

Tacit knowledge sharing and organizational performance: Malaysian SMEs perspective

Rohana Ngah, Abdul Razak Ibrahim

Universiti Malaya
Faculty of Business & Accountancy
Universiti Malaya, Kuala Lumpur
Tel : 03-26173024, Fax : 03-26173050
E-mail : hana_ngah@perdana.um.edu.my

ABSTRACT

Tacit knowledge sharing is still at infancy especially in SME. Tacit knowledge exists in every corner of SME, in its structure and relationship especially in its people. Even though knowledge management will benefit SME as they are rich of tacit knowledge but lacking in expertise, financial capital and infrastructure, KM is almost impossible for SME currently. . Since SME have efficient and informal communication network, knowledge sharing is essential especially in an organization with scarce resources. Therefore, in the wake of knowledge-based economy, tacit knowledge sharing is the best tool for SME in enhancing competence and organizational performance which suit its needs and background.

Keywords

Tacit knowledge sharing, organizational performance, Small & Medium Enterprises

1.0 INTRODUCTION

The nature of knowledge in SMEs is almost all in tacit nature (Egbu et al, 2005). Nonaka & Takeuchi (1995) suggest that the flow from tacit to explicit knowledge would benefit the organization. According to Wong and Radcliffe (2007), tacit knowledge in SMEs is difficult to turn into explicit therefore sharing this tacit knowledge is the best to help improving SMEs' performance particularly when tacit knowledge sharing would takes place during socialization and in an informal ways. The cost of knowledge management either IT or human resources are costly (Choi & Lee, 2003; Du et al, 2005). Therefore most of small and medium-sized firms cannot afford to have or adopt knowledge management system (Mc Adam & Mc Creedy, 1999; Kuan & Aspinwall, 2004). However, knowledge sharing cost is bearable for SMEs (Du et al, 2003).

This paper is organized into 4 sections: Section 1 will discuss on introduction. Section 2 is a close-up of nature of tacit knowledge. Section 3 will about tacit knowledge

sharing in organization, organizational performance and SME. Section 4 is the conclusion.

2.0 NATURE OF TACIT KNOWLEDGE

2.1.1 Knowledge

Knowledge lies in human minds and exists only if there is a human mind to the knowing (Widen-Wulff & Suomi, 2007). There are three dimensions of knowledge: width, depth and tacitness (Nooteboom, 1993). Knowledge can be created by intentional and resource-consuming efforts (Du et al, 2007). The neglect of the tacit knowledge based on people and ideas has undoubtedly reduced the corporate market place's capability for true innovation and sustainable competitiveness (Gamble & Blackwell, 2001).

2.1.2 Tacit versus Explicit

Knowledge is classified into two types as tacit and explicit by Polanyi (1966, p.135 – 146). Explicit knowledge is the type of knowledge that can be easily documented and shaped (Choi & Lee, 2003). It can be created, written down, transferred and followed among the organizational units verbally or through computer programs, patents, diagrams and information technologies (Keskin, 2005; Choi & Lee, 2003).

Tacit knowledge is what embedded in the mind (Choi & Lee, 2003), can be expressed through ability applications; is transferred in form of learning by doing and learning by watching. Based on Polanyi (1966), all knowledge has tacit dimensions. It can be completely tacit, semiconscious or unconscious knowledge held in people's heads and bodies (Leonard and Sensiper 1998) Tacit knowledge can be classified into two dimensions: technical and cognitive (Pathirage et al, 2007). Technical encompasses information and expertise in relation to "know-how" while cognitive consists of mental models, beliefs and values. Tacit knowing embodied in physical skills resides in the body's muscles, nerves and reflexes and is learned through practice. And tacit knowledge also embodied in cognitive

skills (Leonard and Sensiper 1998). While explicit ready to be explored, tacit knowledge is difficult to be extracted without the consent of the knowledge owner. Tacit knowledge and explicit knowledge complete each other and they are important components of knowledge management approaches in organizations (Beijerse, 1999). Keskin (2005) found that tacit knowledge, explicit knowledge and performance are closely related especially when the external environment is hostile. The great virtue of tacit knowledge is that it is automatic, requiring little or no time or thought (Stewart 2000). Stewart (2000) emphasize that tacit knowledge tends to be local as well as stubborn because it not found in manuals, books, databases or files. It is oral. It is created and shared around water cooler or over coffee break. Tacit knowledge spreads when people meet and tell stories. As tacit knowledge remains hidden, unspoken and tacit, this knowledge can either knowledge embodied in people and social networks or knowledge embedded in the processes and products that people create (Horvath, 2007). Effective KM requires a symbiosis between explicit and tacit knowledge in line with technology and human resource processes (Choi & Lee, 2003). Almost all studies of knowledge management emphasize on knowledge flow.

