

The Role of Knowledge Management in Creating Competitive Advantage in Small and Medium-size Enterprises in the Republic of Iraq

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SUMMARY

Knowledge management (KM) is a vital component of organizational strategies to increase competitiveness. This study identifies the impact of KM in creating a competitive advantage. The main purpose is to determine the level of appreciation of the concept among SME stakeholders in Iraq. Both qualitative and quantitative research methods were explored, 102 respondents were reached, and the results of the field survey were analyzed using SPSS for descriptive statistics analysis. The result shows that the application of KM is appreciated in Iraq, but its implementation is not yet at an optimal level. The research provides evidence from a developing country on the application of knowledge management in the management of small and medium-sized enterprises.

Keywords: Knowledge Management; competition; SMEs; Business; Efficiency; Iraq

Journal of Economic Literature (JEL) codes: M13, D83, M15

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INTRODUCTION

The application of business strategies in companies generates tested ideas that are proven to be productive. These ideas are produced from sequences of what happened within the organization coupled with organizational culture, as well as originating from external sources, which are ideas from external stakeholders like vendors, suppliers, and users on how products or services could be improved. These ideas are contained in a pool of knowledge within the organization. Knowledge management can be seen as a conscious effort to create this body of knowledge and to also improve its utilization. The purpose of the knowledge management process is to exchange views, ideas, experiences, and information; to ensure their availability in the right place and at the right time to make informed decisions, and to increase efficiency by reducing the need to rediscover knowledge. It also helps to improve decision making.

Knowledge management enables the stimulation of innovation necessary for organizations to break boundaries and to meet the demand of business in a

constantly changing business environment. Macintosh et al. (1998) advanced the following reasons why knowledge management is crucial: It is essential to keep up with the highly competitive nature of the market which requires faster development of knowledge-based management system, it is customer-focused and enterprises must develop products that meet customers' expectations. The frequency of changes in the human resources of enterprises leads to loss of knowledge to meet the needs of globalization, which creates a knowledge gap in an effort of enterprises to meet up with the demand of its customers, thus knowledge management becomes an essential issue for the sustainable development of every organization (H. A. Mohajan, 2016) (Mohajan 2016).

The exploitation of knowledge management has increased the core competencies of companies (Macintosh et al. 1998).

- Knowledge management is responsible for the sustainable competitive advantage, which is important to support the demand of an increasing highly competitive market.

- Since enterprises are customer concentric, knowledge management provides the basis for enterprise to be customer focused.
- Knowledge management combats the knowledge gap that is frequently created due to employee mobility. With knowledge management, the organizational process asset provides a pool of knowledge base form for the historical records of all employees that have ever worked in an organization.
- Knowledge management prepares enterprises to compete globally.

From the foregoing, it can be seen that knowledge management is a conscious effort to create knowledge and to also improve its utilization. The purpose of the knowledge management process is the exchange of views, ideas, experiences, and information; to ensure their availability in the right place and at the right time to make informed decisions, and increase efficiency by reducing the need to rediscover knowledge. It also helps to improve decision making. An example of knowledge management in an organization is a system that has shared files that contain information that everyone on the team has access to, and were all team members have the opportunity to comment on the work performed by other members of the team. Knowledge management enables the stimulation of innovation necessary for organizations to break boundaries and to meet the demand of business in a constantly changing business environment.

The history of knowledge management dates to the 1990s. The main objective then was to use firms' practices and the accompanying technologies to leverage corporate knowledge. This is done by focusing attention on the capturing of knowledge in centralized systems which is made available to team members. The importance of knowledge management to companies can be summarized as facilitation of decision making. Common to all corporate bodies is the bombardment of managers with data. Media reports shows that each person is inundated with 174 newspapers' worth of information every day, coming in the form of emails, television, and internet sources. Thus, there is a big problem in data management, and this underscores the importance of knowledge management.

