

CHAPTER 1

Introduction

1.1 Background

Knowledge is power. It is a well-recognised statement. Most assets are subject to diminishing returns, but not knowledge.

To put knowledge in the economic terms, scholars like Peter Drucker (1993) referred knowledge as 'the only meaningful resource' to generate products and services. Even back in 1927, Professor J.M. Clark from Columbia University observed that 'knowledge is the only instrument of production that is not subject to diminishing returns'.

By the time the business world realised how powerful of knowledge could help improve organizational performance and uplift bottom line, it was already in the 1980s. For instance, in 1989 Mckinsey launched the Rapid Response Network (RRN) which provided 'intelligent interrogators' to facilitate the search for answers posed by its consultants. Another example was the Global Best Practise initiated by Arthur Andersen in the 1990s to support the transfer of tacit knowledge within its organization.

The evolution of managing knowledge was coupled with the increasing recognition of intellectual capital as a competitive resource for corporate survival or better performance. This is reasonable because in business sense, almost all changes or paradigm shifts would be associated with dollars and cents for justification of action. The development of knowledge management was tagged with a landmark event when Skandia, a Swedish financial institution, publicly issued its first annual report on intellectual capitals.

Knowledge is not merely data and information. It should have the added value to users and organization as a cycle of knowledge reuse and creation continually take place. According to Davenport *et al.* (1998b), 'knowledge is information combined with experience, context, interpretation, and reflection. It is a high-value form of information that is ready to apply to decisions and actions.'

Similar definitions like Davenport's are many. But another issue in knowledge management (KM) may arise based on opposing views. The group of editors of the 'Knowledge Management: Classic and Contemporary Works' (Morey *et al.* ed., 2000) categorize knowledge management perspectives into learning centric approach and information centric. The learning centric view emphasizes that knowledge is the capability to act effectively, or the 'actionable knowledge'. For information centric approach, they quoted the definition from the Gartner Group who refers 'knowledge management is a discipline that promotes an integrated approach to identifying, managing and sharing all of an enterprise's information assets, including databases, documents, policies and procedures as well as unarticulated expertise and experience resident in individual workers' (Morey *et al.* ed. 2000:xii).

Searching for a well-accepted definition of any subject matter will invite debates and redefinition. It is more so when it is applied to knowledge management as an evolving topic. To put it simply, knowledge management could be termed as management of knowledge which denotes the practice of managing knowledge. Simplicity, no matter how concise it is, could lead to more confusion in this case. To Tiwana (2000), knowledge management could be traced back to the 1950s and then since many management tools and disciplines has been associated with organizational learning and competitiveness. He further defines knowledge management as the

management of organizational knowledge for creating business value and generating competitiveness.

To others, knowledge management can be best viewed as business discipline or Practice (Raddling, 1998, Lotus, 2001). It is a collection of process that governs (Lee and Yang, 2000) the practice of identifying, capturing, organising, and processing information to create knowledge (Raddling, 1998); to systematically leverage information and expertise (Lotus, 2001); and management of information within an organization (Beijerse, 2000). The above descriptions entail a process of knowledge sharing, knowledge capture, knowledge transfer, and knowledge creation, which will be discussed in details in the survey findings (Chapter Five).

The purpose of knowledge management may seem diverse in many ways: to improve organizational responsiveness, innovativeness, competency and efficiency (Lotus, 2001), creating business value and generating competitive advantage (Tiwana, 2000). Benefits that are promised by knowledge management are aplenty. For example, to retain best practice by facilitating organizational learning, to respond customer better through effective management of customer capital, to stay ahead among competitors through better product development and innovation.

Generally, the strategies of managing knowledge are based on the nature of knowledge whether it is in tacit form or in explicit manner. To transfer highly tacit knowledge which is difficult to describe in words the personalization approach is commonly recommended. This is because in the interaction of learning by doing, involvement of knowledge building by the recipients, and intensively direct contact between the knowledge sharer and the re-user, tacit knowledge can be transferred much smoother.

On the other hand, the explicit knowledge which can be externalized in words, codification strategy comes to play. By codifying the explicit knowledge into a repository with a careful knowledge mapping will certainly helpful for the searching and retrieval of knowledge. In this approach, the information technology plays a very important role. The appropriate infrastructure and software can facilitate the process to share, retrieve, reuse and renew the organizational knowledge with greater efficiency and cost effectiveness. Therefore to deploy such method, the readiness of IT infrastructure in the Malaysian small and medium enterprises (SMEs) for knowledge management is imperative in this study.

1.2 Context of Study

The purpose of this study is to examine the general perceptions on managing knowledge of Malaysian SMEs which are relatively outstanding among their counterparts. In addition, their corporate culture that drives the employees' behaviour in knowledge sharing and transfer will be discussed. Another factor that could contribute to a participative knowledge sharing environment is the appropriate reward mechanism that recognizes sharing rather than hoarding. Since every organization has its own data and information, the ways our SMEs capture and store their organizational memory could be an interesting topic.

