

## THE IMPACT OF ORGANIZATIONAL CULTURE ON KNOWLEDGE MANAGEMENT IN SMALL AND MEDIUM ENTERPRISES

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### **Abstract**

**Purpose** – The purpose of this work is to examine the relationship between organizational culture and knowledge management in small and medium enterprises. Organizational culture and knowledge management in today's unstable environment are becoming a major source of competitive advantage. Knowledge is an indisputable resource that allows the development of new products, creation of new ideas and strengthening the skills of people. Due to the rapid development of technology, globalization and the availability of resources, knowledge is crucial for the further development and survival of the organizations. Knowledge management is widely recognized as a competitive advantage and an increasing number of organizations are incorporating knowledge management as a core strategy to enhance their organizational competitive advantage.

**Methodology** – The aim is to examine how and to what extent organizational culture affects on knowledge management. The research was conducted with survey on a sample of the small and medium enterprises.

**Findings** – The results indicated that organizational culture had a positive correlation with knowledge management. The establishment of a higher level organizational culture is a necessary precondition for successful implementation of knowledge management.

**Contribution** – Results of this work can be of a significant value to organizations as they prepare to implement knowledge management initiatives. Organizations that are aware of their organizational culture can plan strategically and make informed decisions on the type of knowledge management. Knowing the degree of success that is associated with new business strategy can better apply scarce resources in more viable situations.

**Keywords** organizational culture, knowledge management, small and medium enterprises

### **INTRODUCTION**

Organisational culture in modern society has been increasingly focused on knowledge. This is the culture of knowledge which is defined as a style of living in a company which enables and motivates people to create, transfer and use knowledge for the benefit of the organisation and for its permanent success. Knowledge management implementation almost always requires cultural changes. According to many experts, a successful implementation of the knowledge management strategy should begin from the top of the organisation, that is, by changing the organisational culture. Organisations need knowledge, but they also need skills and competence to proceed with dynamic updating and implementation of knowledge in practice. All of the

foregoing results in the need of the organisation to constantly learn and build its capacities through acquired knowledge.

An economical approach to studying the organisational culture strives to connect the cultural aspects of the company with its success in business activities (Bahtijarević-Šiber et al., 2008, p. 78; Žugaj et al., 2004, p.53.). Under modern circumstances, organisational culture becomes a presumption for the organisational development and success and, as such, it is built into all activities, influencing all activities of the organisation. If we understand the dynamics of culture, we will be less likely to be puzzled and anxious when encountering seemingly irrational behaviour of people in organizations, and we will have a deeper understanding not only of why various groups of people or organizations can be so different, but also why it is so hard to change them. Even more important, if we understand culture better we will better understand ourselves, and better understand the forces acting within us that define who we are. (Schein, 2010, p.9.) Organisational culture is a set of value systems that determines how firms perceive and react to their environments (Kayworth and Leidner, 2004, p. 23.). Therefore, organisational culture cannot exist in itself, it coexists with various factors from the environment surrounding the organisation. Cultural organisation must change and adjust to its environment to be able to develop and grow.

*Knowledge* is the *source* of employees' *power* and the only guarantee of employment. (McNeish and Mann, 2010, p. 25.). Apart from being a strong source of competitive advantage for those seeking employment, knowledge is one of the elements of further success in the career of any employee. It is therefore essential to continuously work on maintaining the competitive level of knowledge in the wide range of disciplines. Knowledge has become one of the key resources which should be carefully planned, managed and maintained at the desired level. Qualitative management of knowledge hidden in a company becomes essential for successful performance. Giju et al. (2010, p. 28.) defines knowledge as being all that people know and what exists in products, processes and organisational systems, but can only obtain value through people. According to the same authors, knowledge occurs when a person makes use of what he knows to solve a problem or a task (Giju et al., 2010, p. 28.). Seidl (2007. according to Letiche, 2009, p. 69.) states that «organisations are intelligent to the extent that they are able to re-enter non-knowledge into knowledge».

Knowledge management is a managerial tool to help companies develop and share knowledge within the organisation supported by business processes, information technology, culture etc. (Anantatmula and Kanungo, 2006, p. 32.). The knowledge management process cannot be a one-time act to serve the momentary improvement of the situation in the company, because knowledge management should be performed permanently and continuously to produce results, and these results often come long after the establishment of knowledge management. Kayworth and Leidner (2004, p. 245) state that people may believe that the company's knowledge is not intended for them and that they are not allowed to use it for their own development. It is therefore essential for a company to have such an environment which stimulates development, sharing and utilisation of knowledge so that every individual can know that knowledge should be created, shared with others and used for creation of new knowledge, thus contributing to the personal development and the development of the company.

