

# Knowledge Management Practices and Organizational Performance of SMEs in Pakistan

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## Abstract

*With recent trends of knowledge workers, organizations are now focusing more on the knowledge management practices. Capital intensive organizations are following these practices since long but there exists a need to find their impact in the small medium enterprise (SMEs) sector of Pakistan. The aim of this paper is to understand the impact of knowledge management practices on the performance of SMEs. Using correlation and regression analysis, results showed that knowledge management practices such as innovation, organizational learning, and managerial competency are positively related with organizational performance. Furthermore, managerial implications are also discussed.*

**Keywords:** *Innovation, organizational learning, managerial competency, organizational performance, knowledge management.*

## 1. Introduction

The concepts of organizational learning and knowledge management have been studied as areas of great interest in the modern day organizational context. This is so because the present day organizational functioning tremendously relies on the ability of managing and sharing information and knowledge across organizations. The twenty-first century is also considered as the age of knowledge and information because the individuals, and in the same way organizations, that can acquire, process, execute and use information efficiently are competitively ahead of their competition. Knowledge management done

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well on part of organizations leads to the proficiency of the concerned organization. Organizations that can manage their knowledge well are therefore considered as learning organizations with an extension that these organizations are able to build on their experiences and make necessary changes and improvements in their processes and policies where necessary (Chen & Huang, 2009). As Jain and Moreno (2015) recognize, the importance of knowledge management is significant for all the organizations whether they are public or private or are small or large in scale. Knowledge management may further be elaborated that it involves distribution of knowledge and development of expertise on the basis of acquired knowledge with organizational performance as an objective (Iandoli, 2007).

This paper adds to the literature of knowledge management and organizational performance by focusing SMEs in Pakistan. Previous studies on this topic have largely ignored SMEs in Pakistan, e.g. Nawaz, Hassan, and Shaukat (2014) studied the impact of knowledge management and organizational performance in the PSX-listed manufacturing firms of Pakistan. However, we use a sample of 250 employees of small restaurants. Our sample helps in understanding a business sector that is largely ignored in the extant literature.

The rest of the paper is organized as follows: literature review is presented in Section 2; methodology is discussed in Section 3; Section 4 presents results and analysis; Section 5 concludes the paper.

## **2. Literature Review**

Irwin, Hoffman, and Geiger (1998) found that due to the intensity of competition in the present day and age, organizations are left with fewer options as they have to strive for performance and efficiency. This calls for lesser utilization of resources for meeting organizational objectives but for that, an organization has to foster the culture of innovation, learning and managerial competencies. Organizational learning is amongst the most important factors for enhancing organizational performance as advocated by García-Morales, Jiménez-Barrionuevo and Gutiérrez-Gutiérrez (2012). They believe that the leaders that foster an environment of learning in their organization ultimately get organizational performance enhancement because the organizational

members are allowed and given an opportunity to apply their learning and findings further ahead in their jobs. Škerlavaj, Štemberger and Dimovski (2007) give a different view of the factors of organizational learning and knowledge acquisition by connecting them with the organizational process change claiming that when organizations go through changes either drastic or routine, the learning achieved during standard operations are the most useful and relevant for the business success. This implies that organizations that value their learning either good or bad are better able to function when the situation calls for it, i.e. emergent situations like crisis or sudden change in situations. On the other hand, Jiménez-Jiménez and Sanz-Valle (2011) give a functional view of organizational learning processes and fundamentals that an organization must materialize, and utilize its learning on all levels whether individual, group, or organization to effectively enforce this learning. Organizations operating at small and medium levels are most concerned with their product innovation or distribution. Alegre and Chiva (2008) found that these organizations could capitalize because they can put their learning to use in recurring products. It may therefore be established that organizations, particularly smaller and medium scale ones, ought to be significantly affected by their efforts made towards deploying their knowledge and bringing it to use. Basly (2007) strongly advocates that organizational learning habits developed by small and medium scale organizations have lasting impact on their performances both in the short as well as long-run as the improvements brought about by these organizations in their processes, policies or governance methods are reflected very clearly in their future performance due to their small size of operations and visibility. Rhee, Park, and Lee (2010) agree that the innovative small and medium sized organizations may best utilize organizational learning practices and get its positive significant reflection on their performances. Based on the above, the study generates the following hypothesis:

*H<sub>1</sub>: Organizational learning positively impacts the organizational performance*

Innovation on part of organizations is beneficial, and that too in the area of management is further supportive towards meeting organizational objectives in the dynamic business environment (Walker, Damanpour, & Devece, 2010). This implies that the management of an organization that works for the organizational objectives in an innovative matter enhances the organization's

