

Investigating the Relationship among Knowledge Management, Human Resources Management Practises and Innovation: A Conceptual Study of Malaysia SMEs

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ABSTRACT

Innovation is deemed to be essential as part of the corporate competitive advantages in today business world. As the importance of innovation to perform greater productivity and efficiency, both knowledge management (KM) and human resources management (HRM) practices are critical parts of the mechanism in learning organization which play an important role in today business organization to develop organizational sustainability. Thus, this paper aim to investigate the relationship among KM and HRM practices which significantly contribute to corporate innovation in the context of small- and medium-sized enterprises (SMEs) in Malaysia. At the ending of this paper, practical managerial implication and conclusion of this study are discussed in consistent with the Malaysia government policy in building up a knowledge-based economy.

Keywords: Knowledge management, human resources management practices, innovation.

I INTRODUCTION

The concept of learning organization is an important feature in organizations in the midst of globalization. Due to the dynamic and frequent changes in the external environments, organizations must be able to come up with innovations that can be deemed not just as part of their competitive advantage but as part of their business sustainability model as well. This can be materialized when relevant knowledge have been acquired, shared and used in the organization. Past literatures had highlighted how knowledge management (KM) influences innovations in the organizations (Carneiro, 2000; Brand 1998) and the role that it plays. (Plessis, 2007) This is why the concept of KM is an essential part of the mechanism in the learning organization. Human resource is one of the valuable assets of a company and through proper selection, training and development, workers with relevant knowledge will be able to contribute significantly to the organization. Thus, KM plays an important role in

human resource management practices as shown in the studies conducted by Godbout, 2000; Gloet and Berrell, 2003 and similarly human resource management practices also plays a critical role in knowledge management. (Soliman and Spooner, 2000; Yahya and Goh, 2002).

Although past studies had examined the relationship between KM & innovation and KM & human resource management practices, not much research has been conducted to examine the relationship among KM, innovation and human resource management practice. KM researchers from the past mainly focus their research on large organization, ignoring the small and medium enterprises (SMEs). Supyuenyong, Islam and Kulkarni (2009) highlighted some of the difference between the two such as SME specific characteristics lead to a unique disposition for knowledge management which differ from the large organizations. Hence past studies might not be relevant to SMEs in this particular aspect. As a result, studying the relationship between KM, innovation and human resource management practice in the context of SMEs is important as these three hold the key to a greater organizational performance and a thorough understanding on the nature of the relationships, both theoretically and practically will be the first step to organization sustainability.

In order to fill the gap, this study proposed a conceptual framework to investigate the relationship among KM, human resource management practices and innovation based on past literatures. Finally, managerial relevant conclusions are presented along with implications of the study and suggestions for further study at the end. This study is also consistent with the Malaysia government policy which focuses on building up a knowledge-based economy.

II LITERATURE REVIEW

A. Knowledge and Knowledge Management

In today's dynamic business world, knowledge management (KM) has become one of the key success factors of every organization (Lam, Tan, Fong and Ng, 2009). Many business organizations

have realized the importance of KM in developing knowledge assets to sustain their competitiveness in current knowledge economy era. Prior to the emergence of KM, knowledge is known as intellectual capital or knowledge asset which is an essential source of organizational competence. In general, knowledge is perceived as the ability to sustain the coordinated deployment of assets and capabilities in a way that promises to help the firm achieve its goals (Quinn, 1992). Generally, knowledge has been classified into two main categories: explicit knowledge and tacit knowledge (Grant, 1996; Polanyi, 1962). Explicit knowledge can be codified and shared in the form of hard data, manuals, or procedures, while tacit knowledge results from individual's experience and is only revealed through its application. In the perspective of knowledge-base view, it is essential for a firm to identify core knowledge and focus on its accumulation to maintain their competitiveness in dynamic competitive markets (Hung et al., 2008; Grant, 1996).