In commercial environment, knowledge must be put into work in three primary areas; customer needs, concern processes and body of knowledge (Gamble & Blackwell, 2000). Every members of the organization must understand how his or her work contributes to fulfilling customer needs and how the products and services of the enterprise provide customer value. Then members of the organization must understand how his or her work relates to the work of others. The last part of the process is the flow of knowledge that every person must understand, to varying degrees, something about the subject matter with which members of the organization deal. This requires deeper knowledge of relationships and meanings both within the enterprise and the outside world. Therefore, if business idea is to be successful, it has to deliver it deliver value and profit.

Knowledge must be continuously circle and flow in the organization. As long there is a stock of knowledge, during any period of time, there is a flow of knowledge (Stewart, 2000). Making knowledge available to others and capturing a new knowledge as well has been described by Nonaka (1991) as spiral of knowledge. Nonaka & Takeuchi (1995) examine the concept in terms of a knowledge spiral encompassing four basic patterns of interaction between tacit and explicit knowledge: socialization, externalization, combination and internalization. This knowledge spiral sometimes regarded as knowledge acquisition (Yli-Renko et al., 2001), knowledge creation (Lee & Choi, 2003), knowledge activity (Kim, 2002). There is no specific definition of this

spiral knowledge but the main idea of the spiral is the sharing of knowledge of an individual and share it with others and eventually acquire a new knowledge which is simply knowledge sharing. There is a contradict views on tacit and explicit knowledge of western and Japanese. Western research believed that knowledge must be explicit to turn into performance (Egbu et al, 2005) but Nonaka & Takeuchi (1995) believe, tacit knowledge need to be convert into explicit in order to make it useful. And the process is through socialization and informal. However, Leonard & Sensiper (1998) point out that knowledge not necessarily need to be explicit in utilizing it. Knowledge can remained tacit but collective tacit knowledge to lead to creativity and innovation (Leonard and Sensiper 1998).

3.0 TACIT KNOWLEDGE SHARING IN ORGANIZATION

Not much literature review or company includes knowledge sharing as part of its key components as knowledge sharing is considered as difficult to measure (Christensen, 2007). But the bottom line is knowledge sharing is critical to a firm's success (Davenport & Prusak, 1998). The major problems of knowledge sharing are to convince, coerce, direct or otherwise get people within organization to share their information (Gupta et al, 2000). For organization, knowledge sharing is capturing, organizing, reusing and transferring experience-based knowledge that reside within the organization and making that knowledge available to others in the business. The interesting characteristics of knowledge is that its value grows when shared (Bhirud et al, 2005). The question is whether people are unaware of unable to articulate their tacit knowledge? Tacit knowledge sharing can take place at anytime, anywhere in the organization. Wah et al (2005) believe that an individual will only involve in knowledge sharing if the conditions below exist:

1. Opportunities to do so
2. Communication modality
3. expectation of the benefits of members accrue
4. expectation of the cost of not sharing knowledge
5. context compatibility for those who shared
6. motivation is crucial precondition for knowledge sharing
7. personal compatibility and liking
8. opportunism (associated with transaction cost analysis)

Riege (2005) suggests that three important elements of knowledge sharing are individual, structure and technology would help organization in encouraging knowledge sharing in the organization. As tacit knowledge is very personal and very valuable, organization should concentrate on utilizing and capitalizing its tacit knowledge sharing.

3.1 TACIT KNOWLEDGE SHARING AND ORGANIZATIONAL PERFORMANCE

Tacit knowledge can be either knowledge embodied or knowledge embedded (Horvath, 2007). Embodied knowledge resides in the people minds while knowledge embedded is shown in products, processes or documents. The value of tacit knowledge is only known through its outcomes - innovation and organizational performance. Gold et al (2001) emphasize that knowledge infrastructures such as technology, structure and culture along with knowledge acquisition, conversion, application and protection are essential organizational capabilities for higher organizational performance. They believe that these key infrastructures would enable maximization of social capital.

