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The Role of Knowledge Management in the Financial Performance of Small and Medium Companies

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ABSTRACT

This research aims to determine the effect knowledge management processes (knowledge generation, knowledge distribution, and application knowledge) on financial performance in the Malaysian small and medium companies. The descriptive analytical secondary and primary data was utilised as a tool for gathering data from 130 companies as a sample. The results display that there is a positive association among knowledge management with financial performance. The knowledge management represented in generation, distribute, and apply knowledge, and express it about performance through the perspectives of the financial perspective companies. As the research reached a set of conclusions, including that there the effect of knowledge management processes on raising level of performance.

Keywords: Knowledge management, financial performance, small and medium companies

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INTRODUCTION

The criteria for the success of management are complex, which necessitated finding appropriate solutions to confront them, and the establishment of organizations adaptation and non-traditional strategies to achieve their survival enable them to search for different ways. Taking the lead in facing these challenges, the modern organization today looks at knowledge on the basis of knowledge. It is a real source for the processes of creativity and innovation, and a basis for administrative wisdom in the modern company (Holsapple, & Joshi, 2000).

It always strives to attain productivity and efficiency to attain and keep remaining performance and the development of its products, and this drives it to work continuously on developing and updating its goals and its strategy. The use of effective tools, methods, and in order to achieve this, it seeks to gain knowledge. Renewable science and knowledge that are constantly being created and developed. So from the importance of knowledge management (KM) as an effective basic tool that prepares business companies in all their forms and types successful entry into the era of the digital economy, in light of a world title to globalization (Rush, 1992). To the openness of businesses and markets, and that whoever has the ability to challenge and compete is the one who has a weapon knowledge and learning, and this research came to stand on the most important pillars and concepts related to management knowledge and institutional performance and its measurement, and identifying the role of KM in improving financial performance (FP).

The importance of the research is to try to arouse the interest of firms in the small and medium “Malaysian companies” with such important organizations for this sector and the role it plays in development economic, and then increase the awareness of administrative leaders in those institutions of the concept and importance knowledge management processes and their role in performance, which contributes to increasing the ability of these companies to promote looking at the challenges that organizations face in the market now and in the future, a companies in light of globalization and the great acceleration in information (Abdullah et al., 2021).

The problem of this research can be limited to the subsequent question: is there an impact on KM processes (knowledge generation, knowledge distribution, application knowledge) in the financial performance from the perspective of small and medium companies. Therefore, there are very limited studies between knowledge management and financial performance, hence, this study test such this relation.

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LITERATURE REVIEW

Knowledge Management

The researchers differed in defining the processes and activities responsible for managing the knowledge of the organization. While we find that the KM defines it as: the processes of searching for sources of knowledge, discovering them, analysing them. KM is the processes, tools and behaviors in which he participates in formulating and performing the beneficiaries of the company to acquire, store and distribute knowledge and reflect it in business processes to reach the better requests with the purpose of long-run competition and adaptation" . Based on the foregoing and despite the differences of researchers in determining the number and their names, we will rely on the four knowledge management processes identified by (Desouza, & Awazu, 2006 & Mertins et al., 2001), because we see that there are a number of similar processes that can be combined to form a main process among the processes.

Financial Performance

Financial performance is one of the displays utilised to measure the achievement of small businesses in relations of financial returns. “It is often utilised by investors as a standard for performing the due industry process and assessing the investment situation; it is also utilised as a tool through government to evaluate compliance with regulatory measures and to monitor the financial sector” (Abdullah et al., 2019).

Performance is the common denominator of the efforts of individuals working within any organization, so performance is understood essential and important for organizations in general, and it is almost an inclusive phenomenon for all branches and the fields of administrative knowledge, and despite the large number of research and studies that dealt with performance. But there is no consensus on a specific concept of performance, due to the different criteria and standards. Which is used to measure performance, some of them define performance as "a reflection of an organization's ability" business and its ability to achieve its goals” (Darwazeh, 2008). The system educational institutions entrance concept is the most comprehensive concept: performance is the ability to adapt with the environment and stability and achieving high morale for workers and good utilization of resources available,” and goes to the same context, “performance reflects the ability of the institution to achieving its goals, especially the long-term ones, which are the goals of profit, survival, growth and adaptation. Using material and human resources with high efficiency and effectiveness and in light of

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environmental conditions variable" (Iqbal, Ahmad, Basheer, & Nadeem, 2012). From here, we see performance in its simplest form that expresses the outputs or goals that it seeks that the institution of all types and sizes aims to achieve them by effective and efficient utilization its human and material resources under the conditions of its internal and external environment.

Financial perspective

The financial dimension is considered the final result of the activities of the institution that seeks through it to increase benefits to meet the prospects of shareholders, it is the image that displays the success of the strategies that the institution follows it to achieve shareholder profitability through two basic strategies: a growth strategy revenue (through adding new services and more customer care) or growth strategy productivity (Kazem, Abbas, Sabti, Ali, Nasser, 2022). Performance competency perspectives are also included within the themes. The other three represented by customer hub, internal operations, and learning and growth all interact it falls into this financial axis, as it is considered the business output of business units of different organisation.