While data remains a great asset in getting a great wealth of information, if large data are not properly processed, there is a tendency not to achieve a high quality of decisions. The GE Corporate Executive council (CEC) is an example of how one company introduced a knowledge management system to help executives overcome data challenges, share information, and improve decision-making. The CEC consists of the leaders of fourteen large GE enterprises, and it holds two-day sessions that are forums for sharing best practices, accelerating progress, and discussing successes, failures, and experiences (Harris & Gokcekus 2000). Although information overload or the need for knowledge from people from other parts of the company for decision-making can complicate the work of

managers, the introduction of knowledge management systems can help them make more effective and more informed decisions. An effective knowledge management project should include four interacting dimensions: knowledge, technology, workflow, and conditions for stakeholders regarding service needs and usage preferences (Adekanmbi & Green 2014).

Deloitte, a corporate consulting firm, says that over 80% of knowledge users in the firm indicate that knowledge sharing leads to competitive advantage and adds real client value. The company sees the following as the advantages of knowledge management: Knowledge management does not allow employees to constantly reinvent the wheel, provides a basis for measuring progress, reduces the burden on experts, makes visual thinking tangible, and effectively manages large amounts of information to help employees better and faster serve their customers. The firm sees it as a fundamental factor in business development(CII, 2018).

Nowadays, with corporate mergers, employee turnover, and global expansion of businesses, people need to work differently: they need to work with foreign colleagues, exchange ideas, be aware of global issues and quickly answer their questions. The power of social media plays an important role in knowledge management, as it allows employees to collaborate, connect, and quickly access experts and information. Social networks also allow people to collaborate, be human, and express themselves in an electronic environment. Social networks have a solid foundation of trust and popularity among employees and are part of a knowledge-sharing culture.

Knowledge management helps solve the most common business problems and helps companies maximize their benefits by:

- protecting companies' intellectual capital;
- focusing on their most important assets, which are the human capital;
- reorienting their culture by choosing the best knowledge sharing strategy;
- linking people to each other by establishing methods of collaboration;
- opening the door to a new era of collaboration and sharing;
- improving business solutions with easier access to experience and best practices;
- improving efficiency, productivity, and smart work by reducing the incidence of "reinventing the wheel";
- mproving innovation through broader and limitless collaboration;
- reducing know-how losses through the collection of explicit and implicit knowledge;
- accelerating productivity with on-board training and timely access to knowledge;
- enhancing customer satisfaction by providing value;
- improving the quality and ability to collaborate by standardizing ways of working and conducting discussions with leading experts.

This study seeks to examine the level of implementation of knowledge management in Iraq and to investigate the impact it has on small and medium-scale enterprises, especially in the area of competitive advantage. The following questions will be answered by the study: To what degree is knowledge management applied by SMEs in Iraq? Who are the drivers of knowledge managements in Iraq? What impact does knowledge management have in Iraqi SMEs on driving competitive advantage?

LITERATURE REVIEW

Much scholarly literature on knowledge management shows the impact of knowledge management in the development of SMEs, especially its advantage in driving competitiveness. Consideration is given to the utilization of knowledge and knowledge management (KM) as an organizational capability and as a potential source of sustainable competitive advantage. The occurrence of changes either from external or internal sources in an organization usually requires new knowledge for workers to be able to do their work efficiently as past or current knowledge becomes obsolete; thus, an important task of knowledge management is to see that organizations are able to enhance and also expand the innovation process. From a strategic point of view, knowledge management helps organizations to identify the knowledge resources that need improvement in order to gain sustainable competitive and acceptable efforts on issues that are relatively underdeveloped. The quality knowledge applied by managers in enterprises goes a long way in shaping the success story of enterprises (Okunoye & Bertaux 2008; Karadsheh et al. 2009; Rahimli 2012). Competitive advantage related to finance is a situation where the firm has a superior financial return within its industry in the long run, such that it enables it to gain a competitive advantage over similar firms in the industry (Rivkin 2001).

