Knowledge Management In Indonesia Small And Medium Enterprises (SMEs): A Conceptual Model

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ABSTRACT
In this global market, the growth of Small to Medium Enterprises (SMEs) has improving. Thus, the competition among SMEs becomes more rapid which requires them to put more efforts in maintaining their existence and development. Facing this issue, organizations should turn their entrepreneurial orientation from money oriented to innovation oriented. To innovate better, HRs in an organization should be knowledgeable hence the organization has to advance its knowledge management. This research aims to examine the relationship of entrepreneurial orientation, knowledge management, total quality management, and organizational innovation performance. Theoretical model drawn from literature review/survey is presented in this study. Therefore, this research can be one of new literatures which study about this issue from new frame. Thus, future research is presented in this study.

Keywords: entrepreneurial orientation, knowledge management, total quality management, organizational innovation performance

1 INTRODUCTION
In this century, the economic system direction in the world has changed into entrepreneurial economy (Audretsch & Thurik, 2004). The competitive environment gets wider as a result of globalization challenge and all organizations attempt to reconstruct strategies to achieve sustainable competitive advantage (Madhoushi, Mehrdad, 2011). From the last three decades it is found that there is relationship pattern between knowledge management practice and innovation coming from SME (Thompson & Leyden, 1983).

Word (2012) explains that there is structural change of work and organization which more focus on managing and maximizing the working output. A dynamic working environment is used by organization to take knowledge and change the competitive advantage suited to the environment (Yeo, 2005). Organizational culture will always support organizational learning and bring benefit for the organization by generating knowledge (Nonaka et al, 2008). As globalization increases challenge in organization, the organization should focus on speed and innovation for customers (Ruona & Gibson, 2004).

Therefore, surviving in industrial world, SMEs should have strategy focus, such as knowledge-based economy in order to maintain competitive advantage鲁ona & Gibson, 2004). A knowledge based enterprise use knowledge for enhancing its performance through information management which enable the enterprise to share, manage, reuse, and transfer knowledge as well as provide knowledge for other parties in the organization (Lin, Hsiu-Fen, 2007; Takeuchi & Nonaka, 2004; Uhlner & Van Santen 2007). Thus, an appropriate knowledge management is essential for the development of SMEs. On the other side, O'Dell and Grayson (1998) state that Total Quality Management (TQM) is a long-term key motor of competitive advantage in the world. TQM will bring benefit to an organization, such as in decreasing cost, improving service, and satisfying customers, if it is well-applied (Oakland & Porter, 2004; Longest, Rakich, & Darr, 2000).

In the attempt competitive advantage, performance and value of an organization need to be improved, hence causing organizational innovation (Gloet & Terziowski, 2004; Singh & Smith 2004). Innovation also takes big role in maintaining sustainable competitive advantage through performance enhancement, problem-solving, and value improvement (Prajogo, Power, & Sohol, 2004). Brock (2003) finds that innovation will improve the effectiveness and competitiveness through autonomy, where innovation directly impact on performance (West & Iansiti, 2003; Brockman & Morgan, 2003) and entrepreneurial action has direct effect on innovation process (Ireland & Webb, 2007). Mei and Nie (2007) and Chung-Jen, et al (2010) see a positive and significant relationship between knowledge management and organizational innovation. Corso, et al (2002) emphasizes that knowledge management will increase the research interest about innovation ability in the organization. Thus, SMEs need to witness its organization support the innovation (Prince & Brecht, 2000). However, what happens in the reality is low research contribution in understanding the knowledge management issues related to SMEs innovation (Sparrow, 2001).

Aside of the relation between knowledge management and organizational innovation, there are other aspects influencing innovation, such as culture and Total Quality Management (TQM). Hung, et al (2010) finds that TQM significantly related to innovation and organizational changes. Pinho (2008) also states that TQM has given positive contribution.
to management practice, so the organization performance improved.

There are many aspects which impact on the organization performance, hence it is important for an organization to understand the relationship among them. This research aims to analyze the relationship among entrepreneurial orientation, knowledge management, total quality management, and organizational innovation performance.

II LITERATURE REVIEW

Entrepreneurial orientation has become one of the most established and researched constructs in the entrepreneurship literature (Wales, William, 2013, 2015; Covin, Jeffrey; Lumpkin, 2011). Entrepreneurial orientation has been shown to be a strong predictor of organization performance with a meta-analysis of past research indicating a correlation in magnitude roughly equivalent to the prescription of taking sleeping pills and getting better sleep (Rauch, Andreas; Wiklund, Johan; Lumpkin, G.T.; Frese, Michael, 2009). Entrepreneurial orientation has most frequently been assessed using nine-item psychometric instrument developed by (Jeff Covin and Dennis Slevin; Wales, William, 2015). Thus, this research uses the five dimension of entrepreneurial orientation, such as autonomy, innovativeness, proactiveness, aggressiveness and risk-taking in order to realize the product and process innovation. Strategic orientation entrepreneurial orientation enhances organization performance as well as overall variance in it. Increased variance occurs as result of the observation that many entrepreneurial actions ultimately fail to generate an economic return thereby contributing to an increased distribution of firm performance outcomes (Wiklund, Johan; Shepherd, Dean, 2011; Wales, William; Patel, Pankaj; Lumpkin, 2013). As a core organizational strategic orientation, the breadth and depth research on entrepreneurial orientation continues to expand as the concept is adopted to understand the effects of being entrepreneurial across an increasing number of research contexts (Wales, William; Gupta, Vishal; Mousa, Fariss, 2013). In order to increase sustainable competitive advantage and improve organization performance, SMEs need to manage knowledge in the organization. Beckman (1999) states that knowledge can be defined as belief, experience, as well as information. The combination of those three aspects will provide an illustration to evaluate and merge new experience and information (Davenport & Prusak, 1998).