Since the past decades, many business organizations have found to successfully improve their organizational competence and efficiency, innovation capabilities (technique, process, products, and service), rapid commercialization for new products, and responsiveness of market changes through the implementation of KM (Chang and Lee, 2007; Andrew et al., 2001; Ronchi et al., 2003). Although KM has contributed a lot of interest to corporate sectors, yet there is no universal definition that KM is developed as a different perspective yielding different dimensions and meaning (Liao, 2007). In management perspectives, knowledge management is defined as "the formalization of and access to experience, knowledge, and the expertise that creates new capabilities, enable superior performance, encourage innovation, and enhance customer values" (Gloet and Terziovski, 2004). Meanwhile, Singh and Kant (2008) further describe KM as the deliberate and systematic coordination (the process of creating, sharing, storing, and applying knowledge) of an organization's people, technology, processes, and organizational structure to add value through reuse and innovation. In addition, Argote et al. (2003) also explained that KM as a knowledge cycle, which is a continual process of knowledge creation, retention, and transfer. Thus, KM is holistically embedded in the management functions that manage the creation, sharing, harvesting, and leveraging of knowledge as an organizational assets, to improve a company's ability, efficiency, and effectiveness in generating customer satisfaction, namely "corporate performance", in line with its business

strategy. Admittedly, performance of KM is highly associated with the intellectual capital of the firm, which in turn affects its innovation and financial achievement (Ju, Li, and Lee, 2006).

B. Human Resources Management Practices

In today's globalized world, the role of Human Resources Management (HRM) practices has changed dramatically and it is becoming more important to sustain organizational competitive advantages especially in SMEs. Employee is deemed to be valuable "intangible asset" in every organization nowadays (Rogers, 2001). Many researchers have started paying their attention to examine the role of HR practices (Tannenbaum and Dupree-Bruno, 1994) and its effects to the organization productivity and performance (Ichniowski et al., 1997) in the changing knowledge-based economy. According to Pfeffer (1998), he proposed the implementation of seven HRM practices to enhance organizational performance such as employment security, selection, and training. In further, Wright, Dunford and Snell (2001) also suggested that HRM practices to include staffing, training, rewards, appraisal, work design, participation, recognition, and communication to increase organization performance.

In newly emerging environment, the employment bargaining power is likely to change from the organization to the individual in most of today's organizations neither multinationals nor SMEs. As talent has become the key competitive differentiator to employers, skilled individuals have gained greater bargaining ability to stipulate employment terms with the employers, about "how", "when", and "where" they worked. While dealing with those talented individuals, it is a challenge for the organization to sensitize the seriousness of mitigating HR issues. However, Farazmand (2004) found that some organizations often neglect those HR issues like retaining, motivating, and promoting talented people. On the other hand, Schein (1995) has suggested that those challenges can be solve through training, career development, reward systems, incentive plans, multicultural share plans (Matthews, 2002), and incentive pay for performance (Farazmand, 2004). In addition, Farazmand (2004) also stated that the efficiency of compensation systems must be maintained very frequently to prevent organizational brain drain and attract more talents to the organization. It is also a key factor for employee's motivation (Beugelsdijk, 2008). Therefore, HRM practices are the important tools to more agile in manage the core competencies, innovation and economic performance of the SMEs.

C. Innovation

Prior to previous study, Schumpeter (1942) has revealed the importance of innovation in today's business competitive environment. He further emphasized that innovation activities can be beneficial to the organization for long term growth, while monopolistic positions only lead the organization to short term profit. In reviewing the past literature, innovation can be defined in many ways. Rogers (1982) described that innovation is a new idea or may be combine with old perspectives created by people as long as the idea is different. Generally, new idea must characterized being useful, profitable, assimilation, or to solve a problem. Van de Ven (1986) argued that if the new ideas that are not perceived as efficacious normally are not called as innovations. Besides, Matthews (2002) reveals that innovation is the idea which finds the new ways and abandoning the old to improve on existing products and processes. Customarily, most of the innovation descriptions are related to knowledge and individuals, which may apply into new products, processes, and services to improve organizational competitive advantages and to fit customers' changing needs (Gloet and Terziovski, 2004).

