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The Benefits of Knowledge Management in Small And Medium-Sized Enterprises

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Abstract

The purpose of our paper is to review extant research to identify what we know about the benefits of knowledge management for small and medium-sized enterprises. The following research questions were formulated according to this aim: 1) What kind of studies have been conducted that focus on benefits of KM within SMEs? 2) What were the main findings of the studies? We propose an approach of literature review in order to understand knowledge benefits for SMEs; a poorly understood area of study to date. The few studies identified highlight employee development, innovation, customer satisfaction and organisational success as areas where small and medium-sized businesses benefit from KM activities.

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1. Introduction

Knowledge management (KM) is a field of study that has attracted the attention of a number of scholars from different disciplines. The main focus of KM research to date has been on processes and structures within large organizations in order to improve their performance and competitive standing, assuming that those organizations have the necessary resources at hand. Some observations show a positive relationship between KM and organizational performance (e.g. KPMG Consulting, 2000; Lim & Ahmed, 2000; Kluge, Stein & Licht, 2001; Edler, 2003; Edvardsson, 2006, 2009; Andreeva & Kianto; 2012). Apart from the small number of studies, however, understanding of the topic appears rather limited. For instance, Choy, Yew and Lin (2006) note that no studies have provided a set of widely accepted measurement criteria for KM efforts. In a recent paper, Durst and Edvardsson (2012) found that knowledge utilization seems to be a neglected field of study, at least in the SME context. In a literature review conducted by the authors, only two peer reviewed papers on the subject were identified. In a similar manner, Edvardsson and Oskarsson, (2011) stressed that we lack an understanding of how firms create knowledge and how this is translated into competitive advantages or enhanced customer relations. Given the profound role of SMEs in most economies of the world, this is an unsatisfactory situation. Bearing this in mind, the purpose of our paper is to review extant research on KM within smaller firms to identify what we know about the benefits of KM

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for SMEs. According to this aim, the following research questions were formulated: 1) Which studies have been conducted that focus on benefits of KM within SMEs? 2) What were the main findings of the studies?

2. Knowledge management in SMEs

Many smaller firms face resource constraints (Jarillo, 1989), and existing resources must consequently be used with care, as erroneous decisions will have more serious complications than they would have in large businesses (Amelingmeyer & Amelingmeyer, 2005). For example, small firms have a flat structure and an organic, free-floating management style that encourages entrepreneurship and innovation. They tend to be informal, non-bureaucratic and there are few rules. Control tends to be based on the owner's personal supervision and formal policies tend to be absent in SMEs (Daft, 2007). In addition, in many smaller firms the owner-managers take on a central position (Bridge O'Neill & Cromie, 2003). In such an environment it is not uncommon that the processes of business planning and decision-making are limited to only one person (Culkin & Smith, 2000). This centrality also signifies that those people in particular are responsible for recognising the benefits related to knowledge management that support the firm's operations. However, SMEs' day-to-day business operations specifically require close attention (Hofer & Charan, 1984). This frequently leads to situations where insufficient time is available for strategic issues. This, in conjunction with lack of financial resources and expertise (Bridge *et al.*, 2003), very often results in most knowledge being kept in the minds of the owner and some key employees rather than recorded or shared through substitution arrangements (Wong & Aspinwall, 2004).

The brief discussion presented above makes clear that small businesses face unique KM challenges that are distinct from those of their larger business counterparts. The solution often found in the literature, however, is to implement approaches originally developed for larger firms in SMEs. This procedure involves the danger that smaller firms may lose their distinct characteristics and thus their capability to act. Previous research on KM in SMEs has shown many differences compared to larger firms. Most SMEs have no explicit policy targeted at strategic KM, and they tend to treat KM on an operational level – at the level of systems and instruments (Beijerse, 2000; Hutchinson & Quintas, 2008). SMEs tend to place more emphasis than larger firms on the management of tacit knowledge, and communication channels in SMEs are more likely to be between firms, rather than internal to the organization. The SME sector appears to be less advanced in terms of knowledge construction, having a more mechanistic approach to this concept and relying less on social interaction (McAdam & Reid, 2001). Also, the SME sector is weaker than larger firms on formal and systematic discussion in order to share tacit knowledge (Matlay, 2000; McAdam & Reid, 2001; Corso, Martini, Paolucci & Pellegrini, 2003; Hutchinson & Quintas, 2008), and most SMEs adopt short-term unstructured approaches towards organizational learning. In some cases managers of smaller firms also try to prevent outflow of knowledge from the company and thereby block knowledge sharing (Bozbura, 2007). This can undermine the potential benefits of KM. On the other hand, KM activities, such as knowledge sharing, are time-consuming and require a certain level of trust. Slow staff turnover as found in many SMEs (Durst & Wilhelm, 2011) can positively contribute to those efforts.

