Knowledge acquisition and Financial Performance of Micro and Small Enterprises

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DOI: 10.29322/IJSRP.11.10.2021.p11875
http://dx.doi.org/10.29322/IJSRP.11.10.2021.p11875

Abstract- The current thinking among managers of micro and small enterprises is on how to manage knowledge in a competitive business environment. Good performance, capped with some level of efficiency of these MSEs is what is desired from them to achieve a good and continuous economic growth. However, limited knowledge management skills hamper achievement of good performance of the MSEs. The study aimed at determining the relationship between knowledge creation and financial performance of micro and small enterprises, assessing the relationship between knowledge acquisition and financial performance of micro and small enterprises, and establishing the relationship between knowledge sharing and financial performance of micro and small enterprises. This study was anchored on Knowledge Based View Theory. The study adopted a correlational survey research design with a target population of 810 micro and small enterprises in Sotik Sub-county. Simple random sampling was used to identify 267 MSEs used for the study. Structured questionnaires were used to collect primary data. Data was analysed using descriptive and inferential statistics which were presented using frequency tables, graphs and charts. Mean and standard deviation assisted in describing knowledge management predictors and financial performance predictors. Multiple regression models and ANOVA were used to test the significance of research hypotheses at 5% significance level. The findings revealed that knowledge acquisition was attained due to training, benchmarking and business processes. These would enable employees to actualise methods and concepts through practical application. Therefore, knowledge acquisition had positive significant relationship with financial performance (P<0.05). This study concluded that knowledge acquisition has positive significant relationship with financial performance. Therefore, this study recommends that organizations need to create sufficient policies that enhance knowledge acquisition. There is need to emphasize on change and the training methods, techniques as well as coming up with robust methods of knowledge creation in organizations.

Index Terms- Knowledge Acquisition, Knowledge management, and Financial Performance.

I. INTRODUCTION

Increased competition, driven by globalization and rapid technological advancements, has ultimately changed the economic definition across boundaries and the world has basically become a global village, (Amah 2014). In the current age, widely referred to as the knowledge age, organizations are progressively witnessing a rapidly changing business environment characterized by time based competition and a fairly knowledgeable customer base. Therefore, organizations make efforts to achieve economic sovereignty as they also endeavour to achieve a competitive advantage in the market through lean production costs and enhanced efficiency, (Tang, 2017).

Intangible and intellectual assets such as knowledge are viewed as critical determinants of organizational performance. Therefore, organizations that endeavour to be effective must create or acquire adequate knowledge and distinguish such knowledge as important element to their search for profitability and overall performance, (Etori & Alilah, 2020). The fact that knowledge is known to be subjective, symmetric and intrinsically uncertain makes knowledge management practices within a knowledge based economy difficult to copy by competitors, (Edosio, 2014). However, creation and sharing of knowledge in the organization introduces efficient business processes, improve existing business processes and eliminates redundancy, (Abubakar, Elrehail, Alatailat & Elci, 2019). Girard and Girard (2015), assert that organizational performance is determined by its ability to identify, create, share, and protect knowledge.

Knowledge management is a management process that is capable of creating, storing, diffusing and influencing knowledge so as to achieve the objectives of an organization. It is an accumulation of knowledge that can validate the design and management principles of an organization, structure, processes and application of technologies in order to enable employees demonstrate their creativity, initiative and capability with high effectiveness and thus improve the value of an enterprise. Knowledge Management (KM) is thus the process of generating, using, sharing, and managing the knowledge and information of an organization (Girard & Girard 2015). Knowledge Management is supposed to effectively capitalize on the use and harnessing of knowledge so as to provide insights and offer solutions to the organization’s issues, (Edosio, 2014).

According to Forghani and Tavasoli, (2017), knowledge management in an organization is a combined concept that encompasses systems based on knowledge, artificial intelligence, information technology, and management of human resources and the enhancement of enterprise processes. Knowledge management is therefore a mechanism through which a company can create and
utilise knowledge internally within the organization and groups. It encompasses three main elements; knowledge production, which is the process of integrating or transforming information to knowledge which is able to help the organization in solving business problems, organizational learning which is the process by which the organization can acquire new knowledge from within and from outside the organization and finally, knowledge sharing which refers to the process by which an organization allows its employees to access and use knowledge within the organization. The concept of knowledge management and financial performance among MSEs has over the last decade gained scholarly interest with a few studies using level of growth in sales, profitability, and customer base as a measure of performance in the MSE sector (Ariawan, Sudarna, Djamahir & Maski, 2018). Proper functioning of business management coupled with efficient management of resources are the major areas to be given attention towards overcoming issues affecting financial performance of MSEs. This is to enable enterprises to develop special competencies that would give them competitive advantage and ability to overcome challenges posed by dynamic business environment (Garaham, 2017). As per the Resource Based View theory, firms can create strategies by efficiently utilising the available resources and capabilities.