According to Matthews (2002), employee's motivation is a factor influencing their ability to create and to innovate the new ideas. It is essential for an organization to create and sustain a good working environmental culture to fit individual to innovate new ideas as the innovation process is coming from individual's contribution. As a results, managing innovation has becomes crucial to stimulate organization performance and productivity. In the finding of Geroski, Machin and Van Renen (1993) study, they showed that organization profitability was a direct effect from internal innovation. In addition, Walker (2004) had concluded that about 60% of cases are validating the positive relationship between innovation and organization performance. Furthermore, Aghion and Tirole (1994) also indicated that there is a significant positive relationship between innovation and customer satisfaction. In order to remain competitive in the market, it is essential for an organization to extend innovation management internally to stimulate greater achievement of corporate performance, productivity, and customer satisfaction.

D. Relationship between Knowledge Management and Innovation

Innovation is one of the core-competencies for business survival to differentiate their distinctive products and services varied from their competitors in today competitive business environment (Chang

& Lee, 2007). Indeed, product and service can be further improved through continuous product development and improvement on working procedures. Apparently, firm's continuous product innovation capabilities are closely associated with a company's KM system and processes. Theoretically, effective KM of a firm greatly contributes to innovation through the KM process: knowledge creation, storage, distribution and application (Amalia&Nugroho, 2011). To date, numbers of published research have found that a number of large multinationals has succeed in innovation through the KM contribution in terms of facilitating knowledge sharing across geographical and cultural boundaries (Amalia&Nugroho, 2011; Scarbrough, 2003). According to Ronchi et al. (2003) and Hung et al. (2008), a successful product innovation is highly depends on the ability of a firm to manage knowledge and integrate a growing number of competencies within and outside its boundaries. As a result, KM is recognized as an effective mechanism of innovation via the integration of learning organization, inter-function coordination, and resource development process. Thus, the following proposition is proposed:

P1: Knowledge management has positive significant relationship with innovation.

E. Relationship between Human Resource Management Practices to Knowledge Management

Global working environment has become more competitive and rapidly change in the recent decades. In line with the technology advancement, KM and innovation management are essential to deal with the environment changes. In today's workforce, talent is as an important attrition for organization to determine their business competitiveness and performance. Therefore, human resource professional has inevitably involves in the 'Global Talent War' to recruit those personnel who are high ability, skillful, knowledgeable and potential for development. Ever since, knowledge has becomes the key success factor to create competitive advantage for the organization (Hitt, 1998). In order to sustain firm's competitiveness, many organizations have strategically adopted KM and HRM practices as a succession key in managing the global challenges (Farazmand 2004).

In workplace, most of the organizations found difficulties in preserving intellectual capital. Many employees found to be unwilling or unable to share their knowledge, expertise, or experiences with

others due to self-interest, lacking of trust, and low loyalty (Currie and Kerrin, 2003). According to Chong and Lin (2008) study, he found that knowledge is easily lost and difficult to transfer without loyalty and trust. As a result, HR professionals are playing an important role to minimize the loss of intellectual capital through offering training and development program, monitoring rewards, and recognizing programs to employees (Stovel and Bontis, 2002). Moreover, Wong (2005) also stated both monetary and nonmonetary benefits may helps to motivate employees to be effective in transferring KM. Thus, such synergy can encourage people to share and apply knowledge to increase organization performance and sustainability. Meanwhile, Yahya and Goh (2002) study showed that training and development has significant impact on KM process which can enhance the creativity, innovative, team building, problem solving skills, career development and personal values (Chong and Lin 2008). In fact, an effective staffing system can help organizations to acquire talents who with particular knowledge and expertise to operate the KM tools and integrate knowledge in innovative ideas (Chen and Huang, 2009). Therefore, many SMEs had began adopted the HR practices in various area to improve their knowledge sharing and organization learning to increase their sustainable competitive advantage in the global market. Thus, the researchers propose the following proposition:

- P2:** Knowledge management has positive significant relationship with human resource management practices.
- P3:** Human resource management practices have positive significant relationship with knowledge management.

