

# Knowledge Management Peculiarities in MSMEs

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**Abstract.** Knowledge Management (KM) in Micro, Small and Medium enterprise (MSMEs) have unique and different process with large business in running the business and decision making process. These different coming from how the company manage the knowledge. MSMEs use to have more informal culture and structure compared to large organization. These informal knowledge usually owned by the founder. This type of knowledge known as tacit knowledge. MSMEs often rely heavily on the expertise of their employee and experiences if their employee or founder who possess tacit knowledge. So, Capturing and sharing tacit knowledge becomes crucial for business success. Enabling knowledge sharing if very necessary for long term MSMEs resilience. The knowledge sharing process may happen organically through daily interaction rather than formalized process. MSMEs also have limited resources include financial, human resources. This can impact the ability to invest in sophisticated KM System or dedicated personnel to manage knowledge. These knowledge management peculiarities can provide valuable insights and best practices, implement Strategy such as low cost tools, and building networking. Emphasizing a culture of continuous learning and encouraging employee to document and share their expertise can also contribute to effective knowledge management in MSMEs.

**Keywords:** knowledge management, MSMEs, peculiarities

## 1 Introduction

MSMEs are essential livelihoods in the ASEAN region and are therefore critical to post-COVID-19 recovery and future socio-economic resilience. MSMEs account for 97% to 99% of all enterprises, 85% of the workforce, approximately 45% of gross domestic product (GDP), and 10% to 30% of total exports. MSMEs form the backbone of the ASEAN region, but they face many challenges that threaten their survival and hinder their ability to grow. MSMEs need to adapt their business processes to survive the crisis and adapt to change (Ebrahimi, 2000 [1] This change is done by changing the business function or the entire business model. Zott (2013) [2] describes a business model as the content, structure, and control of transactions aimed at creating value through the exploitation of business opportunities. A good business model can explain how and why customers, suppliers, and other supporting elements interact with the company through digital/information technology interfaces. As the environment changes, business models control how the value architecture changes and provide a systematic framework to maintain overall consistency (Teece & Greg 2017) [3 ]

One of the internal resources is knowledge. Previous research has linked knowledge management as an incentive to innovate business models with knowledge and products and services (Dougherty, 1992) [4] and innovation activities (Bitner, Ostrom, & Morgan, 2008) [5]. I did. Hock-Doepgen, M., Clauss, T., Kraus, S. & Cheng, C.F., 2021)[6]. According to Barney, knowledge is one of the intangible resources that can influence organizational performance, along with other intangible resources, namely innovation and organizational trust. In MSMEs, the knowledge of managers becomes the source of future economic advantage, enhancing the uniqueness of each SME and creating a competitive advantage. Issues related to heterogeneous SMEs and intangible assets vary depending on the type, activity, size and level of development of SMEs.

Some small and medium-sized enterprises rely entirely on intangible assets, while other intangible assets primarily complement physical and financial assets. Rather than competing on the basis of physical or financial capital, the performance of small and medium-sized enterprises is influenced by the knowledge, experience, and skills of the owners and their employees (Chua & Wee, 2013)[7]. The main advantages of small and medium-sized enterprises lie in two aspects: the simplicity of internal structure and the transparency of organizational boundaries. SMEs have the flexibility to remain closely connected to the market, which is key to innovation. Having survived over the years and even passed on the business to the next generation, UKM certainly has knowledge that is passed down from generation to generation. In Indonesia, some MSMEs have been in existence for more than 20 years. They have overcome various crises.

Generally, these small businesses are owned by families with traditional or semi-modern family business systems. Success in overcoming the crisis and surviving in the long term is the reason for this study. SMEs are evaluated by the outside world, including credit institutions, investors, suppliers, and customers, based on their knowledge and knowledge application skills. The outside world requires small businesses to demonstrate the depth of their expertise and their ability to leverage that know-how. Many large companies that consider acquiring small businesses do so because of their expertise. Even if small and medium-sized enterprises do not become excluded from society and decide to expand their business, such as through an initial public offering (IPO), the decision will be based on the company's know-how and innovation potential. Our study makes several contributions to the SME literature by providing evidence of knowledge regarding the survival of MSMEs in low productivity environments. This paper provides practitioners with the importance of innovation, initiative and management support as enablers of effective KM processes in SMEs, as well as the level of social interaction and high trust levels among SMEs. is emphasized.