MSEs form an important sector in the Kenyan economy as they contribute upto 83% of total labour force and 18.4% of the Kenya’s total GDP. (KAM, 2013). MSEs provide significant impact to the Kenyan economy due to their ability to absorb a big percentage of the labour force. Implementation of KM practices to these entities is therefore necessary so that these organizations can optimally contribute more to the country’s GDP.

Statement of the Problem

Many micro and small enterprises face resource constraints ranging from tangible to intangible resources. The existing resources however should ideally be employed in an effective and efficient manner to increase the competitiveness of an organization. Knowledge management is one of the key resources that should be managed well to generate a competitive advantage for the firm and hence increase performance. It is on this basis that this current study sought to determine the relationship between acquisition of knowledge and financial performance of MSEs in Sotik Sub-County, Kenya.

Objectives of the Study

The aim of the paper is to assess the relationship between knowledge acquisition and financial performance of micro and small enterprises. The study was guided by the following research hypothesis:

H0: There is no significant relationship between knowledge acquisition and financial performance of micro and small enterprises.

Justification and Scope

Many micro and small enterprises face resource constraints that limit their growth prospects. Whatever existing resources they have should be protected and used in an effective and efficient manner to increase the organization’s value and competitiveness. Knowledge management is one of the valuable resources that should be managed well to create a competitive advantage for the organization and hence increase performance. There is limited scholarly research on MSEs in Sotik Sub-county about the relations between management of knowledge and financial performance of MSEs as most of the studies have been conducted in developed nations and mostly focusing on large enterprises. Therefore, there is need to carry out a study in a developing country focusing on micro and small enterprises so to establish if a relationship exists between knowledge management and financial performance of these enterprises. The target population of the study comprised of the directors or managers operating MSEs licensed by Bomet County Government and operating in Sotik sub-county. These MSEs include milk vendors, retailers, wholesalers, petrol stations, vegetable vendors, fruit vendors and others. The study was conducted in Sotik Sub-County between January 2020 and April 2021.

II. LITERATURE REVIEW

Theoretical Framework

Knowledge based view is an extension of resource-based view which was promoted by Penrose, (1959), and later advanced by Warnerfeit, (1984), Conner, (1991), and Barney, (1991). This theory was developed as a managerial framework to be used in determination of strategic resource utilisation. The theory considers knowledge as a significant and strategic resource that is socially complex and generally tough or difficult to imitate. The theorists emphasize that those resources which are rare, valuable, difficult to substitute or imitate should be guarded and given attention as they can position a firm for long term success. The resources are often referred to as strategic resources as they are capable of providing an organization with capabilities that can lead to organizations superior performance over a given period and hence give a competitive advantage, (Barney 1991).

According to Hart, (1995), as cited by Collins, (2020), Knowledge-Based View was expounded out of weaknesses of the Resource-Based View theory. Resource-Based View theory was confusing since it considered the term resource wholesomely. The word resource within the everyday common language can be used to imply so many things. Therefore, it is important to distinguish between strategic resources from other resources within the organization. Knowledge management is considered as a strategic human resource and hence proper management of this resource can make an organization have a competitive advantage over its competitors, (Blomkvist, Johansson & Rodgers, 2018).

The KBV of the organization assumes that learning and sharing of knowledge is an essential asset of an organization. The advocates of this theory claim that assets based on learning are usually hard to imitate. This type of learning is developed and presented using elements that are different. Such elements include personal traits, culture hierarchy, methods, schedules, frameworks, archives and the organizational workforce, (Kitchlew, 2015). KBV is applied in the concept of management which gives the organization strategies towards accomplishing their competitive advantage. This approach forms the basis for creation of human capital that is adopted in most routine and basic activities in an organization and, further more, highlights the deliberate assets that form the foundation for the acquisition of the organization’s competitive advantage.
Knowledge Acquisition and Financial Performance of MSEs

According to Hippe1, (1994), knowledge is not readily transferable and an enterprise can obtain knowledge from external sources. Yli-Renko et al., (2001), noted that knowledge acquisition is majorly a social process which creates interactions and positive networks for acquiring knowledge. The main sources of acquired knowledge are customers, suppliers, competitors, partners or alliances, mergers and acquisitions, and other expertise like hiring new personnel or acquiring services of consultants, (Zanjani, 2008).