As regards the application of knowledge management to gain competitive advantage, Peteraf & Barney (2003) see a competitive advantage to be when a firm can generate more economic value compared to the marginal competitors in its product market. This view is similar to J. B. Barney & Hesterly (2009) who see the competitive advantage as the ability to create more economic value than competitors. Competitive advantage can thus be defined as value creation, value capture, and value protection, as well as the implementation of value-creating strategies by an organization at a time when such strategy is not implemented by similar organizations within the same industry. This could be temporary, as the implementation of a unique strategy could lead to high profit which could attract competition and therefore make the competitive advantage short-lived (Barney

1991; Barney & Hesterly 2009; Wu 2010). The fierceness in global competition makes the idea of achieving sustainable competitive advantage of interest, but competition can be sustainable only if the competitors are unable to decode the strategy being implemented or unable to offer a better offering. This can be best achieved if the underlying principle of the competitive advantage is based on intellectual capital, as opposed to physical assets and capital (Halawi et al. 2005).

Two inter-related mechanisms that can be used for the integration of knowledge are direction and organizational routine. Complex activities should be correlated with more places that the activities should be re-created; more difficulties in executing activities should call for more reliance on knowledge integration. Integration of individual specialized knowledge is a way organization can achieve sustainable competitive advantage. The integration of knowledge is to be seen from the perspective of mixing the skills of employees in different forms in order to produce a great result. The strategy should also combine personal and practical professional skills to produce a dynamic result. The quality knowledge applied by managers in enterprises goes a long way in shaping the success story of enterprises (Grant 1996; Martin & Eisenhardt 2010).

Consideration is given to the utilization of knowledge and knowledge management as organizational capability and as a potential source of sustainable competitive advantage. The occurrence of changes either from external or internal sources in an organization usually requires new knowledge for workers to be able to do their work efficiently as past or current knowledge becomes obsolete. An important task of knowledge management is to see that organizations are able to enhance and also expand the innovation process. The essence of the strategic importance of knowledge management is for organizations to identify the knowledge resources that need improvement in order to gain sustainable competitive and agreeable efforts on issues that are relatively underdeveloped (Ruggles 1997; Okunoye & Bertaux 2008; Karadsheh et al. 2009).

HYPOTHESIS

A hypothesis of the expected result based on the background study was created. The hypotheses will be tested with statistical analysis of the empirical data collected for the study. The hypotheses connotations are explained below:

H1: Research hypothesis

The application of knowledge management can create competitive advantage among SMEs in Iraq.

H0: Null hypothesis

The application of knowledge management is not significant in the creation of competitive advantage among SMEs in Iraq.

METHODOLOGY

The research methodology employs both qualitative and quantitative research methods. The quantitative component of the research helps to quantify the objectives by way of generating numerical data or data that can be transformed into usable statistics. In this regard, managers and workers in SMEs in Iraq were given close-ended questionnaires to get their opinions on the application of knowledge management in driving competitive advantage. The total number of questionnaires given out was 150, of which 102 were returned completed. Though about 50% of the questionnaires were distributed in Baghdad, the capital city, efforts were made to ensure that respondents come from the major cities in Iraq such as Najaf and Basra. According to White (2012), firms that have a staff strength of 4 to 10 in Iraq can be considered small firms, while those that have 11 to 50 are considered to be medium-sized firms. Companies in this range of employment were approached that have been operating a minimum of 5 years in the IT sector, oil and gas sector, logistics companies, fast moving consuming goods, and fashion outfits. The questions have a preamble stating the purpose of the study, and we also received the consent of the respondents to participate in the survey before they were given the questionnaires. Respondents were reached directly, through email and phone calls. The survey was completed in November 2019. SPSS was used for descriptive data analysis.

