

THE INFLUENCE OF KNOWLEDGE MANAGEMENT ON FINANCIAL PERFORMANCE OF SME'S: A QUANTITATIVE STUDY

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Abstract

Knowledge management is recognized as a significant tool for sustaining competitive advantage and improving performance. The evaluation of knowledge management (KM) performance has become increasingly important since it provides the reference for directing the organizations to enhance their performance and competitiveness. This study aims to determine the impact of knowledge management on the Financial Performance in SMEs while taking independent and dependent variable into consideration. Organizations should establish knowledge directorates to discover and transmit knowledge to workers with a view to improve the creativeness and distinctiveness of organizations. The use of KM can contribute to the overall growth of SMEs by simultaneously and significantly enhancing their financial performance. The findings indicated that Knowledge Management Practices positively impact Financial Performance of SMEs.

Keywords: Knowledge Management, Financial Performance, Competitiveness, Organization, SMEs.

1. Introduction

Knowledge is a most dynamic assets that ensures the survival of firms in the competitive business environment. The emergence of knowledge-based economy has made it a tactical for businesses to initiate ways to effectively acquire and manage changing organizational knowledge. Knowledge when collected and disseminated over the organization has the capability to contribute to the company's value (Choi et al., 2006). Ineffectiveness in managing knowledge makes the knowledge extraneous and not suitable for organizations (Yusof & Abu Bakar, 2012). Hence, knowledge management (KM) is considered to be an imperative and critical issue, to such an extent that organizations must effectively and efficiently manage their knowledge bases and sources to earn long-term viable advantage (Alabi & Leidner, 1999; Devenport & Prusak, 1998). The application of KM strategy offers firms with active possibilities for enhancing knowledge quality and for combining the value and applicability of knowledge (Spender & Grant, 1996). Knowledge management process capabilities were conceptualized as five dimensional constructs: knowledge acquisition, knowledge dissemination, knowledge storage, knowledge application and knowledge maintenance while organizational performance were divided into two dimensions namely, non-financial performance and financial performance.

Generally, small and medium enterprises (SMEs) play a vital role in supporting the nation's economy. The persistence of this study is to provide valuable insights to SME's through knowledge management using its key contributing factors (effectiveness, increasing productivity and efficiency of operations) towards establishing effective knowledge management. Given the importance of knowledge, businesspersons are encouraged to develop their capabilities to manage knowledge which will move them to become more competitive and innovative

2. Methodology of Study

Knowledge Management and Financial performance:

The questionnaire was used for primary data collection in this work. The questionnaire was constructed based on developed hypothesis. Descriptive analysis was done using the items such as better return on investment and cost. Regression model shows the impact of KM Practices on financial performance of the organisation where the p-value of the regression model is 0.00 which represents significant impact of KM Process like knowledge acquisition, knowledge dissemination, knowledge storage, knowledge application and knowledge maintenance. The Value of Coefficient (R) is 0.262 and Value of R square indicated 0.067% of variance of financial performance is explained by the KM Process of the organization.

Table 1. KM Practices and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
7	.262 ^a	.069	.067	1.707

Table 2. Equation

Independent Variable	Dependent Variable	Test	Accepted or Rejected	Equation
KM Practices	Financial Performance	Regression Analysis	Accepted	FP=4.037 + .049(KMP)

Table 3. Descriptive Analysis

Label	Construct	Items	Mean	Std. Deviation
FP1	Financial Performance	Better Return on Investment	3.49	1.100
FP2		Reduced Costs	3.70	.944

Table 4. Hypothesis Testing

Model No	Independent Variable	Dependent variable	R	R Square	F-value	Intercept	Coefficients	t-value	P-value
1	KMP	FP	.262	.069	31.807	4.037	.049	5.640	0.00

The p-values in all the four regression models are below 0.05 which cleared that there is significant relationship between the independent and dependent variables. Hence, the Hypothesis H1 is accepted.

3. Conclusion

This study indicates that KM has positive impact on the financial performance of SMEs and most of the managers have an optimistic thought on their company's future. These findings have some similarities with the study of KM in large companies although they have distinctive in nature and in managing knowledge. SMEs should contemplate on how KM can be implemented successfully. This would embrace approaches and plans for implementing KM, and encouraging learning and knowledge sharing among employees. An important component of KM is to augment the learning capacity of the firm and that can be done by building a learning organization. This is more related to designing organizational procedures and routines than it is to managing assets. Based on the analysis this study we can conclude that KM can play an important role in improving the financial health of an organization.

The practical implications of this study are that owner- businesses/managers of manufacturing SMEs need to pay keen interest in decoding their available knowledge resources into the development of new products, new processes, and new markets to improve their business performance. This can be achieved by utilizing well qualified staff, by motivating and empowering employees through short courses and by enabling them to attend seminars and conferences in order to obtain knowledge. In addition, knowledge sharing culture within an enterprise must be strengthened. Lastly, the assimilated new knowledge must be effectively used to generate innovative products which will result in increased business performance.

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