## **2 Literature Review**

### **2.1 Intangible asset**

Zhang (2017) [8] recognizes that intangible assets are non-monetary resources that do not have physical substance. On the other hand, Martimez et.all (2019) [9] argues that intangible resources are not easily available in the market and cannot be easily imitated by competitors. Bitner et.all (2007) [10] link intangible resources with intellectual capital or knowledge gained from acquiring, encoding, and distributing information and learning new skills through training, development, and business process redesign. used for. Intangible knowledge is an important source of competitive advantage. These assets may include patents, copyrights, intellectual

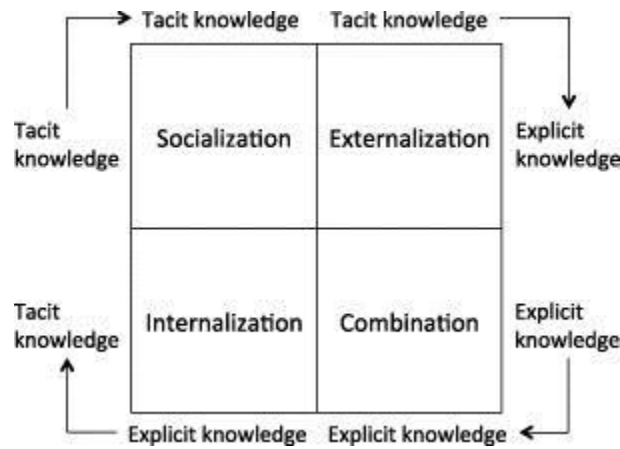
property rights, other types of rights, employee know-how, and owner know-how. The more structured and systematized knowledge is, the more likely it is to be shared with others. There are two types of knowledge: tacit knowledge and explicit knowledge (Nonaka, 2000) [11].

Explicit knowledge is the most accessible and transferable form of knowledge, and the simplest and most basic form of knowledge. Formal knowledge is the most available, easily accessible, structured and organized, easy to access and share, storable and accessible. This type of knowledge is a common asset for organizations. Storage and retrieval is typically done through a document management system or database. Tacit knowledge is knowledge that exists in a person's brain/mind depending on their understanding, expertise, and experience. This knowledge is typically unstructured, difficult to define or explain in formal language, and contains personal understanding. This knowledge is usually undocumented because it is still within the scope of individual expertise and experience and is therefore stored in each individual's mind. In contrast, explicit knowledge is knowledge that has been collected, translated, and converted into written form to make it easier to understand and communicate to others. This knowledge is formal, systematic, and generally theoretical, so it is easy to share with others in the form of documents. This makes it easier for experts to share their knowledge with others through books, articles, and magazines without the need for face-to-face meetings. others.

The success of small and medium-sized enterprises that leverage knowledge as the key to survival can be divided into three aspects: knowledge creation, knowledge exchange, and knowledge reuse (Aalavi & Leidner, 2001). Knowledge generation is the development of new ideas through the interaction of explicit and tacit knowledge (Nonaka et al., 2000) [11]. This process supports operational activities, identifies new opportunities, and supports innovation for organizational growth (Bushman et.all, 2010) [12]. Factors that promote knowledge creation are the skills, attitudes, and intellectual agility of employees (Roos et al., 1997). [13] They also have formal organizational structures in place that can contribute to knowledge creation, such as specialized problem-solving teams and technology incubation systems.

## **2.2 Seci Model**

Knowledge becomes a resource that can create competitive advantage if it can be created, processed, and shared with other organizational members. The process of knowledge transfer takes many forms. According to Nonaka and Takeuchi, there are four types of knowledge transformation. The model in question he calls the SECI model. Below is a description of each model. SECI itself stands for socialization, externalization, combination, and internationalization. We will discuss these four models.



**Figure 1.** SECI Model

The success of SMEs in using knowledge as the key to survival is divided into those four dimensions. The interview instrument used in this study was based on the SECI model.

### 2.3 Micro, Small and Medium Enterprise

MSMEs are a key livelihood source in the ASEAN region and are therefore critical to post-COVID-19 recovery and future socio-economic resilience. In ASEAN, MSMEs account for 97% to 99% of all enterprises, 85% of the workforce, approximately 45% of gross domestic product (GDP), and 10% to 30% of total exports. Most MSMEs in ASEAN (72-85%) operate in rural areas. This means that many of them have limited access to both basic infrastructure, such as electricity and communications, and digital infrastructure, such as broadband internet. These make access to international markets difficult and affect the ability to innovate, leading to low technology adoption, high production costs, shortages of skilled labor and limited access to financial services. MSME categories vary by country. The classification of MSME in Indonesia is as follows:

**Table 1.** MSMEs Classification

Business Size	Criteria	
	Net Worth (excluding land and Building)	Annual Sales
Micro Business	Maximum IDR 50 Million	Maximum IDR 300 Million
Small Business	IDR 50 million– IDR 500 million	IDR 300 million– IDR.2,5 billion

