

Organizational Amnesia as the Barrier of Small and Medium Sized Enterprises to Improve Performance in the Global Market

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ABSTRACT

Small and medium-sized enterprises (SMEs) has an important role in economic. Their existence looked significant when the economy crisis in Asia 1997 and the world economic crisis in 2008. Therefore the role of SMEs for business and society is imperative, their sustainability should be maintained through utilizing knowledge and learning process to optimize their potential knowledge. However, different from the large organization that typically have resources to maintain their knowledge and learning process extensively, SMEs fall into lack of resources that driving them on amnesia consistently (S J Hall & De Raffaele, 2013). This paper aims to describe the appearance of organizational amnesia (OA) as the failure of organizations to learn reliably at the organizational level (Kransdorff, 1998) and it is inherent in SMEs daily activities. This phenomenon is proposed affect SMEs' performance to compete in the market place. Some conclusion and future research has been recommended.

Keywords: Organizational amnesia, Organizational performance, Small and medium-sized enterprise

INTRODUCTION

The significant impact of small and medium-sized enterprises (SMEs) to world economies has been documented nicely by Birch (1989) and Storey (1994). This kind of organization exist with hundreds of employees make up the largest business sector in every countries (Culkin & Smith, 2006), and governments around the world are increasingly promoting and supporting SMEs growth as part of their national strategy due to their important role in GDP growth and driving socio-economic development (Karadag, 2016), some of them able to present their

products in global market. In literature, there is not a global definition about SME, and it could define in a different way across countries, because the dimension of “small” and “medium” of a firm is relative to the size of the domestic economy. OECD (2017) defines a SME as the firms employing up to 249 employees, and it can be breakdown into three levels, namely: micro firm (range from 1 to 9), small firm (10 to 49) and medium firm (50-249) while UK government adding a criteria such as the balance sheet total not more than £11.4 million. Airaksinen, et al. (2018) noted that SMEs represent around 99 % of all enterprises in the world and absorb significant employees. Based on OECD report in 2017, the increasing number of SME can help governments escaping from low productivity traps, improving the quality of jobs for low-skilled employee stimulate economic growth, and social inclusion objectives. Therefore, the role of SME is essential and should obtain more roles in business and society. However, many SMEs enable to utilize their knowledge optimally because some weaknesses so it will decrease their ability to increase performance and compete in global market. Raising this problem allows the author to do some investigation and discussion in the existing literatures.

Prior literature in knowledge management tend to analyse the processes of dissemination of knowledge and utilize information in large companies rather than small organization (Cerchione, Esposito, & Spadaro, 2016). Yet, in recent year some literature have been focusing on knowledge management in SME (Frey, 2001; McAdam & Reid, 2001; Wong & Aspinwall, 2005; Pillania, 2008). However, micro organizations have difficulties to avoid some problems that inherent with their daily activities. For example a couple decades ago Kransdorff (1998) introduced “organizational amnesia” (OA) to explain the existence of amnesia in organization routines due to inability to capture and diffuse learning in the organization because lack of accessibility of the knowledge generated from learning. In micro-sized enterprises the influence of OA will be felt even if only one member departs within a certain time (Hall & De Raffaele, 2013). Another issue such as high level of turnover, shift-work rotation, downsizing staff level, limited financial and human resources within the SMEs and perceive benefit of knowledge management itself make them difficult to implement knowledge management as a part of their strategy. Edvardsson(2006) noted that only 24 percent of Icelandic micro firms have a knowledge management programme in place, while mostly SMEs in Indonesia do not put knowledge management as priority (LPPPI & BI, 2015). The nuisance to utilize knowledge and information sent micro organization difficulties to compete in the global market.

Therefore, the authors argue that social science should present to contribute in this area, and some gaps should be fulfilled by researchers to solve problem. For instance, rising answer why micro organizations tend to be failure utilizing their knowledge as resources of organization to face market globalization.