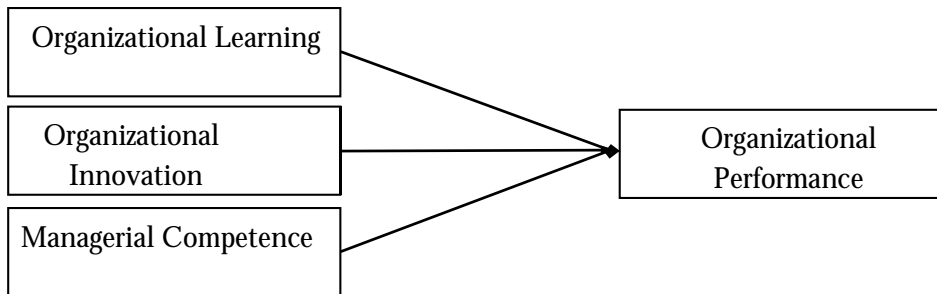
capacity to perform under unchartered circumstances that are more common for the organizations operating at smaller capitals and volumes. Small and medium sized organizations, due to their lesser significance for regional policy makers, are more vulnerable to changes in the policies and regulations majorly because these changes bring about new challenges for their operations testing their managements' endurance. Innovative managements in this scenario can be of great benefit in finding ways around these regulations to continue progressing. Rosenbusch, Brinckmann, and Bausch (2011) studied that for small and medium sized organizations, fostering innovation may or may not always be beneficial depending on the fact how well the organizations have worked on the proposed and devised solutions. This implies that based on how well or otherwise have organizations worked on their solutions that they devise to meet the changes head on, organizational performance of small and medium enterprises gets affected by the innovative practices. Ngah and Ibrahim (2009) illustrate that while small and medium sized organizations may never be able to compete with the organizations of much larger size, they can compete with them on the grounds of intellectual capital and its application in practice. Based on these arguments, the study proposes the following hypothesis.

*H<sub>2</sub>: Organizational innovation positively impacts organizational performance.*

No matter how brilliant an idea may be, the executive of that operation at the end matters the most when it comes to the fruitfulness of the entire practice. The management of an organization is very closely and significantly associated with the organizational performance; and the extent to which the management can competently cater for the organizational needs decides the performance levels of the concerned organization (Paulraj, Lado & Chen, 2008). Spencer and Spencer (2008) have shown that the managerial incompetence, despite the presence of all other organizational advantages, may render them useless. It is, therefore, not wrong to portray that management's competence is the heart and soul of an organization that engulfs the organizational outcomes. Müller and Turner (2010) have signified that organizations with managers having high levels of competence can direct their organizations through turmoil and crisis-laden situations and believe that this is best exhibited in projects that are also time bound in addition to all other challenges that they present for their managers. Hou and Chien (2010) have comprehended the factors of

organizational performance having been affected by management's competence that comes from an acute level of knowledge acquired and managed by the management during their tenure and then innovatively using this information and knowledge for meeting organizational objectives. Based on these arguments, the study proposes the following hypothesis.

*H<sub>3</sub>: Managerial competence positively impacts the organizational performance.*



**Figure 1:** Theoretical Framework

### 3. Methodology

The present research is to examine the impact of knowledge management practices on organizational performance. Positivism research paradigm has been adopted with deductive research approach. In order to get more generalized findings of the study, survey research design has been adopted and for this purpose 250 questionnaires were distributed in the restaurants of SMEs sector of Pakistan. A total of 206 questionnaires was successfully received at a response rate of 82.4%. This study is cross-sectional in nature and uses non-probability sampling technique, with target population being employees of the restaurants of SMEs in Pakistan. Questionnaire was adopted/borrowed from the works of Marqués and Simón (2006). and pilot study was conducted for the purpose of reliability. Cronbach's alpha test showed that reliability of the all the variables was more than 0.7. For face and content validity, questionnaire was scrutinized by linguist and psychiatrist. A five-point Likert scale is used ranging from 1= strongly disagree to 5= strongly agree. Statistical Packages for Social Sciences SPSS version 21 was used to analyze the collected data. The statistical tests of regression and correlation were used to analyze the data.

#### 4. Results and Discussion

**Table 1:** Descriptive Statistics

Category	Classification	Frequency	Percentage
Age	21-30	98	47.6
	30-40	72	35.0
	40-50	33	16.0
	over 50	3	1.5
Gender	Male	164	79.6
	Female	42	20.4
Marital status	Single	58	28.1
	Married	142	68.9
	Widow	6	3

Table 1 shows that major respondents are male, i.e. 79.6% (164), and female respondents represent 20.4% (42). This table also shows that majority of the employees are married, i.e. 68.9%, and majority of the employees are from the age group 21-30 years (47.6%). This shows that majority of employees are young and only 1.5% respondents represent the age bracket of over 50.