Knowledge management then refers to systematic and integrative process which helps the organization to find, decide, manage, distribute, and transfer substantial information, knowledge, experience, and ability needed in certain activities, such as problem-solving, dynamic learning, strategic planning, and decision-taking. The maximization of knowledge management bring benefit to people in the organization as every member of organization will gain and share more knowledge, so it will increase their performance and ability to innovate. Liao, et al (2003) state that innovation mobility and innovation process effectiveness are influenced by knowledge management (covers knowledge adding and sharing). Nonaka and Takeuchi (1995) and Argote, et al (2003) explain that the effectiveness of knowledge management become mediation of communication and exchange in the innovation process. It will improve the organization performance through new ability.

Proposition 1: Entrepreneurial orientation is positively related to knowledge management

The concept of innovation involves research and enhancement of technology, idea, process, service, and management in the organization. Then, it will result on the enhancement of organization operational performance (Singh & Smith, 2004). In general, innovation has many contributions on organization performance, and then it analyzes how an organization can adapt with market changes, competition, and technology. Kanji (1996) explains that there are six types of innovation, such as product, process, implication, system, competition and horizontal. However, it is based on the resource and competency of the organization.

Gopalakrishnan and Bierly (2001) divide innovation into six types, such as administrative, technical, product, process, radical, and incremental. According to Boone (2000), the result of product innovation is the new-coming product in the market. This also covers restoration in product-making process or change in product-making method. The result of process innovation covers company cost reduction. Innovation may cover the improvement of product or service, innovation process, and organization ability. It is important that these three elements are linked together and are compatible. Innovation can be an important way for SMEs to succeed and remain running the business, so the SMEs will be able to compete in dynamic environment.

Proposition 2: Entrepreneurial orientation is positively related to organizational innovation performance

Proposition 3: Knowledge management is positively related to organizational innovation performance

Total Quality Management (TQM) is one of quality-based approaches (Sun 2000). TQM contribute to improve the organization performance and achieve sustainable competitive advantage. This concept is based on loyalty as it will bring long-term benefit for the organization. Thus, the organization need to instill the quality of value by putting the consumer and producer elements together supported by top management, continuous enhancement commitment, quality assurance, training and culture change in the
organization (Crosby, 1996; Deming, 1996; Basterfield, 2003).

Besides, Antony et al. (2002) and Maguad (2006) state that the concept of total quality management is directed to the achievement of long-term organizational success through continuous enhancement, hence it will be beyond the customers’ expectation.

**Proposition 4:** Knowledge management is positively related to total quality management

**Proposition 5:** Total quality management is positively related to organizational innovation performance

### III PROPOSED MODEL

Entrepreneurial Orientation (EO) is a firm-level strategic orientation which captures organization’s strategy-making practices, managerial philosophies, and organizational behaviors that are natural (Anderson, Brian; Covin, Jeffrey; Slevin, Dennis, 2009). In this research, entrepreneurial orientation comprises five dimensions, such as autonomy, innovativeness, pro-activeness, aggressiveness and risk-taking.

Knowledge Management (KM) refers to a systematic and integrative process of coordinating organization activities, such as acquiring, creating, storing, sharing, diffusing, developing, and spreading knowledge to pursue major organizational goals (Rastogi, 2000). In this research, knowledge management comprises three dimensions, such as acquisition, sharing and application.

Total Quality Management (TQM) is recognized as a key to achieve long-term sustainable competitive advantage around the world (Dean & Bowen, 1994; Prajogo & Sohol, 2001; Oakland). In this research, Total Quality Management (TQM) involves five dimensions, such as top management support, employee involvement, continuous improvement, customer focus and database decision.

Organizational Innovation Performance (OIP) plays a critical role in maintaining sustainable competitive advantage (Prajogo, Power, & Sohol, 2004; Tushman & Nadler, 1986). In this research, organizational innovation performance includes two dimensions, such as product innovation performance and process innovation performance.

### IV DIRECTION FOR FUTURE RESEARCH

In economic growth, there are two main aspects can be used by SMEs to improve organizational performance, such as knowledge management and organizational innovation. However, there are other aspects presumed as having influence on organizational performance, such as total quality management, and organizational innovation performance. This study is kind of initial step to analyze theoretical structure on the relationship among variables towards organizational performance improvement, especially on knowledge management, which then will open the study gate for further researches. Empirical proof should be presented in the future to show the influence of the aspects on organizational performance of SMEs. Therefore, the study should demonstrate the significance of the relationship among variables, including how the aspects are able to impact the SMEs performance. Then, future research questions arise as follows:

- How is the relationship among all variables in influencing organizational performance?
- How the relationship between knowledge management and organizational performance differs from other aspects?
- How will organizational performance improve if it is impacted by all aspects at once?

### V CONCLUSION

This study proposes a model that show the relationship of (1) entrepreneurial orientation which comprises autonomy, innovativeness, pro-activeness, aggressiveness and risk-taking, (2) knowledge management which involves acquisition, sharing and application, (3) total quality management which includes top management support, employee involvement, continuous improvement, customer focus and database decision, and (4) organizational innovation performance.
innovation performance which comprises product innovation performance and process innovation performance. By analyzing all variables, this study aims to be able to improve a conceptual model on the relationship of knowledge management and organizational performance.

REFERENCES