(Source: Law Number 20 of 2008)

MSMEs require not only physical assets but also non-physical and intangible assets. According to Nonaka and Takeuchi (1995)[14], the main reason for the success of Japanese companies lies in their skills and experience in managing/creating knowledge in organizations where knowledge is the intellectual capital that people possess as an element of humanity. there is. . In Indonesia, MSMEs are one of the economic pillars that are believed to be best able to weather this crisis. Since the currency crises of 1998 and 2008, MSMEs have been considered more viable than large corporations. However, in 2020, it became clear that MSMEs were among the hardest hit businesses during the crisis caused by the coronavirus disease (Covid-19) pandemic.

The ability to survive and recover from threatening external events such as global crises and pandemics is an important topic in strategic management research, especially for micro, small and medium enterprises (MSMEs). The business resilience of Indonesia's MSMEs is evident from Bank Indonesia data showed overall, 90,10% of MSMEs experienced a decline in sales, 47,40% of MSMEs reduced selling prices to increase buyer interest, and 59,60% of MSMEs checked availability of raw materials. Due to limited supply and distribution chains, 49, 20% of MSMEs experienced layoffs and 86, 20% of MSMEs experienced reduced ability to pay installments. Furthermore, data released by Kemenkop UMKM shows that 949 MSME cooperation stakeholders were affected by the pandemic. Up to 68% of MSME problems are due to decreased sales, 12% to capital issues, 10% to increased distribution issues, and the rest due to raw material issues and production delays. Bank Indonesia's report also said that only 12. 50% of MSMEs were able to survive without any problems, while 27.6% had increased sales.

### **3 Result and Discussion**

Our sample consisted of three small businesses from three different industries. Industry differences in the sample help generalize the existence of knowledge management specificities. Sampel also selects small businesses based on certain similarities. First, all SMEs in the sample have more than 2 to 8 employees. Second, all small businesses have been in business for more than two years. And its sales are less than 500 million annually. Due to the novelty of the studied phenomenon (Yin, 1989) [15], data were collected using qualitative methods and semi-structured interviews with small business owners were used for data collection. . The collected data were analyzed using NVIVO software.

#### **3.1 Instrument Development**

The interview instrument was developed based on the SECI model with four indicators: knowledge socialization, including face-to-face meetings for the purpose of exchanging knowledge and experiences, collaboration through electronic media, communities of practice, and training. It is a feature. Training that facilitates the transfer of tacit knowledge from trainers to participants. Externalization indicators aim to express tacit knowledge into explicit or explicit concepts through a process of dialogue and reflection, and convert meeting minutes (the explicit form of knowledge created during a meeting) into electronic form. This is done by documenting



			breafing, practice, rules
Employee	Meeting Operational	Experience, Sharing,	Discussion, practice, training, internalization, habit, evaluation, reminding,

Cluster analysis is in accordance with the SECI Model, because there is a process of changing from tacit knowledge to explicit knowledge. This process can be seen in the knowledge code. Knowledge is divided into group activities in the form of meetings conducted in the organization and initiated by the owner or through group wa. Both of these activities are informal (group wa) and formal (meetings), but both carry out the same activities seen in the third cluster, namely sharing knowledge which is then implemented in the organization's operational activities. The fourth cluster shows the tools and media used in the process of internalizing tacit knowledge into explicit knowledge. The tools and media used are discussions and brainstorming, videos, notes, implementation or practice in operational activities and embodied in organizational rules.

Employees are the main code. This is interesting because it shows that in SME's employees are a very important subject in terms of knowledge management. This can be understood because the knowledge management process in MSMEs does not fully use technology. Human is a very important factor, especially because in MSMEs tacit knowledge is more dominant than explicit knowledge. Employees gain knowledge from two sources, namely from meeting activities both formal and informal and from the company's operational activities. Information from operational activities shows the observation process they carry out so that they get tacit knowledge. They then share this knowledge and internalize it into experiences which then become habits. Habits that arise as a result of tacit knowledge will become explicit knowledge through reinforcement through training, reminding and evaluation.

### 3 Conclusion

The research confirmed the SECI Model in knowledge management at SMEs. Employees or human factors are the most important factors in the knowledge management process at SMEs. The process of changing tacit knowledge into explicit knowledge through two main clusters, namely human and knowledge and internalized through two formal and informal channels. The sharing process is carried out through meetings and implementation in the company's operational activities using tools and media that can be accepted by organizational members. The process of strengthening tacit knowledge into explicit knowledge will always be reminding and evaluating.

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