**Table 2:** Correlations

		Organizational Performance
<b>Organizational Learning</b>	Pearson Correlation	.139*
	Sig. (2-tailed)	.047
<b>Innovation</b>	Pearson Correlation	.272**
	Sig. (2-tailed)	.000
<b>Managerial Competency</b>	Pearson Correlation	.099
	Sig. (2-tailed)	.157

Table 2 shows correlations among variables. Correlation between organizational performance and organizational learning is 0.139 which shows that these variables are significantly positively correlated, though the correlation is weak. Innovation and organizational performance are also significantly positively correlated, i.e. 0.272, and the level of significance is high. Lastly, management competency and organizational performance are positively correlated (0.099), though insignificantly.

**Table 3:** Model Summary

R value	.283
R Square Value	0.08
Adjusted R squared	0.066
F value	5.845
Significance value	.001

Table 3 shows the model summary. The value of R is 0.283 which explains the cumulative relationship of organizational learning, innovation and management competency with organizational performance. R-square shows the variation in dependent variable due to independent variables. Above table shows that there is 8% variation in organizational performance due to managerial competency, innovation and organizational learning. The value of F-test is 5.845 which identifies the fitness of the model with a p-value less than .05, i.e. 0.001, showing that the model fit is significant.

**Table 4:** Regression Coefficients

<b>Coefficients</b>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std.	Beta		
1	(Constant)	1.908	.389		4.902	.000
	OrgL	.085	.083	.072	1.021	.309
	Inno	.291	.084	.247	3.454	.001
	Mancom	.025	.065	.027	.387	.699
a. Dependent Variable: organizational performance						

Table 4 presents the regression coefficients of the coefficient shows that the value of A=1.908 the average of the organizational performance and the value of the "beta" identifies that one unit increase in organizational learning will increase .085 unit in organizational performance and the value of "beta" is .291 which identifies that one unit increase in innovation will increase .291 unit in organizational performance. While the value of "beta" is .025 units which shows that one unit increase in management competency will increase .025 unit in organizational performance. However, the relationship of organizational learning and managerial competency was insignificant while innovation has a significant relationship with organizational performance.

It is interesting to note that organizational learning and managerial competency do not play a role in increasing firm performance. Since our sample comes from employees of small restaurants, the owners seem to assign less weight to organizational learning and managerial competency.

## **5. Conclusion**

Organizational performance is positively affected by knowledge management. The performance of organizations is increased by knowledge management dimensions, i.e. innovation, organizational learning, and management competency. The early studies of knowledge management show that the organizational performances vary among organizations due their knowledge and other management capacities (Grant, 1996). Current study shows that the more the management is practical about increasing their knowledge through knowledge management practices, the more the organizational performance increases. In previous studies, organizational learning was seen to be positively related to the organizational performance (Liuhto, 1998). Organizations specifically promote learning environment so that employees can get maximum learning opportunities and continuously develop themselves. Organizational learning brings creativity, innovation and build strong personal qualities in employees. However, this study refutes the existing literature in terms of organizational learning and organizational performance. The reason for this insignificance might be because in the restaurant sector directive leadership plays a dominant role to execute all the tasks. As directive leadership tends to prohibit creativity and innovation and tasks in restaurant sectors of Pakistan are mostly of tactical in nature, organizational learning has an insignificant relationship.

Current study also studied the relationship of innovation and organizational performance and found that organizational innovation is positively related with organizational performance which is again in line with the previous findings that if innovation and creativity are allowed in the organizational boundaries, they will enhance organizational performance. Organizational innovation allows employees to go for new ideas which enhances the level of commitment and motivation which ultimately enhance the organizational performance.



However, the current study refutes the previous studies which develop a linkage that managerial competency positively and significantly influences organizational performance (Carter & Tamayo, 2017). In this study, managerial competency is insignificantly related with the organizational performance and the reason might be that most of the restaurants have bureaucratic structure. Majority of the restaurants have standard operations and procedures in which managerial competency may not play a significant role in executing daily routine tasks.

This study will help managers to (i) understand the organizational environment and to devise policies to enhance organizational performance in restaurant sector of Pakistan, (ii) promote innovation in organizations for enhanced performance, (iii) create a flexible organizational environment for learning, (iv) explore that what are the reasons of the insignificant relationship of managerial competency and organizational leaning with the organizational performance.

The study proposes to consider other sectors to check the level of generalizability as restaurants have typical organizational environment which might not be the case in other sectors.

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