Figure 1

Infrastructures	Context
Structural infrastructures	Norms, trust
Cultural dimensions	Shared context
Technological dimensions	Technology-enabled ties

Technology dimensions are part of effective knowledge management include business intelligence, collaboration, distributed learning, knowledge discovery, knowledge mapping, opportunity generation as well as security (Gold et al., 2005) while structure is important to optimize knowledge sharing process within the firm. And the most significant hurdle of knowledge management or knowledge sharing in particular is organizational culture. Shaping culture is the central of firm's ability to manage its knowledge. Husted et al (2005) reveal that extrinsic motivators such as reward (monetary incentives) are related to knowledge exploitation while intrinsic motivators such as self-fulfilling task are related to knowledge exploration. Pathirage et al (2007) highlighted studies by Grant (1996) and Zander & Kogut (1996) that tacit knowledge can be integrated externally through relational networks those span organizational boundaries that are paramount for superior performance. Knowledge sharing leads to higher organizational performance (Du et al, 2007; Widen-Wulff & Suomi, 2003, 2007, Darroch & McNaughton, 2002) especially when knowledge sharing capabilities is combined with organizational resources (Widen-Wulff & Suomi, 2007). Choi & Lee (2002) in Keskin (2005) indicated that applying tacit and explicit oriented strategies is imperative for firm performance by large sized firms in western countries, but scant on firms' performance of SMEs in developing countries. As small businesses may lack performance measurement frameworks, these businesses should start with simple performance measures in their performance measurement framework, as suggested by Keegan et al (1989 & 1994) in

Ali (2003). Small business should strive for simplicity and keep their performance measurement system focused and simple (Ali, 2003). Ali (2003) had proposed a performance measurement framework that suit SMEs as developed by Neely et al (Ali 2003) on balanced-scorecard. The expression "small firm" has no single definition, mainly because of the wide diversity of businesses. In the literature, some of the most widely used criteria to delineate a "small business" include size, number of employees, sales volume, asset size and type of customers (Ali, 2003). The size of the businesses and the increasingly competitive market force small and medium enterprises to consider more cost-effective processes than large enterprise must consider. As well, small businesses have to deal with unique operational and limited financial and economic resources (Ali, 2003). The strength of small business lies in greater motivation, better survey of the entirety of a project, tacit knowledge in unique skills, more informal communication along shorter lines, less bureaucracy, greater proximity to the market and to own production (Nooteboom, 1994). In short, in order for SME to perform better in market, they need supportive culture, active knowledge sharing activity and innovation process. Every organization deal with many issues and SMEs are not exempted. Based on the problems faces by SMEs attempting to sustain their market share and to increase growth, they need some or all of the following:

- Strategic and operational planning
- Management of human resource
- Decision making related to financial, technical and marketing issues; and
- Performance measurement (Ali, 2003)

3.2 TACIT KNOWLEDGE SHARING IN SME

The strength of SMEs lies in motivation, good network, tacit knowledge in unique skills , shorter informal communication, less bureaucracy, greater proximity to market and internally which is important to be innovative (Nooteboom, 1993). Tacit knowledge sharing is ubiquitous in informal and without bureaucracy. Informal face-to-face of social interaction is the most effective technique used in the sharing of knowledge in SME whereby Egbu (2005) knowledge in SME is in tacit nature. Individuals who open up SMEs do so because they have knowledge in key areas of competencies and think they can compete using such knowledge (Desouza & Awazu, 2006). In small business, knowledge tend to be shallow (no functional specialists) and tacit. Shallow can be modified by supplementing from external sources while narrow knowledge leads to tacit knowledge on how to run a business (Nooteboom, 1993). According to Davenport and Prusak (2000), network plays an important role in developing knowledge and innovative thinking especially during informal meetings. Most of

consulting and service firms have organized their informal networks into formal networks in ensuring that all knowledge is acquired necessarily. Tacit knowledge helps SME to be different from its competitors particularly on their resources as based on resource-based theory (Barney, 1991) which should be valuable, rare, limited and non-imitable. The more tacit knowledge is shared, the harder is the imitation (Leonard and Sensiper 1998). When tacit knowledge is shared and combined to become collective tacit knowledge, it would then lead to creativity and innovation (Leonard and Sensiper 1998). The concept of tacit knowledge is very important in the context of innovation and its diffusion (Nooteboom 1993), explain that tacit knowledge, hard to capture in the term “know-how”. Nooteboom (1993) refers tacit knowledge – “know-how” consists partly of technical skills – the kind of informal (Nonaka, 1998), of the small business as craftsmanship. Innovation is a distinction drawn in communication (Pohlmann, 2005) which is the root of knowledge sharing.