Organisational culture is considered to be one of the most important factors that affect successful knowledge management. (Girdauskienė and Savanevičienė, 2007, p. 36.; Gold, Malhotra and Segars, 2001 according to Hsieh, 2007, p. 33.; Lam, 2005, p. 206; Alavi, Kayworth and Leidner, 2006, p. 191.). With the help of knowledge culture organisations decide which knowledge is important for the organisation and which knowledge is not. The knowledge culture defines which persons have knowledge and which persons should receive knowledge. The knowledge culture should foster communication, trust, and respect for colleagues, authorisation and cooperation. (Girdauskienė and Savanevičienė, 2007, p. 42). According to Anantmula and Kanungo (2006, p. 32.), knowledge culture is an organisational culture which promotes and encourages knowledge creation and sharing within an organisation. Workplace learning, innovation, creativity and finally, improved services and business productivity are essential elements of the knowledge culture (Rothwel, 2002a, p. 215.). Small and medium-sized enterprises are increasingly facing shortening of their products life cycle and the need to constantly supply the market with new products in order to remain competitive. The sector of small and medium-sized enterprises offers the opportunity for the implementation of contemporary solutions and practice of developed countries, on which they built their economic power and competitiveness. The most important segment of entrepreneurship in Bosnia and Herzegovina and globally pertains to small economy. Bosnia and Herzegovina should indisputably seek for its advantages in capable small and medium-sized enterprises which, owing to their flexibility, may quickly adjust to the market demands. Small and medium-sized enterprises form a framework for the implementation of private entrepreneurial initiatives, and a base for economic and social inclusion in a broad sense.

## 1. RESEARCH METHODOLOGY

The research is based on the fundamental hypothesis:

- H<sub>1</sub>: Organisational culture has positive effects on knowledge management in small and medium-sized enterprises.

For research purposes, a survey was carried out on an adequate sample of small and medium-sized enterprises in FBiH. The intention was to establish through a questionnaire how and to which extent organisational culture affects the knowledge management implementation in small and medium-sized companies. For the opinion measurement, a 5-point Likert scale was applied. The research was carried out in 2014 on a sample of small and medium-sized enterprises randomly selected by sending requests for completion of the questionnaire to the addresses of companies (source: Chamber of Commerce of FBiH) and individuals in the companies. The poll was forwarded to 86 entities of which 37 participated actively.

For statistical analysis of data obtained, the following programmes were used: SPSS for Windows (version 17.0, SPSS Inc. Chicago, Illinois, USA) and Microsoft Excel (version Office 2007, Microsoft Corporation, Redmont, WA, USA). The results are presented by absolute and relative (%) frequencies and as arithmetic mean (M) and standard deviation (SD). Organisational culture and knowledge management are analysed through a range of characteristics which the interviewees marked on a scale

from 1 to 5, that is, they expressed their position on the extent to which the stated claims described the situation in their organisation.

The Cronbach's alpha coefficient was used for testing the validity of the scales of measurement, and its higher value indicates a better reliability of the scale of measurement. For the establishment of interconnection of the scales of measurement, the Pearson's correlation coefficient was used. The value of the correlation coefficients is interpreted under the classification (Petz, 2002). Importance level is  $p = 0.05$ , and values that could not be shown up to three decimal places are shown as  $p < 0.001$ .

## 2. RESEARCH RESULTS

The sample predominantly includes companies with up to 50 employees (89.2%). In most companies, more precisely in 83.7% of them, the turnover in 2013 was up to BAM 4,000,000, and 95% companies were private, regardless of whether they are owned by only one person or several persons form the proprietary structure. As for the business activities, almost one third of these enterprises are involved in wholesale and retail trading. The division of the basic business activities to two categories: production and services, is certainly interesting. The analysed division indicates that the service activities prevail with no less than 78.4%.

Most of the interviewees were men, more precisely 64.9% of them, while 35.1% of the interviewees were women. As for the age structure, most of interviewees were between 30 and 40 years old, or 43.2% of them, than 40 – 50 years old or 29.7%, while there were 13.5% of interviewees younger than 30 years or older than 50 years. Most interviewees have a university degree – 64.9%, 18.9% of interviewees finished secondary school, while 16.2% of interviewees acquired a master's degree. Not one of the interviewees had a doctoral degree.

Most of the interviewees are employed at medium level management – 51.4%, while the equal number of interviewees are employed at the highest or lowest level of management – 24.3%.

**Organisational culture** as the first variable of this research has been empirically evaluated through characteristics of organisational culture such as:

- Organisational culture is precisely defined in your organization.
- Your organization has a clearly defined mission and vision of the business.
- The focus of the business of your organization's quality criteria.
- Employees are selected based on criteria of work performance.
- Employees are rewarded for their contribution to the development and sharing of knowledge.

Organisational culture is analysed through a range of characteristics the interviewees marked on a scale 1 -5, that is, they expressed their position on the extent to which the stated claims describe the situation in their organisation.