DISCUSSION

The main objective of organizations is to be more competitive in market place that is why they need to optimize the potential knowledge. However, in spite of the tendency to build knowledge management in SME, the studies have shown that it is not effortless for an organization to learn (Othman & Hashim, 2004) and also able to develop learning capabilities even most of them have natural propensity to forget (Conklin, 2001).

The notion of organization memory lost had been mentioned more than a couple decades (Stein, 1995) while organizational amnesia (Kransdorff, 1998) indicated an organization fail to benefit from its experiences due to lack of ability to effectively transmit the knowledge to the places in the organization where the lessons learned are absorbed and used. Explaining more detail about this situation, Othman & Hashim (2004) divided organizational amnesia to be two types. The first is named “time-based organizational amnesia”, reflect the failure to utilize learning that has taken place to make the necessary adaptation, and second is “space-based organizational amnesia” that related to the inability to move or diffuse lessons learned at one place to other places in the organization.

In SMEs context this kind of phenomenon is always happen in daily activities and it would affect the way organizations behave, in turn influencing their overall decision in their market place. Storey & Kahn (2010) noted the critical position of organizational memory in decision making process also some researchers have explored the extent to which memory affects how managers make decisions in the global market.

To understand the causes of organizational amnesia are cannot be separated with the organization learning process. According to Easterby-Smith (1997) learning organization is action-oriented processes by creating and expanding organizational capacity to learn, while Birdthistle (2008) emphasised that organizational learning can be used as heuristic tool to explain and quantify learning process. There were some scholars also tried to explain the dimension of organization learning process entire organisation such as Örtenblad (2002) that described four aspects of the learning organization construct. First, knowledge is stored in the organizational memory. Second, learning activity is seen as implementation of knowledge at dissimilar stages. Third, learning environment perspective looks organization as a place to

facilitate the learning activities for employees. The last is the learning formation perspective that looked learning organization as a flexible component. Watkins & Marsick (1993) also mentioned seven elements of a learning organization process, namely continuous learning opportunities, inquiry and dialogue, collaboration and team learning, systems to capture and share learning, a collective vision, connection to the company's environment, and strategic leadership for learning. Crossan, Lane, & White (1999) also presented a structure of organizational learning into four processes those covering individual, group and organizational level. The first is intuiting that happen in individual level. It represents that each person is unique with own cognitive map that will affects recognition process, the higher degree of personal expertise, the higher his ability to perceive patterns than others. This kind of process does not influence organization unless it is shared to all parts of organization. The second is, interpreting that refers to as social activity that allows individual learning with group level that generates a common language and develops convergence of meaning. The third process is integrating which enlargement of shared thoughtful and taking coherent collective action by members of the group. The best achievement of this stage is when actions repeated and accepted as regular process and tend to be made as the organization standard. It means that the learning process that takes place at the group level is linked to the organization level. Finally, institutionalizing is the process whereby the learning activities are becoming embedded in the systems, structures, strategy, and the culture of the organization. The accumulation of those activities can create a new knowledge that is stored in organization's memory. In other word institutionalizing ensures that what had been learned embedded in organisation system and no longer based on the person who was the drive of the learning process.

Furthermore, from organizational learning perspective it can be proposed that OA can happen in entire stages since learning is principally as a process of knowledge acquisition (Bahra, 2001), also knowledge is an abstract matter that cover individual experience, values, intuition, personal expertise, social background that provides a context and framework for incorporating new experiences and information, so knowledge should appear not only in organizations' records but it also been reflected in organization daily activities. So, it can be argued that the appearance of OA will make difficult of all organization to build up organizational learning because the nature of knowledge itself.

Another explanation why knowledge will lose in a certain process because quite often it must be understood based on the background that was generated and it has explicit and tacit bases. For explicit knowledge can be bit easier to be transferred become formal language within

organization but the problem always happen when tacit knowledge need to be articulated since it lies on personal perspectives and value system (Bahra, 2001).