3.3 TACIT KNOWLEDGE SHARING OF SME IN MALAYSIA

More than 99% of total business establishments in Malaysia are from SME (SME Annual Report 2006). SMEs have different structure and they develop different pattern of behavior especially in adapting to the environment (Hashim 2007). Even though, SMEs operate in almost all industries, they are different in scope and importance (Hashim, 2007). This difference is varying from industry to industry and also from country to country. In Malaysia, SMEs are largely found in following four broad economic segments:

1. manufacturing
2. services
3. basic materials producers
4. Agriculture (Hashim, 2007).

SMEs is defined generally as shown below:

Figure 2

Category	Micro Enterprise	Small Enterprise	Medium Enterprise
Manufacturing, Manufacturing-related services and agro-based industries	Sales turnover of less than RM250,000 or full time employees less than 5	Sales turnover between RM250, 000 and RM10 million or full time employees between 5 to 50.	Sales turnover between RM10 million and RM25 million or full time employees between 51 to 150.
Services, Primary Agriculture and Information & Communication Technology (ICT)	Sales turnover of less than RM200,000 or full time employees	Sales turnover between RM200,000 and RM1 million or full	Sales turnover between RM1 million and 5 million or full time

	fewer than 5	time employees between 5 to 19.	employees between 20 to 50.
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Even though SME are considered a backbone of industrial development in Malaysia (Ndubisi & Salleh, 2006), SME contribution to the economy is still relatively small. Compared to other countries in Asia, Malaysian SME growth is only 40% (SME Annual Report 2006). As Malaysian government has given a priority to enhance SME development, full supports is given to through Ninth Malaysia Plan and Third Industrial Master plan which offer a platform for financial capital, training, information, policies and strategies. In 2004, National SME Development Council, which consist of 10 members, has been set up to further develop and sustain the growth of the SMEs sector in the national economy (Hashim, 2007). The efforts are improving the infrastructure for developing SMEs, building the capacity and capability of SMEs and enhancing SMEs access to financing. Giving their full supports to SMEs, numerous of training and programmes are conducting for SMEs in helping them to acquire extra knowledge and skills (SME Annual Report 2006). Therefore, the importance of tacit knowledge sharing should be highlighted to SMEs for them to fully utilize it for better performance. Knowledge management is still at infancy in Malaysia (Quah, 2008). Most of research of knowledge management is on large establishments. Lacking of research in SME could be due to its constraints of proper structure, settings, and expertise (Desouza & Awazu, 2006) but Maranto-Vargas & Rangel (2007) found that financial constraint is not an issue for improvement in SME.

4.0 CONCLUSION

Moving into knowledge-based economy, SME should capitalize its internal knowledge which residing within its employees - tacit knowledge. In this era of information, the flowing of knowledge into an organization is either through human or technology (Coulson-Thomas, 2003). The knowledge and experience acquired by owner, employees combined with knowledge from external (customers, competitors, suppliers and government) should be shared in the organization which resulted in creativity and innovation. Most of research on SMEs is focusing in their weaknesses especially in terms of financial and physical infrastructure. The ability of SMEs to innovate and improve continuously has been proved to be related to the employees’ skills and knowledge (Nonaka, 1998). Identifying and capitalizing this valuable tacit knowledge would assist SMEs to compete domestically and internationally Focusing on the internal knowledge – tacit

knowledge – and share it in the organization as collective tacit knowledge would lead SME for a better performance especially in producing new products and services. With the impact of globalization, SME has to find their own resources that suit to their environment and their capabilities. Utilizing their very own resource in their people, equip with entrepreneurial orientation of the owners/managers of SME and supports from government, Malaysian SMEs could achieve higher performance thus contribute to the economy.

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