A qualitative research method that engages the technique of literature review, as well as deductions from interviews was used. Only the management staff were interviewed for the qualitative part of the research. They included Managing Directors, Executive Directors, Marketing Managers, and Operational Managers; the total number is 40. The interviews were conducted in person, the language of the interview was Arabic and a written transcript was used to note the answers after they had filled in the questionnaires; the first part of the questionnaire was used in the interview to get a more in-depth understanding. An English translation of the questionnaire used is attached in the Appendix.

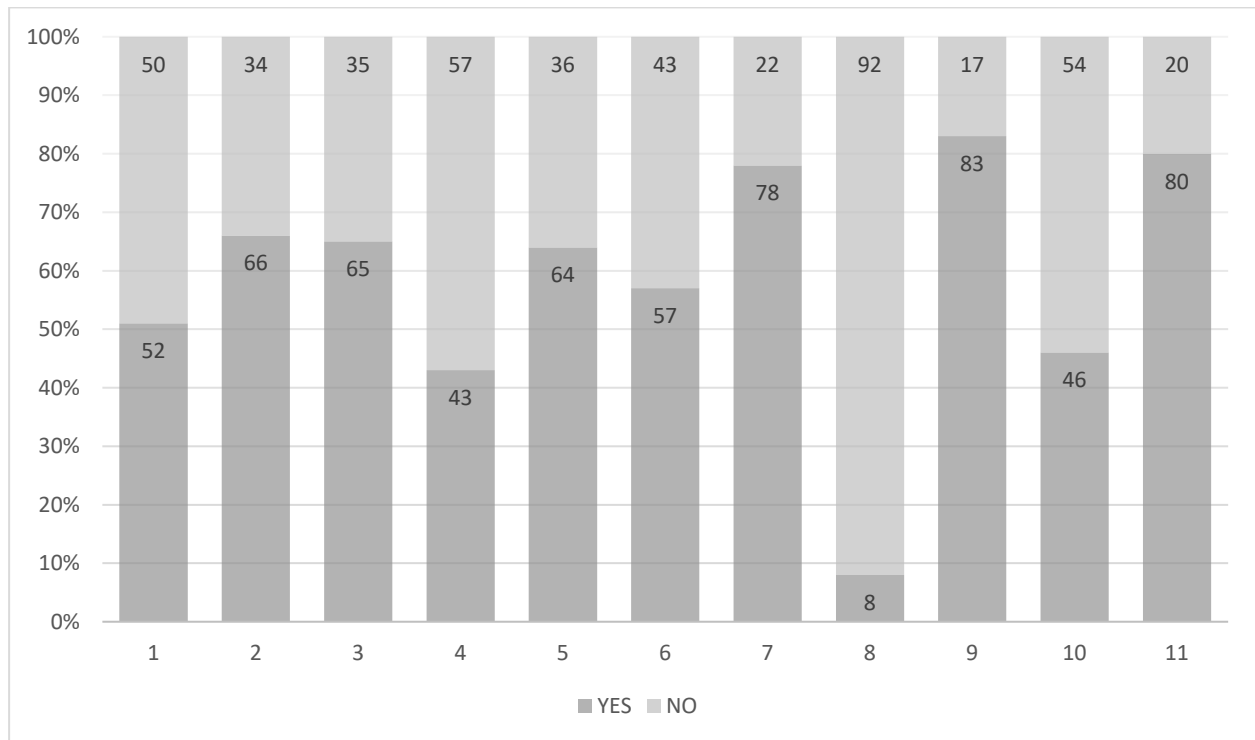
Methods of content and narrative analysis were used for interviews analysis. With content analysis, we were able to classify data, identify patterns, establish relationships, interpret data, and explain the results. The narrative analysis allowed us to reformulate the answers

to the interviews and coordinate them. These analysis methods helped us solve the problem of analyzing a large data set, especially in cases where some views are not seen to be fully correlated. The choice of a qualitative method depends on its ability to give an idea of the problems and draw conclusions on a large scale. This helps identify trends in thinking and opinions, and also provides depth and details that focus on how people make meaning from their experiences (Stuckey 2013).