In the People’s Republic of China, Wang and Wang, (2012), sought to find out the relations between knowledge sharing, innovations and organizational performance. The study adopted a cross-sectional survey research design and a research model that was tested empirically using raw data gathered from 89 SME firms in Jiangsu province of China. The study found that both explicit knowledge and tacit knowledge sharing had more significant relationship with the speed of innovation and financial performance of the firm. Explicit knowledge sharing had high relationship with financial performance, while tacit knowledge had major influence on operational performance. This study revealed inconsistent findings on the effect of knowledge acquisition and performance unlike this study that was carried out to determine the specific effect(s) of knowledge management on financial performance of MSEs.

From a study carried out by Amah, (2014), on sustained knowledge acquisition and organizational effectiveness, it was found that there was significant and strong relationship between sustained knowledge acquisition and profitability for manufacturing firms that were based in Rivers State, Nigeria. It was further establish that there was a significant and moderate relationship between sustained knowledge acquisition and productivity of organizations. Additionally, that study established a strong and significant relationship between sustained knowledge acquisition and increased market share for organizations operating in that region.

A study by Gholamiet al., (2013), on the effect of knowledge management and organizational performance, an empirical study, the researcher sought to assess the effects of knowledge management practices on performance of MSEs where he adopted structural equation modeling technique with a target population of 282 top level managers of the selected firms using simple random sampling technique. The study findings revealed that knowledge acquisition, storage, sharing and creation had a positive relationship with knowledge management and performance of MSEs. The findings also indicated that staff performance, productivity, work relationships, innovation and customer satisfaction positively influenced organization performance.

In Africa, Mahapa, (2013), did a study on the impact of knowledge management practices on organization performance in the hospitality industry. The study adopted a case research design where three hotels were selected for the study. Primary data was collected using structured interviews. Questionnaires were adopted to collect secondary information from non-managerial labour force. Stratified simple random sampling was adopted to arrive at a sample size of 50 respondents comprising of 35 non-managerial and 15 managerial staff. The findings indicated that the hospitality industry has put in place proper knowledge management practices that have led to growth of new products and services and modern methods of doing business that translated to enhanced organization performance.

Diugwu, (2011), in a study on building competitive advantage of MSEs through knowledge acquisition and sharing notes that there is a significant relationship between knowledge acquisition and performance. The study adopted a correlational research design and targeted all the MSEs in Niger Delta State in Nigeria. Purposive sampling techniques were deemed ideal for that study and 88 entrepreneurs were selected as respondents. Data was gathered by use of questionnaires and analysed inferentially. Findings from the regression model indicated that the enterprises competitive advantage and performance positively correlated to its knowledge level on current market or business conditions, and the capability to cope and use the existing market place conditions. However, the study also established that there was a discourse in the existing literature on the means by which MSEs, which are normally affected by insufficient resources, can access or obtain necessary knowledge that can be useful in building a competitive advantage for continued existence in business.

From the reviewed studies on knowledge acquisition and financial performance of MSEs there has been inconsistent findings arising from different research methods, design, analysis and units of analysis adopted. For instance, one study used structural equation model and empirical research much unlike this current study which used correlation survey research design and regression models. Again as opposed to this study which focused on MSEs, one of the studies was done in the hospitality industry. These two sectors are influenced by different factors and hence the need to carry out this study to examine the relations between management of knowledge and the financial aspect of performance for MSEs.

