

Knowledge Management and SMEs
By Quah Boon Huat

In the new business environment, knowledge management must become a key management tool of SMEs.

Economic history has been characterized as consisting of distinct economic eras corresponding to shifts in the dominant source of wealth – from land to labor to capital. In the 1980s, several economists predicted the imminent shift to a new economic era in which knowledge would eclipse capital as the primary source of wealth.

Arguments claiming that a new economic era, i.e. that of a knowledge-based economy, has already begun are convincing. Suffice to say that organizations are indeed becoming more knowledge-oriented and have come to rely more on knowledge to create their strategic advantage, as advances in information and communications technology continue to alter the way organizations invest, produce, and market their goods and services.

As productive capabilities become more dependent on knowledge assets, and knowledge itself is being created and exchanged at an increasingly rapid rate, organizations are re-structuring themselves to exploit it to get better market leverage. There has thus been a dramatic jump in the level of interest and use of knowledge management to uncover and utilize knowledge assets.

Knowledge management initiatives are aimed at enhancing organizational performance through the identification, capture, validation, and transfer of knowledge. The assumption is that organizations will be more successful in dealing with the challenges of the new business environment if they are able to manage both corporate and individual knowledge better.

Knowledge management was first used in large companies operating in knowledge-intensive sectors such as oil, pharmaceutical, high technology and financial services. The use of knowledge management has also recently spread to the more traditional economic sectors, for example agriculture, which has been transformed by biotechnology.

Most of the emphasis so far on the use of knowledge management has been in large organizations. However, knowledge management is also relevant for small and medium enterprises (SMEs). Recent Australian SME case studies suggest that knowledge management contributes towards improved business competitiveness in several ways. They include:

- Allowing organizations to better understand customer needs, preferences and pressures;
- Facilitating stronger, longer-term partnership-style relationships with customers;
- Reducing costs associated with business and production processes, and improving speed and quality; and
- Assisting organizations to use lessons learnt from previous projects and tasks to

improve future performance.

Another key finding of the Australian study is that knowledge management helps facilitate the generation of new knowledge and encourages innovation through various strategies. These innovations tended to be ideas for new products or services, new clients, new and improved business services and new ways of using and re-using knowledge.

Malaysia's economic development has been largely dependent on capital investment. However, one important strategic thrust of Malaysia's current development plans is to transform Malaysia from a production-based into a knowledge-based economy. The rationale for this strategic change is the declining marginal productivity of capital.

The rapidly evolving global business and trade landscape has important implications for Malaysian enterprises, and in turn for Malaysia's economic development. This is because, as part of the government's holistic and balanced approach to enhance Malaysia's international competitive standing, Malaysia will increasingly rely on the private sector as an engine of economic growth.

SMEs face more challenges as compared to large enterprises, and the implications of a rapidly evolving global business and trade landscape are especially critical for them. SMEs also have an important role in the national economy. In 2003, SMEs contributed RM405 billion (43.5%) and RM154 billion (47.3%) to national output and value-added, respectively. As such, Malaysia will need to ensure that SMEs are not left out of the mainstream of the knowledge-based economy.

Knowledge management in Malaysia remains at a very infant stage, with very few Malaysian companies having initiated any programmes. While knowledge management may not be the magic pill that can solve all the problems SMEs currently face, SMEs will at least be able to deal more successfully with the challenges of operating in the new business environment if they are able to manage corporate and individual knowledge better.

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