FINDINGS AND DISCUSSION OF FINDINGS

The analysis of the field data shows for the demographic information section that most of the respondents were within the age group of 30 to 50. None of the managing directors or founders have less than 3 years of work experience. The educational background of respondents shows that about 68% have a minimum of a bachelor's degree, 21% have diplomas (two years of study after the high school) while the remaining mostly junior staff have high school certificates. The nature of businesses was also found to be about 52% sole proprietorship and 48% partnership (including family-owned businesses).

The Cronbach's Alpha coefficient value was 0.731 for all items after deleting item number 8 in part two from the measurement as it was before deleting this item 0.695 so the measurement shows that there is an accepted internal consistency and that the test is reliable since many sources say that Cronbach's Alpha coefficient above 0.70 is acceptable (Cortina 1993). The field data analysis reveals that the application of knowledge management in the running of small and medium-sized enterprises is acknowledged in the Republic of Iraq; however, its application is still not at an appreciable level. The results from the respondents show that the respondents have good knowledge of the concept of knowledge management and are open to its full implementation, in the area of the operation of knowledge management policy, a system that promotes knowledge sharing, partnership, or strategic alliance to acquire knowledge, installation of knowledge management software and track records in the implementation of knowledge management. However, many of them do not think that knowledge management has produced positive effects in their organizations. Similarly, many do not agree with acceptance of the fact that all employees are responsible for the acquisition and sharing of knowledge management in order to ensure the continuous development of the organization, as well as the acceptance that knowledge management has helped to improve their knowledge.