Knowledge management and financial performance

Knowledge management systems is a modern technology has supported the circulation of knowledge in organizations by classification, collection, distribution and addition organizational knowledge that contributed to improving the decision-making process and increasing productivity. Accordingly, knowledge management systems can be defined as follows they are those systems that work to explore the value from knowledge and photocopying electronic documents and diaries that serve the level of knowledge work, as well as the level of knowledge office systems, and several institutions have already initiated to assume and relate this perception and thus invest in systems KM, particular institutions have responded to building and commercializing systems for this new wave so that several launched their current products, which were marketed under the category of document management systems called administration systems knowledge.

The researchers were interested in examining the association between KM and the performance of companies in various sectors business and most of the specialists have unanimously agreed that knowledge management in overall enables. Generating, storing, distributing and applying new and useful knowledge to facilitate work within the organization

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(Wong, 2005). About sharing the presence of a team specialized in capturing knowledge and encouraging its investment, as well employees and their interaction, and the existence of an effective leadership that leads these operations to bring about consistency and harmony among them (Kuvaas, 2019 & "Aman-Ullah, Aziz, Ibrahim, Mehmood, & Abbas, 2021"). This leads to reducing the total costs of work by reducing the costs of wastage, defective production and returns sales and costs of mishandling technologies and means of work. KM leads to creativity and innovation, creating new things and raising awareness. The research issue can be limited to the following main hypothesis.

H1. There is a positive and significant relation among KM (knowledge generation, knowledge distribution, and application Knowledge) with financial performance of small and medium companies.

RESEARCH METHODS

The knowledge management measures using impact on knowledge management processes (knowledge generation, knowledge distribution, and application knowledge) and financial performance by using return on assets (ROA). The researcher selected small and medium Malaysian companies. The sample included administrative leaders represented by directors, their deputies, and heads of departments and departments. The number of distributed questionnaires was (90), and the number retrieved (80) questionnaires.

Measurements of variables

130 companies in "Bursa Malaysia" were choses as a final sample covering the period from 2010 to 2018. This paper uses ROA to measure financial performance which reported by Saleh et al., (2011). The favourite for this technique is it derives from the fact that it had times of approval and advanced significantly and concluded the course of the previous period.

Apart from the KM revealed earlier, many control variables are utilised in this study for instance board variables (industrial knowledge, profitability from knowledge, and company ownership). This is to show that the current study controls the potential related between KM on financial performance in the small and medium companies in Malaysia. The select of potential control variables relies on earlier evidence in (e.g., Crisóstomo, & Freire, 2011 & Mehmood, Mohd-Rashid, Ong, & Abbas, 2021 & Abbas et al., 2023 & Chang, & Kwon, 2020), and several of the studies relating to the financial performance as shows in this part. In

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the present study, yet financial performance, knowledge management, and control variables measurements are employed, as explained in Table 1:

The current study controls the potential connection between knowledge management with the financial performance of Malaysian companies. The significance of each "control variable" is assumed in this section. The best of "control variables" could potentially depends on prior evidence ("Abbas et al., 2023; Mehmood, Mohd-Rashid, Abdullah, Patwary., & Aman-Ulla. (2022; Mehmood, Mohd-Rashid, Ong, & Abbas, 2021 & Abbas et al., 2021") and other financial performance-connected studies as prominent in this section. "In this study, nevertheless, financial performance, knowledge management and control measures were used, as clarified in Table 1".

Table 1

Measurements of Variables

Name	Measurement
"Dependent Variable"	
Financial performance	Return on assets (ROA)
"Independent Variable"	
knowledge management	("knowledge generation, knowledge distribution, and application Knowledge")
Control Variables	
Industrial knowledge	"1 indicates "industrial" organization and 0 otherwise".
Profitability from knowledge	"Return on equity (ROE) = net Income/shareholders' equity".
"Company Ownership"	The percentage of company shares owned by executive directors.

3.3 Regression model

One empirical model is employed to test the connection between KM and FP. This paper employs a numerous regression method employing the "ordinary least squares" (OLS). This paper proposed findings is applied employing this model to support their comparability to that of extra studies. The regression model under explains the link.

$$FP_{it} = \beta 0 + \beta 1\ KM_{it} + \beta 2IK_{it} + \beta 3\ PROK_{it} + \beta 4\ COWN_{it} + \varepsilon$$

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RESULTS AND DISCUSSION

Descriptive analysis

Table 2 displays a sample of 130 companies in Malaysian companies, presenting the effects for the main objective. Table 2 presents that the mean FP of the sample is 0.333 with a maximum of 0.750 and a minimum of -0.223, which presents the FP of Malaysia by the study period. Regarding to the KM, the mean score of the index for KM greatest often disclosed was 0.211.