Ensuring that tacit knowledge stored properly, Kogut & Zander (1992) argued that knowledge has had a set of identifiable rules and relationship so make it easier to be communicated, failure to converse tacit knowledge makes knowledge difficult to be transferred entire organization. In Addition Kransdorff (1998) added that both person and group level tend to avoid lesson, then the learning process can be rather distorted and misplaced. For a simple case even though an organisation already installed certain software to support the knowledge storage within organization there are still possible fail to access properly by all of organizational member due to knowledge has a tacit aspect, so using and replicating them in other parts of organization may not easy because it is still need a specific skill (Othman & Hashim, 2004), and everyone also has different intelligence (Kogut & Zander, 1992). Dealing with the human factor Cohen & Levinthal (1990) mentioned that previous knowledge of human being will affect the way they utilize the new knowledge. Long experience and the accumulation of knowledge in memory will increase the person ability to absorb and implement a specific knowledge. Schulz (2001) described that in term of utilize the knowledge among members of organization, a regular training to increase the personal capacity is needed to make it more reflective unless organizational learning will be a vicious cycle that restricting further learning and give more space for organizational amnesia. All elements that mentioned above are very susceptible in micro enterprises that can influence their daily business activities in the market.

OA indicates firms lost their memory so they are incapable of recalling their past knowledge and inability to communicate lessons within organization. This situation will influence the overall organizational performance, particularly in responding the change of global market and business preference. In order to response the uncertainty of business landscape, the firms need listening carefully their customers, develop product and service excellent, while at the same time preparing internal proper system to optimizing their knowledge to face competition. In other word the traditional management style of SME is never sufficient as weapon to response changes and global market preference. Therefore, participation of all the member of organization in the development and maintaining the business process will be fundamental aspect for future organisational (Choueke & Armstrong, 1998).

As known, it is very often found in SME that the absence one of member for a certain period will influence all the organization process. Some scholar also argued that SME always living with amnesia which knowledge management and organisational learning are nice to have but

it really hard to justify. There are some problems to install learning system entire organization such as limited of incentive makes member of organization reluctant to share his knowledge, building knowledge system also needs some cost and a good administration to maintain knowledge resources. In sum, SMEs is consistently on the threshold of corporate amnesia and it will directly influence their market performance. According Oto Deshpandé, Farley, & Webster (1993) and (Drew, 1997) organizational performance the degree to which companies attained its business goals and it can be measures from several factors, such as overall success, market share, growth rate, profitability and also innovativeness compare with their competitors. While Keh et al. (2007) divided organizational performance in two dimensions such as financial performance and non-financial performance. So, it is able to argue that the existence of OA in SMEs will directly influence their performance in the market place.

CONCLUSION

The large organizations typically have resources to maintain critical information and knowledge extensively, while micro sized organization is always face weaknesses of sources that driving them on the amnesia consistently. This situation would influence their existence in market place. The barriers such as cost and require a good administration (Hall & De Raffaele, 2013) to maintain knowledge resources makes difficulty to acquire and utilize the information that fundamentally will affect firm performance (Keh et al., 2007). Also, micro and medium sized organization has a nature for the high level of staff turning over, shift-work, outsourcing process until downsizing that can cause organizational amnesia.

An organization needs continuously gather knowledge and information in order to deliver high-quality products or services in the market consistently (Slater & Narver, 1998). Brockman & Morgan (2003) argued that enterprises with more information about the market tend to benefit in a higher level of performance. The authors could argue that the more organisation maintaining and acquiring knowledge the more possibility to utilize their sources to increase their performance in the market place. Therefore, to be more precise an empirical assessment of the nature relation among variables proposed should be test to get more explanation and to prove the level of generalizability. Also, since the concept of OA is still being developed the researchers should contribute to fill this gap. Finding a clear concept, possible dimensions and some indicators to identify the existence of OA within SMEs would enrich the social science literature, and this more challenging for social researchers to contribute.

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