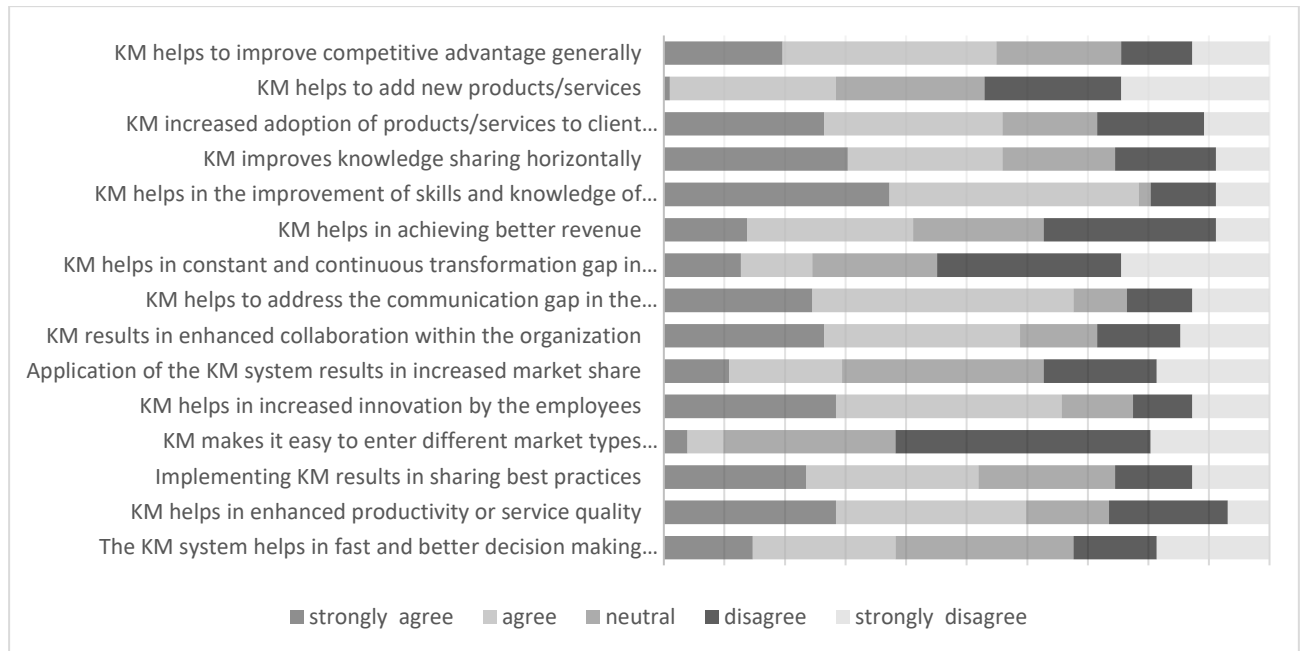


Source: Author

Figure 1. Understanding of the concept of knowledge management by SMEs in Iraq

In the second part of the work, the study indicated that enterprises in Iraq are open to full implementation of the concept of knowledge management and they believe they are important to position organizations for competitive advantage. Respondents are most optimistic that knowledge management helps to enhance collaboration within the organization (4.46), improves the skills and knowledge of workers (4.40), and improves competitive advantage generally (4.25). This is an indication that companies that can be regarded to have a competitive advantage in the Republic of Iraq are those that are well-grounded in the application of competitive advantage. The results also indicate that knowledge management can promote competitive advantage through sharing of best practices, developing

skills among workers, motivating employees to be more innovative, addressing communication gaps among different departments, adopting products/service to client requirements, enhancing productivity, improving revenue, and fast-tracking better decision making. On a lesser scale, knowledge management can promote competitive advantage by increasing market share, and narrowing gaps in organization among different departments. The analysis of the results does not support the notion that knowledge management makes it easy to enter different market types internationally. Figure 2 shows how these factors compete with each other in ensuring the competitive advantage of companies.



Source: Author

Figure 2: Effects of knowledge management on competitive advantage, based on a 5-point Likert scale

An interesting point in the analysis is the result of the question of whether knowledge management helps in achieving better revenue. Though the result is positive at a mean score of 3.78, it is a surprise why respondents do not generally think that knowledge management is a big factor for companies to generate revenue.

To test the research hypothesis, the one-sample T-test was conducted for the data on the item related to the effect of knowledge management in an organization. The T value was 125.977 and significant, which proves the validity of the research hypothesis, which proposed that the application of knowledge management can create competitive advantage among SMEs in Iraq. Results are shown in Table 1.

Table 1
One-Sample Test

t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
125.977	101	.000	58.70588	57.7815	59.6303

Source: Author

The distribution curve shows that it is skewed towards left, an indication that there are diverse opinions on the subject, and the mean is less than the median. Even though on the average the respondents think the implementation of knowledge management can increase the company's revenue, there are people who have a strong negative opinion. However, if we take all of the things that it is agreed that knowledge management can do – including enhanced collaboration within the organization (4.46) – these factors are highly likely to have a multiplying effect on the company's revenue, which is the main goal of management. There is, therefore, a need to bridge the gap between knowledge management and business performance. Innovations fully mediate the relationship between knowledge management and business performance of SMEs, and business owners of SMEs are therefore advised to adopt

innovation as a conduit for knowledge management to boost their business performance (Kunyuan et al., 2017)

The analysis of the qualitative component of the field survey which involves the review of the interview questions written below shows that in modern business, the most important source of competitive ability is knowledge. Therefore, it is not surprising that employees are aware of the impact of knowledge on competitiveness and understand that having certain knowledge helps the company to remain in a dynamic business environment. It is also worth mentioning that the directors of the enterprises interviewed have similar views. The general conclusion is that the main sources of competitiveness of their enterprise are knowledge of market needs, high labor productivity for which collaborations among workers is key, low production costs, and a large volume of production, as well as quality. Strong market positions, new modernized

products, and the use of advanced technologies are also seen as important sources of competitiveness in which knowledge management is indispensable to get workers on the same front.

