) that effectively makes changes and differences for the better such as:
 - (a) Reduction in total costs through reduction of costs such as (waste costs, product failure costs, sales of "refunds, in addition to the costs of misuse of technology and work facilities).
 - (b) Increased financial return to the organization by producing good quality and creative goods.
 - (c) Increase productivity through the use of quality inputs and the application of knowledge management in various fields of performance leading to innovation and more effective methods.
 - (d) Knowledge management helps in achieving creativity, innovation, and raising employee awareness through training, learning and dialogue.

Therefore, it is believed that knowledge and innovation affect the organization's business performance. Organizational performance can be measured through customer relationships, internal processes and learning, and the ability of employees to have an impact on financial and non-financial performance.

3. The Effect of Knowledge Management on Innovation

Knowledge becomes increasingly useful because management takes into account the value of creativity, which enables the transformation of one form of knowledge to the next. This relationship shows that innovation is most likely dependent on the evolution of knowledge (Carneiro, 2000). The process of innovation is very dependent on knowledge, and the management of knowledge and human resources must be an important element in running various types of businesses (Gloet and Terziovski, 2004). The same opinion was expressed by Darroch (2005) that the process of knowledge management is a coordination mechanism in the causal relationship between innovation and performance. In today's fast changing business world, innovation has become a mainstay of the organization. The nature of global economic growth has been changed by the pace of innovation, which is made possible by rapidly developing technology, shorter product life cycles and higher levels of new product development. The complexity of innovation has increased with the growing amount of knowledge available to organizations (Plessis, 2007).

Several studies conducted by Darroch and McLighton (2002), Sarkindaji et al. (2014), Alrubaiee et al. (2015), Al-Sa'di et al. (2017) found that knowledge management had a positive and significant effect on innovation, both process and product innovation in manufacturing companies. Knowledge management plays an important role in determining the speed of products needed to enter the market, and updating internal processes. Applying knowledge acquired effectively by employees or business people will reduce the number of mistakes, so that decisions will be made more quickly and lead to better process innovation (Al-Sa'di et al., 2017).

Research conducted by Bykusenge et al. (2016) highlights that knowledge management has an important contribution to the sustainability of innovation. That means knowledge management is positively and significantly related to innovation. This is expected because acquisition, sharing and application / responsiveness to knowledge are related to innovation.

The acquisition of new knowledge can increase the capacity of employees to produce new products or services. When acquiring new knowledge is shared among employees, as well as leaders, it will contribute to the development of innovative ideas. These ideas or ideas are used to introduce new things that are better than existing ones. This condition shows that business people improve the way they manage their sources of knowledge, so that companies can produce innovations both in terms of products, processes and markets.

Obeidat et al. (2016) found that the process of knowledge management has a positive and significant impact on innovation. The effect of knowledge acquisition on innovation is demonstrated by the continuous collection of information and knowledge internally and externally (explicitly and implicitly) that is relevant from the company's operations. Companies will get better sources of knowledge, if they have new employees who have expertise, rather than hiring new employees who do not have expertise for marketing purposes. The experience of businesspersons in the form of company processes or cycles, types of consultation cases, and how things are handled can contribute to creating innovation opportunities in the company, rather than hiring new employees who are unfamiliar with the company environment and the consultation process. However, hiring new employees to acquire new knowledge is undoubtedly beneficial for innovation, because new employees may bring new ways of thinking and can stimulate the creation of new ideas that will drive innovation, so that the fraction can be utilized from the newly employed.

Research conducted by Migdadi et al. (2017) found the opposite of previous research that knowledge management reflected by knowledge sharing and knowledge applications does not have a significant effect on the ability of innovation.

4. The Effect of Knowledge Management on Competitive Advantage

Most companies know that innovation efforts and the application of new procedures and technologies can increase competitiveness (Goel and Rich, 1997). The need for scientific and technical information flow within the company is well known. Knowledge and information derived from data are needed for competitive initiatives such as increasing customer satisfaction, developing new products and markets, and providing faster responses (Arneiro, 2000). The latest concept in the field of strategic management shows that companies must learn to restructure internal competencies and resources in order to maintain competitive advantage over time. Utilizing company resource-based expertise and dynamic capability perspectives is absolutely necessary (Adams and Lamont, 2003).

Research conducted by Kanya et al. (2010) found that knowledge management had a positive and significant effect on competitive advantage in manufacturing companies in Uganda. It also implies that effective knowledge management enables an organization to improve organizational behavior because more knowledge is created and there is a better understanding of the market trends that occur that lead to superior competitive advantage. Kanya et al. (2010) also suggests knowledge acquisition, sharing have an impact on competitive advantage. Responsiveness to knowledge plays an important role in enhancing competitiveness. Responsiveness to knowledge depends on management policies to obtain appropriate knowledge, disseminate knowledge, and make decisions that add value to their offerings. This means that achieving competitive advantage will exist in an environment where knowledge management is driven with an emphasis on responses to market information. This is the knowledge that is really needed by an organization in its efforts to provide value to customers. Kaveh et al. (2015) states that the biggest impact on competitive advantage and knowledge management components is the component of knowledge acquisition in small and medium-sized companies.

5. The Effect of Knowledge Management on Business Performance

Organizations in all aspects of business begin to assume that knowledge management is the most valuable and strategic asset, and strive to find new ways to improve performance through various characteristics such as innovation and knowledge management that should have been embedded in the organization (Alrubaiee et al. 2015). Businesses always need knowledge as information to understand the conditions of customers, suppliers, employees, competitors and the entrepreneurial environment so that the business wants to remain competitive (Byukuseri et al., 2016). Several studies have been conducted on the role of knowledge management on business performance, including by Alrubaiee et al. (2015), Al-Sa'di et al. (2017), Migdadi et al. (2017), found that the process of knowledge management has a positive and significant influence on organizational performance. The results of previous studies are also supported by the findings of Sarkindaji et al. (2014) which explains that organizations in pursuit of sustainable competitive advantage must develop and combine good knowledge management strategies. Knowledge as one of the most critical sources of all company organizations needs to be well managed in order to survive in a highly competitive business environment. Globally, every organization be it a private or public company is established to achieve a number of performance targets, namely profit or non-profit. One way to improve their performance goals is through effective knowledge management practices, organizational performance will improve. Wijaya et al. (2019) the research results found that to improve business performance and competitive advantage in SME's can be done with innovation obtained from knowledge.

Other studies find the opposite results, such as research conducted by Tanriverdi (2005) to find an insignificant relationship between a company's financial performance and its ability to create, share, integrate and use knowledge. Wijaya and Reni (2020) found the result of the study that knowledge management directly has no significant effect on business performance, but through competitive advantage, the effect of knowledge management on business performance of silver craft SMEs is positive and significant. Bykusenge et al. (2016) also found the results of a study which stated that knowledge management had no significant effect on business performance in business. This means that the knowledge gained through different means (short courses, conferences, exhibitions, qualified staff), the way this knowledge is shared with all employees and utilized cannot directly cause significant variations in profits, sales growth and SME market share in Rwanda. This situation can be explained by the fact that some SME managers prevent outflows of knowledge from the company and thus block knowledge sharing and do not have systematic knowledge management that leads to business performance.

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