F. Relationship between Human Resource Management and Innovation

Talent is the innovative 'it' as human potential rises towards becoming the new driver of economic growth. Now, it is the era where human switch their potential to change their universal role as a creator or an innovator. According to Scarbrough (2003), in innovating new products and management processes, employer require the motivation and ability of human capital to produce creative ideas, develop innovative approaches and exert new opportunities. Beugelsdijk (2008) argued that creativity theory is a useful heuristic element of the relationship between HR practices and innovation to increase organization's capabilities and competitiveness. According to Chen and

Huang(2009), organizations can apply HR practices, such as staffing, training & development, performance appraisal and compensation to motivate employees and engage them involved in creative thinking and innovation. Moreover, Weisberg (2006) indicates that through training and staffing, organizations can develop the expertise which is potentially inexhaustible source of ideas for further innovation. Hence, individual recognition and team accomplishments with compensation are the motivating factors to employees' innovation (Chen and Huang, 2009).

Under economic recovery after the depression, many organizations have engaged in innovation activities to reduce costs and redefine their people strategies effectively. Therefore, many companies do understand that if they have the ability to unlock the potential of the suitable people in the ideal place, they can accomplish more than they envisioned, even in a complex environment. However, some of the traditional SMEs are still preserving in those old concepts of doing business; negligent on innovation, and exercising improper strategies which causes the company into predicament. In line with this, organizations are advisable to apply HRM practices to attract and engage with the invaluable talents to involve in innovation activities which contribute to organizational sustainability and competitive advantages. Thus, the following proposition is proposed:

- P4:** Human resource management practices have positive significant relationship with innovation.

III THEORETICAL FRAMEWORK

Referring to the literature review as abovementioned, a theoretical framework has developed to study the relationship between KM, HRM practices and innovation (as illustrated in Figure 1). Base on the framework, both KM and HRM practices are independent variables to innovation. Meanwhile, KM and HRM are mutually influenced to each other to achieve innovation. Thus, the framework shows that the implementation of KM and HRM practices are essential in an organization which would lead to the successfulness of innovation.

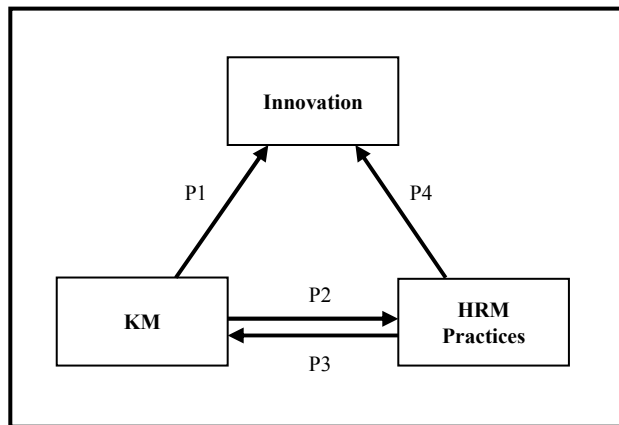


Figure 1.A Theoretical Framework.

IV MANAGERIAL IMPLICATION

The work of Valkokari and Helander(2007) had highlighted the essential need of innovation in creating competitive advantage as part of the organization sustainability while Lam et al. (2009) emphasized the role of KM and human resource management in harnessing innovation. This study intends to bring the SMEs managers attention to the importance of proper implementation and application of human resource management and KM in their organizations. SMEs managers need to handle with utmost care when dealing with matters such as criteria in selection of new employees, types of training & development for existing employees and suitability of existing knowledge sharing system in the organization as mishandling might halt the growth of innovation.

V CONCLUSION

This aim of this paper is to give practitioners a rough idea how KM, human resource management and innovation are related to one another via a suggested framework. As this is a suggested framework, future research and statistical tests shall be conducted to determine the validity and reliability of this framework in the context of SMEs in Malaysia.

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