CONCLUSION

The reviewed literature shows that knowledge management is very important in enhancing competitive advantage, especially in this era of civilization where companies are opened to new ideas that could help them develop their goods and services. A fundamental observation is that the application of knowledge management among SMEs in the country is poor and there seem to be no coordinated strategies to generate and share knowledge. For this reason, many employees do not think knowledge management has a direct impact on them, either in the area of self-development or in enhancing their input in organizations. It appears many of the enterprises do not understand the strategic importance of knowledge in making companies competitive; there is a lack of well-developed strategic models that integrate knowledge management process into business strategies. Thus, there is a need to make the subject of knowledge management a matter of strategic importance, prompting companies in the country to develop knowledge that is significant to the competitive ability of the enterprises.

The study also shows that being innovative can bridge the gap between knowledge management and the desired effect on the company's revenue and staff's

skills development, among other things. About the hypothesis created for the study, and in view of the conclusions from the empirical research, the research hypothesis which states that the application of knowledge management can create competitive advantage among SMEs in Iraq is accepted.

It is recommended that the strategies for the implementation of knowledge management to produce a competitive advantage in the Republic of Iraq should be such that the system allows staff to generate ideas, enhance technology, create platforms for sharing of knowledge, and act as a check and balance system that allows monitoring and evaluations so that the impacts of knowledge management on staff developments and company performance can be measured. There should also be a reward system that can identify innovative staff members that are outstanding in knowledge management and reward them accordingly.

Chief executive officers and directors of SMEs should also show great interest in turning their knowledge resources into the development of new products, processes, and markets to increase the level of efficiency of their business. This can be achieved by using highly qualified personnel, motivating, and empowering employees through short courses, and allowing them to attend seminars, conferences, and exhibitions to acquire new knowledge. Besides, it is necessary to strengthen the culture of knowledge sharing in the enterprise and use new knowledge to enhance innovation to improve business efficiency (Byukusenge & Munene 2017). Future research may want to consider the implementation of knowledge management systems in SMEs in Iraq.

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APPENDIX

Questionnaire

The Role of Knowledge Management in Creating Competitive Advantage in Iraq

This field survey aims to find out the Role of Knowledge Management in Creating Competitive Advantage. Collected information will only be used for research purposes and will be treated confidentially.

PART 1

This section seeks to know your enterprise knowledge/practice of **Knowledge Management (KM)**.

1. Does your enterprise have a knowledge Management policy or Strategy for acquiring and sharing knowledge?
2. Does your enterprise have a Value System or Culture intended to promote Knowledge Sharing?
3. Does your enterprise follow Knowledge Management practices?
4. Does your enterprise use partnership or strategic alliances to acquire knowledge?
5. Is Knowledge Management software installed in your enterprise?
6. Are your staffs or colleagues acquainted with Knowledge Management practices used in your enterprise?
7. Has the application of Knowledge Management practices produced positive effects in your organization?
8. Do you think there are negative results of working with Knowledge Management strategies?
9. Do you agree that all employees are responsible for the acquisition and sharing of KM to ensure the continuous development of the Organization?
10. Does the enterprise have a good track record in implementing the KM initiatives smoothly?
11. Do you feel that KN initiatives have helped in improving your knowledge?

PART 2

The following are some opinions on the effect of Knowledge Management in an organization: 5 scale Likert questions
(1 = strongly disagree, 5 = strongly agree)

1. The KM system helps in fast and better decision making related to doing your job.
2. KM helps in enhanced productivity or service quality
3. Implementing KM results in sharing best practices
4. KM makes it easy to enter different market types internationally
5. KM helps in increased innovation by the employees
6. Application of the KM system results in increased market share
7. KM results in enhanced collaboration within the organization
8. KM helps to address the communication gap in the organization among different departments
9. KM helps in constant and continuous transformation gap in the organization among different departments
10. KM helps in achieving better revenue
11. KM helps in the improvement of skills and knowledge of workers
12. KM improves knowledge sharing horizontally
13. KM increased adoption of products/services to client requirements
14. KM helps to add new products/services
15. KM helps to improve competitive advantage generally

