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## Relationship between Knowledge Management and Organizational Performance: A Test on SMEs in Malaysia

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### Abstract

Generally, small and medium enterprises (SMEs) play a crucial role in supporting the nation's economy. Nevertheless, Malaysian SMEs have not developed their full potential. Therefore, it is essential for the entrepreneurs to search for and shift towards better strategies to become more successful. In the present turbulent environments, knowledge has been viewed as a major strategic competitive resource. Given the importance of knowledge, entrepreneurs are encouraged to develop their capabilities to manage knowledge which will move them to become more competitive and innovative. Extensive research is available in the knowledge management literature investigating the process of knowledge management as a composite construct; nonetheless little research has been done to examine the independent effects of the individual dimensions of knowledge management process. In particular, little empirical evidence has been found to determine the implementation of knowledge management practices in the context of developing countries and small business. This study aimed to fill the perceived gaps by investigating the relationship between knowledge management process capabilities and organizational performance in the context of Malaysian SMEs. Knowledge management process capabilities were conceptualized as four dimensional constructs: knowledge acquisition, knowledge conversion, knowledge application, and knowledge protection while organizational performance were divided into two dimensions namely, non-financial performance and financial performance. This paper anticipates that the four knowledge management process capabilities are important antecedents of organizational performance, which have in turn a positive relationship with both non-financial performance and financial performance of SMEs. The findings of this study will provide insights to entrepreneurs and help them to identify and develop effective strategies towards enhancing their overall performance.

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## 1. Introduction

Globalization has created new challenges for businesses to remain competitive. Nowadays, businesses have to face high competition between businesses and run the risk of losing their customers easily because most of them have difficulty in understanding and responding to rapid changing market trends. The growing importance role of knowledge has motivated businesses to move on from other management practices to knowledge management (Cho & Korte, 2014; Tubigi & Alshawi, 2015).

Knowledge management is regarded as the capability to manage knowledge such as acquiring knowledge from either internal or external organization, converting it into new strategy or idea, applying and protecting it (Gold, Malhotra, & Segars, 2001). By adding the concept of knowledge management capability into operations, abundance of information of customers can be captured and this can further assist the service industry to improve on their overall service quality and faster service response time (Runar Edvardsson & Kristjan Oskarsson, 2011).

Investigating on the relationship between knowledge management capability and organizational performance is essential as the findings can help the businesses to further explore the consequences of knowledge management (Liu & Deng, 2015). Besides, there is a lack of study that investigates the relationship between knowledge management capability and non-financial performance (Cho & Korte, 2014). Moreover, the findings of previous researches are still inconclusive with regards to the knowledge management capability-performance link which, some researchers found that not every dimensions of knowledge management capability is significantly correlated to performance (Mills & Smith, 2011). This study aims to bridge the gaps by examining the relationship between individual dimensions of knowledge management capabilities and a more specified organizational performance that includes non-financial performance indicators among SMEs in the service sector of Malaysia.

## 2. Literature review

### 2.1. Knowledge management capabilities

Knowledge is perceived as an important success factor for achieving and sustaining competitive advantage of organizations (Lee & Lan, 2011; Liu & Deng, 2015). Notwithstanding, knowledge can be easily obsolete and useless if without proper management within the organization (Karimi & Javanmard, 2014). Therefore, it is very crucial for an organization to develop a series of processes or procedures in order to better manage their knowledge assets (Ou Yang, 2014).

Following an extensive review of prior research, model of knowledge management capabilities developed by Gold et al. (2001) has been adopted in this study, whereby knowledge management is described as a process made up of knowledge acquisition, knowledge conversion, knowledge application, and knowledge protection.

### 2.2. Organizational performance

Organizational performance reflects the ability of an organization to fulfil its stakeholders' requirements and survive in the market (Griffin, 2003). It also known as the outcome of the actions or activities carried out by the members of organization to measure how well an organization has accomplished its objectives (Ho, 2008; Chung & Lo, 2007).

Previously, organizational performance has been mostly assessed through financial based performance measures. Most widely used financial measures are return on assets (ROA), return on investments (ROI), return on equity (ROE), market share, sales growth, and profitability. Even though these indicators are still the ultimate aim of most organizations' operation, but measuring performance solely on these indicators are no longer adequate to measure competencies that modern organizations are looking for (Gomes, Yasin, & Libsboa, 2004; Kaplan & Norton, 1992).

According to Richard, Devinney, Yip, and Johnson (2009), organizational performance should be viewed as a multidimensional construct. A balance and complete assessment of organization's performance should consist of different performance dimensions (Tangen, 2003) because organizational performance could not take place without

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