III. RESEARCH METHODOLOGY

This study used correlational survey research design. The study was conducted out in Sotik Sub-county which is one of the five Sub-counties of Bomet County. The population target of the study was 810 enterprises operating businesses licensed by the County Government of Bomet. This researcher then used the Nassiuma (2000) formula to arrive at an appropriate sample size of 267 enterprises to target for the study. Thereafter, simple random sampling technique was used to identify the respondents. The 267 respondents were proportionately distributed among the MSEs. The study used raw data collected using questionnaires that are structured and which were close and open ended. Once quantitative data was collected from the field, it was analysed. Preparation involved identifying responses which were blank, editing, entering and coding data into SPSS. The statistics generated both inferential statistics and descriptive statistics. Descriptive statistics was in form of frequency tables, graphs, charts and tables. It also included standard deviations and means which was employed for data analysis and illustrates specific characteristics of the study variables. Inferential statistics were generated in the form of correlation analysis as well as ANOVA.
IV. RESULTS AND DISCUSSIONS

Descriptive analysis was examined and utilizing mean and standard deviation obtained from a Likert Scale of 1-5 where 1 is strongly disagree, 2 is disagree, 3 is neutral, 4 is agree and 5 is strongly agree. Mean and standard deviation were used to obtain the necessary description of the data collected.

Table 1: Descriptive Statistics for Knowledge Acquisition

<table>
<thead>
<tr>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees in the MSE are regularly sent for training outside the organization</td>
<td>225</td>
<td>1.00</td>
<td>5.00</td>
<td>4.4222</td>
</tr>
<tr>
<td>Knowledge in the MSE is acquired through external survey and environmental scanning</td>
<td>225</td>
<td>1.00</td>
<td>5.00</td>
<td>4.2400</td>
</tr>
<tr>
<td>The MSE send their employee for benchmarking regularly.</td>
<td>225</td>
<td>1.00</td>
<td>5.00</td>
<td>4.3200</td>
</tr>
<tr>
<td>The business processes enhances understanding and translating knowledge into application</td>
<td>225</td>
<td>1.00</td>
<td>5.00</td>
<td>4.4489</td>
</tr>
<tr>
<td>Actualization of methods and concepts are enhanced through practical application</td>
<td>225</td>
<td>1.00</td>
<td>5.00</td>
<td>4.4178</td>
</tr>
</tbody>
</table>

Table 1 results indicated that employees in the MSE had sufficient training since the organization regularly sent their staff for training outside (mean of 4.4222). Variation of training was low (standard of 0.81528). Therefore, regular training of employees assisted in knowledge acquisition.

Knowledge in the MSE was adequately acquired through external survey and environmental scanning (mean of 4.2400). Variation of external survey and environmental scanning was low (standard deviation of 0.80467). This implied that knowledge was acquired through external survey and environmental scanning.

It was found that MSEs to a great extent sent employees for benchmarking on regular basis (mean of 4.3200). Variation of benchmarking was low (standard deviation of 0.87872). It implies that benchmarking is used as a technique of knowledge acquisition.

Business processes greatly improve the understanding and translating knowledge into application (mean of 4.4489). Its variation on understanding and translation of knowledge was low (standard deviation of 0.75493). This reveals that business process was crucial in understanding and translation of knowledge.

Actualization of methods and concepts are greatly enhanced through practical application (mean of 4.41780). The variation in practical application was also low (standard deviation of 0.72804). It shows that concept and method actualization played an important role in knowledge acquisition using practical application of knowledge in MSEs.

Diugwu (2011), concurred by associating knowledge acquisition with understanding business condition and capability to cope with market place conditions. The current research associated knowledge acquisition with scanning of environment and external survey. Therefore, through scanning the environment the organization can acquire new knowledge that can create competitive advantage.

Table 2: Descriptive Statistics for Performance

<table>
<thead>
<tr>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over the past one year there has been an increase in profits in the company</td>
<td>225</td>
<td>1.00</td>
<td>5.00</td>
<td>4.5244</td>
</tr>
<tr>
<td>Return on assets for the company have increased over the past one year</td>
<td>225</td>
<td>1.00</td>
<td>5.00</td>
<td>4.2178</td>
</tr>
<tr>
<td>Over the past one year, the Return on Equity for the company has increased</td>
<td>225</td>
<td>1.00</td>
<td>5.00</td>
<td>4.3556</td>
</tr>
<tr>
<td>Over the past one year the company has acquired new customers</td>
<td>225</td>
<td>1.00</td>
<td>5.00</td>
<td>4.5111</td>
</tr>
<tr>
<td>Sales for the MSE has increased over the past year</td>
<td>225</td>
<td>1.00</td>
<td>5.00</td>
<td>4.4222</td>
</tr>
</tbody>
</table>

Source: Research Data (2021)

In table 2 the results showed that over the past one year there has considerable increase in profits in the MSEs (mean of 4.5244). Variation in profit increment among MSEs was low (standard deviation of 0.76215). Hence, profitability of the MSEs reveals an association with increase in performance.
Return on assets somehow has increased in the MSEs over the past one year (mean of 4.2178). Its variation in increment of return on assets was low (standard deviation of 0.68897). Therefore, MSEs have been performing exemplary well in relation to return on assets annually. Table 2 also reveal an increase in return on equity over the past one year (mean of 4.3556). Variation in return on equity increment among MSEs was low (standard deviation of 0.76636). It suggests the organization have increased the returns based on equity in past years.