Adoption of a formal knowledge management may not appear feasible to many SMEs in this country. As Charles Handy (1995) suggests the evolutionary stages of a business ecosystem for any business entity, there are four stages ----birth, expansion, leadership and self-renewal----in a lifespan of a company. For those SMEs that are at the fourth stage to renew itself, a serious consideration on a better way to manage their

intellectual capital is timely, if not necessary. It is, therefore, a study on the current practice of formal knowledge management initiative is the closing part in this paper.

1.3 Need and Importance of the Study

Global economy is inevitable moving towards knowledge-based, Malaysian enterprises, or SMEs in particular, certainly cannot afford to ignore this trend. With the accelerating amount of knowledge workers, big or small companies are facing the reality of managing the brain power instead of muscle energy.

In terms of national economic imperative, there are fifteen companies of the Enterprise 50 winners to date have been listed on the Kuala Lumpur Stock Exchange since the award was inaugurated in 1996. Besides, 34 companies among winners in 2001 were exporters and that their total exports amounted to RM1.1 billion (Fernz, 2002).

Like other emergent management tools, including advent information technology, almost exclusively were practised and researched on large organization, knowledge management is hardly be the exception. Therefore, a common observations such as McAdm and Reid (2001) 'there is relatively little information available on KM in small- to medium-sized enterprises' is rather an encouragement to pursue this research.

1.4 Objectives of the Study

The objectives of this study are as follows:-

- i) To gather the perception of Malaysian SMEs towards knowledge management.
- ii) To survey should there any current practice of KM among Malaysian

SMEs.

- iii) To examine the readiness of SMEs to adopt and implement knowledge management in terms of technology and corporate culture.
- iv) To propose a KM model for SMEs to embrace the benefits of KM.
- v) To promote the awareness and importance of KM to Malaysian SMEs.

1.5 Research Problems

In this study, there are a few problems that seem apparent. Firstly, the awareness among Malaysian SMEs is unknown since very limited research has been carried out on the topic. Therefore their general view on intellectual capital and other issues on knowledge management are to be addressed.

Secondly, even though the informal experience exchange or document filing system are believed in practice in the SMEs, a systemic knowledge management endorsed by the management is rather a question mark.

1.6 Survey Questionnaire and Hypotheses

The questionnaire set for this study is self-administered with a total of 27 questions, including five questions that are detailed of sub-questions.

The design of the questionnaire is structured into six parts as follows:

- Part I : Perception on Knowledge Management
- Part II : IT Infrastructure
- Part III: People and Knowledge Worker
- Part IV: Knowledge Sharing
- Part V : Storage of Knowledge Component
- Part VI: Initiative of Knowledge Management

For those respondents who do not have any formal initiative knowledge management programme in their companies, their participation ends at Question 6.2 in Part VI. The construction of this questionnaire is adopted from two sources, they are (i) a research¹ questionnaire undertaken by School of Management, University Utara Malayisa, with the objective to determine the state-of-the-art of knowledge management in Malaysia and its added value to the respective Institution and the country, and (ii) a research paper presented by McAdam and Reid (2001).

Based on the research problems, a hypothesis is formulated as follows:-

Outstanding Malaysian SMEs could generally recognize the importance of intellectual capital but only a few will initiate formal knowledge management with the support of the senior management and sufficient technological infrastructure.

1.7 Assumptions

This study has the following assumptions:-

- i) Respondents, especially those who are representing management team, at least have heard of knowledge management and know about their business operation well.
- ii) Selected companies are more likely to acknowledge or implement knowledge management based on their outstanding financial and non-financial performance.
- iii) The respondents are aware of the importance of knowledge management and willing to admit practices (if any) that are incongruous with knowledge management.

¹ The research (IRPA SO 19360) was funded by the national IRPA fund (Intensified Research Priority Area) of the Ministry of Science and Technology in 2001.

- iv) The respondents are able to understand the terms or taxonomies of management and information technology in the questionnaire.

1.8 Methodology

This research paper uses the exploratory research methodology as the subject matter is relatively new and limited availability of researched data on the same sample. In order to gain the information on perceptions and practices of Malaysian SMEs, a survey was carried out in January and February 2002. These participating companies are small and medium size enterprise (SMEs) that have won the award of 2000 and 2001 Enterprise 50.

To encourage participation, it is promised that a summary report on the research findings will be furnished to participating companies as a token of appreciation. Furthermore, participating companies could request a presentation on knowledge management in the form of PowerPoint file or on-site presentation.

This paper comprises mainly the primary data collected from the survey. The analysis of the data will be discussed comparatively with the theories and research findings from the literature review on relevant topics.

1.9 Limitations

Several limitations of this study have been identified as the following:-

- i) Literature of research on intellectual capital or knowledge management of local context is relatively limited. The research on intellectual capital, according to Bontis *et al.* (2000), had been carried out in United Kingdom, Scandinavia, Australia, Canada, Austria and the USA, but none seems to be rooted in Malaysia.

- ii) The amount of research on small and medium enterprise, small organization is considerably limited.
- iii) Success rate (31%) may not well represent and to generalize the perceptions and practices on knowledge management of Malaysian small and medium enterprises.