It is interesting that 62.1% of the interviewees believe that organisational culture is clearly defined in their organisations, which means that most interviewees are aware of its presence in their organisations. Furthermore, it is also interesting that 59.4 % of interviewees believe that their organisations have a clearly defined vision and mission of their business dealings. One of the important results which is worth noting is the fact that 57.4% of interviewees agree that knowledge management fits into their companies' business strategies, which clearly indicates their awareness of the importance of knowledge management.

As for negative results, it is worth noting that the quality criteria is not in the focus of business activities of the organisations and their opinion that employees are not selected based on the performance criteria. The research supports the fact that there is a positive perception of organisational culture, and that modus operandi in the polled organisations is characterised by a large number of processes and procedure which most often are the purpose by themselves.

**Knowledge management** as the second variable in this research is empirically analysed through the key elements of knowledge management (collection, utilisation, storing and sharing of knowledge). The results indicate that organisations acquire knowledge from their employees and also from their suppliers (62%). The results concerning storing of knowledge indicate that organisations possess information technology which enables access to information and knowledge (67%). The largest number of positive answers refer to the elements of the knowledge sharing dimension, (76%) of interviewees believe that employees in organisation consult one another and share their knowledge with colleagues. The knowledge utilisation dimension indicates that (70%) of interviewees believe that organisation has the best practice transfer system in place.

Considering that organisational culture and knowledge management were measured through a range of claims, it was researched to which extent the stated claims may form a scale. The measurement scale characteristics are shown in Table 1.

Table 1: Measurement scale characteristics

No.	Code	Scale	Cronbach's alpha	No. of claims	M	SD
1.	D1	Organisational culture	0,906	10	3,457	0,940
2.	D2	Knowledge acquisition	0,863	4	3,723	0,962
3.	D3	Storing of knowledge	0,938	2	3,878	1,108
4.	D4	Sharing knowledge	0,928	4	3,926	0,816
5.	D5	Knowledge utilisation	0,899	3	3,856	0,951

Source: Author's research

For the purpose of testing the hypothesis H1: *Organisational culture has positive effects on knowledge management in small and medium-sized enterprises*, correlation coefficients were calculated between the organisational culture dimension and the knowledge management dimension in organisations (acquisition, storing, sharing, utilisation) with regard to the entire sample and to sub-samples, that is, a group of enterprises dealing with production and a group of enterprises offering services. The obtained correlation coefficients are shown in Table 2.

Table 2: **Correlation coefficient**

Group	Dimension		Dimension			
			D2	D3	D4	D5
Entire sample	D1	R	0,784**	0,763**	0,843**	0,670**
		P	<0,001	<0,001	<0,001	<0,001
Production enterprises	D1	R	0,831*	0,817*	0,872**	0,665
		P	0,011	0,013	0,005	0,072
Service offering enterprises	D1	R	0,780**	0,742**	0,830**	0,686**
		P	<0,001	<0,001	<0,001	<0,001
*. Correlation is important at level 0.05 (2-tailed) **. Correlation is important at level 0,01 (2-tailed)						

Source: Author's research

The correlation analysis showed that there is a positive correlation between all dimensions, which indicates that organisational culture has positive effects on all knowledge management activities. Values of all coefficients are high and all of them exceed 0.70, which points to a high or very high correlation. All correlations are statistically important as well. A detailed analysis of the value of coefficients proved that organisational culture had most effects on the knowledge sharing activities, than on knowledge acquisition, storing of knowledge and, eventually, on knowledge utilisation. Although it has been proved that there is a connection between organisational culture and knowledge management, based on the correlation coefficient value it is possible to conclude that there is room for improvement, by which causal connections between the referenced variables would strengthen. An analysis of the coefficient values regarding production and service offering enterprises indicates that they are highly connected, especially with regard to production enterprises. All results show that the hypothesis H<sub>1</sub> may be accepted in its entirety.

### 3. CONCLUSION

There is no uniform solution under which organisations could be equally successful in knowledge management. Even when all criteria for successful functioning of knowledge management are satisfied, organisational culture is the one to enable or prevent actual functioning of knowledge management. Quality management of changes and, certainly, building and implementation of competitive advantage are important. It is necessary to implement a culture of innovation and orientation towards creative thinking, and to build a culture of thinking of the support to creativity.

Knowledge management in FBiH is relatively seldom applied in the system. For this reason exactly it has a large potential but also a high price in the form of the need for further research, knowledge spreading and learning through practice. Knowledge management is basically focused on the organisational goals such as increased output, competitive advantages, innovation, distribution of acquired knowledge, and permanent improvement of organisation.

The research shows that the organisational culture has the strongest effects on the knowledge sharing activities, acquisition of knowledge, storing of knowledge and, finally, use of knowledge. Although it has been proven that there is a connection between organisational culture and knowledge management, based on the correlation coefficient value a conclusion may be reached that there exists sufficient room for strengthening causal connections between the referenced variables. Due to all of the foregoing, it is important for the FBiH economy to establish new social values which are based on knowledge, creativity and capability of human resources.

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