It is also revealed that over the past one year the MSEs had acquired new customers (mean of 4.5111). Variation in acquisition of new customers was low (standard deviation of 0.68863). It implies that there had been a continuous increment of customers. Finally, sales of MSEs have increased over the past year to a great extent (mean of 4.4222). Its variation in increment of sales was low (standard deviation of 0.71617). Therefore, MSEs have improved in terms of sales over the years.

Bourmarafi and Jabnoun, (2008), findings were linking knowledge management with organizational performance. This is similar with Yosuff and Daudi, (2010), study where knowledge management was associated with enterprise performance. However, Gholamiet et al., (2013), study found significant relationship between knowledge management and financial performance but the study was conducted in Iran. Correlation analysis was used to investigate the relationship between knowledge acquisition, knowledge sharing, knowledge creation and financial performance. There results were obtained using a 5% significance level.

<table>
<thead>
<tr>
<th>Table 3: Correlation Analysis</th>
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<tbody>
<tr>
<td>Knowledge Acquisition</td>
</tr>
<tr>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
</tr>
</tbody>
</table>

Source: Research Data (2021)

Table 3 results revealed the existence of strong positive relationship that is significant between knowledge acquisition and financial (R=0.741, P<0.05). Similarly, Amah, (2014), similarly found that there existed a strong positive relationship between knowledge acquisition with profitability and market share. Ritala (2015), found that there existed a positive significant relationship between knowledge sharing and organization performance.

Variance analysis was conducted to determine if there existed significant relationship between knowledge acquisition, knowledge sharing, and knowledge creation with financial performance of MSEs. This was tested using a 5% significance level as indicated in the table 4.

<table>
<thead>
<tr>
<th>Table 4: ANOVA for Relationship between Knowledge Acquisition and Financial Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
</tr>
<tr>
<td>Kitchen</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Within Groups</td>
</tr>
</tbody>
</table>

Source: Research Data (2021)

Table 4.13 results indicated that there exist significant relationship between knowledge acquisition and financial performance (F(9,215)=39.22, P<0.05). Knowledge acquisition was associated with financial performance of MSEs. Amah (2014), had similar findings where knowledge sharing had significant relationship with organizational profitability. 

H01 There is no significant relationship between knowledge acquisition and financial performance of micro and small enterprises.

According to the results in table 3 and 4 the null hypothesis was rejected and the alternative was accepted. Therefore, there exist a positive significant relationship between knowledge acquisition and financial performance of micro and small enterprises (P<0.05). Amah (2014), concur that knowledge acquisition had significant relationship with profitability of organization. A study by Gholamiet et al., (2013), also found similar results where knowledge acquisition had positive significant relationship with performance of MSEs. This affirms that MSEs can improve their performance through improving knowledge acquisition techniques.

V. CONCLUSION AND RECOMMENDATIONS

Conclusion
The study concluded that knowledge acquisition had a positive significant influence on financial performance of MSEs. Knowledge acquisition was attained in the organization through training of employees. MSEs also encourage the management to conduct external survey and environmental scanning. Benchmarking was on regular basis which assist the organization in gaining new knowledge from competitors. Employees were able to understand and translate knowledge through continuous use of business processes.

**Recommendations**

The study recommends that management should introduce sufficient policies that enhance knowledge acquisition. There is need to emphasize the need to adopt workable training methods and techniques as well as create a robust method of knowledge creation in the organization. Due to technological dynamics, enterprises should also emphasize the use of online training, online learning and internet based knowledge creation process among MSEs.

The study recommends that knowledge acquisition should also be improved. The organization structure should make it easy for employees to share knowledge within and between the management levels. This will improve the knowledge sharing in organizations. Further, organizations should utilise not only social media as a means of positively sharing knowledge but also should adopt online conferencing. This will enable enterprises to share knowledge within and with other similar business entities.

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**AUTHORS**

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