3. Methodology of literature review

In our review process, we adopted the principles of a systematic review as recommended by Jesson, Matherson and Lacy (2011). First, we developed a research plan comprising the research questions we were interested in answering, the keywords, and a set of inclusion and exclusion criteria. We wanted to focus on the current status of research into KM benefits in SMEs in order to identify promising areas for future study. The questions formulated are presented in the introduction section.

To help answer our research questions, we specified a priori inclusion and exclusion criteria. Our inclusion criteria were: empirical research papers, peer reviewed, English language, SME focus, emphasis on KM benefits/outcomes, and ProQuest database. We excluded papers dealing with regional clusters, grey literature such as reports and non-academic research, other languages than English, and other databases than ProQuest. Additionally, we produced an Excel data sheet consisting of key aspects related to our research aim. In our case these were: name of author(s),

year of publication, research aim/objectives, theoretical perspective/framework, method, main findings, and journal title. Once we had specified all the relevant issues, each of us accessed ProQuest and searched for materials, using the keywords set. We used the keywords *knowledge benefits/outcome* and *SMEs* which resulted in 409 hits.

Next, each of us scanned the articles' titles, abstracts and, if relevant, more parts, beginning with the conclusion section, to make sure that they actually fell within our scope of interest. Nine papers fulfilled the criteria set and thus formed the basis of our analysis. In the next stage we discussed the findings which helped us to clarify what we know about knowledge creation in SMEs and what we should know. The final stage of our review process comprised the writing up of our findings.

4. Findings

4.1 Studies involved

Nine papers formed the basis for our analysis (Capó-Vicedo, Mula & Capó, 2011; Migdadi, 2009; Edvardsson, 2006, 2009; Liao, 2011; Salojärvi, Furu, & Sveiby, 2005; Steenkamp & Kashyap, 2010; Soon & Zainol, 2011; Wei, Choy & Chew, 2011). The oldest publication was from 2005 and the most recent ones from the year 2011. Four papers were published in 2011, indicating a rising interest in the topic.

4.2 Main findings

The studies reviewed suggest that small businesses can benefit from applying knowledge management activities. Almost all of the papers included report some kind of *organisational success*, such as growth in sales, fewer losses, increased productivity and process improvements as a consequence of the organizations' KM activities (e.g. Salojärvi *et al.*, 2005; Edvardsson, 2006, 2009). Some papers (e.g. Migdadi, 2009; Wei *et al.*, 2011) stressed that KM activities contribute to *employee development* (e.g. skill increase, learning, staff retention); *improved customer satisfaction* (e.g. customer loyalty, reputation, etc.) (e.g. Edvardsson, 2006, 2009; Steenkamp & Kashyap, 2010; Wei *et al.*, 2011), *innovation, creativity and knowledge creation* (e.g. Wei *et al.*, 2011; Soon & Zainol, 2011), and improved *external relationships* with other firms (Migdadi, 2009; Capó-Vicedo *et al.*, 2011). Liao (2011) showed the role of a *strategic fit between KM practice and HRM policy* with respect to organisational performance.

5. Conclusion

The aim of this paper was to better understand what we know about KM benefits in SMEs. This understanding is critical given the said relevance of KM activities on firm performance and competitiveness. Based on a systematic literature review, we identified nine empirical studies which fulfilled our selection criteria. The small number of papers indicates that our body of knowledge regarding this topic is poor and fragmented, making us call for more intense research.

The reviewed studies highlight that SMEs can benefit from KM activities with regard to employee development, innovation, customer satisfaction and organisational success. Given the prevalence of SMEs on the one hand and their resource limitations on the other, there is a strong need for more research on this topic to provide actual proof of the usefulness of KM activities which would help SME owners to make better decisions regarding resource allocation.

To the best of the authors' knowledge, no systematic literature review on this topic has previously been conducted.

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