The control variables containing industrial knowledge (IK), profitability from knowledge (PROK), and company ownership (COWN). The range for IK is wide, with the mean 0.831 with a minimum 0.000 and the maximum being 1.000. For PK, the average of the observed companies is 0.249, with minimum of -0.510 and a maximum of 0.794. Finally, for COWN, the mean for companies is 6.406, with a minimum of 0.000 and a maximum of 0.504.

Table 2

"Descriptive Analysis"

Variable	Obs	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
FP	130	0.333	0.190	-0.223	0.750	-0.306	0.441
KM	130	0.211	0.213	0.000	1.140	2.493	7.365
IK	130	0.831	0.398	0.000	1.000	-1.750	3.240
PROK	130	0.249	0.352	-0.510	0.794	0.687	0.000
COWN	130	6.406	8.950	0.000	0.504	1.435	5.402

Note: "The table displays the "descriptive statistics" of the variables. The FP= Financial performance, KM = Knowledge management; IK = Industrial knowledge; PROK = Profitability from knowledge; COWN = Company ownership; n =135".

Correlation analysis

Pearson's correlation coefficients among "dependent variables, independent variables and control variables" are existing in Table 3 with high correlations between disclosure scores. This evaluation is discussed in detail below.

There is no "Multicollinearity" issue in the present study because all the variables display that there are no "multicollinearity" issues because their values are less than 0.80 (Hair et al., 2010)". As shown in Table 3, KM, IK, PK, and COWN are positively related to FP. In terms of "multicollinearity", the correlation matrix shows that there is no "multicollinearity" among the variables because "no variable is correlated above 0.80. All the variables in the correlation value are less than 0.80.

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Table 3

Correlation Analysis

Variables	FP	KM	IK	PROK	COWN
FP	1.000				
KM	0.380***	1.000			
IK	0.110	-0.051	1.000		
PROK	0.208**	0.179	0.117	1000	
COWN	0.174	-0.174*	-0.283***	-0.110	1.000

Note:" ***Correlation is significant at the 0.01 level (two-tailed); **Correlation is significant at the 0.05 level (two-tailed); *Correlation is significant at the 0.10 level (two-tailed)".

Regression analysis

The regressions are employed to the study hypothesis, but before that, a basic hypothesis that is significant for the "OLS regression" is employed. This contains checking for "collinearity" among normality (Table 2), "independent variables", and "heteroskedasticity". "To check, the "variance inflation factor" (VIF) and "collinearity" issues are considered. In all the cases revealed in Table 4, the VIF value is less than 10, indicating the absence of "multicollinearity". "The data employed for the regression analysis was measured to have a normal distribution in terms of kurtosis and skewness". The results described on KM presenting that KM found a positively and meaningfully relation with FP. (t=0.03, p-value=0.010). The IK, PROK, and COWN has a positive and significant link with FP which is the similar result with (Kang, & Kim, 2019).

Table 4

Model Results

FP	OLS		VIF
Variables	t.stat	sig	
KM	0.03	0.010***	1.70
IK	0.42	0.090*	1.43
PROK	0.214	0.064*	1.99
COWN	0.59	0.068**	1.27
Constant	0.37	0.825	
OLS Heteroskedasticity		0.128	
"Adjusted R2" (%)		71%	
n		130	
F-value		0.41	
p-value		0.97	
R2 (%)		49%	

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DISCUSSION AND CONCLUSION

The study proposes testing the influence of KM on the FP of Malaysian small and medium companies. The relation between KM and FP is established employing the “regression analysis”. A key “consequence” is that the knowledge management measured by (knowledge generation, knowledge distribution, and application knowledge) are positively related to FP based on the measure of ROA. This study also employs industrial knowledge, profitability from knowledge, and company ownership as the “control variables” disclosed a positively related with FP. The findings of the analysis display that companies encourage the growth of companies financial performance by providing best disclosure of KM information’s in their “annual reports”.

Develop a strategy to consolidate the concept of KM and its importance and its programs and requests by training programs, panel discussions, seminars and conferences scientific. The need to encourage individuals to acquire the knowledge they need they need it from its internal and external sources, modern means of communication, and benefit from internet services for the better performance of their work. Encouraging individuals to take individual initiatives and present proposals and ideas and allowing them to test them in the field that would contribute to improvement the performance.

The findings provide investors with valued visions into how other investors classify the importance of KM in the FP, although the feature that the findings may not reveal all investors in “”Malaysia”. “Policy recommendations, regulators should also continue mindful of the nature of the FP achievements due to the continuous variation of the KM policies providing by the “Bursa Malaysia” registration requirements”. “In order for them to recommend issuers and investors in Bursa Malaysia on the importance of KM. Therefore, investors can take the KM as evidence to consider this part when making “investment decisions” in Bursa Malaysia”.

This study focuses only on companies in Malaysia. Future studies are predictable to lead to cross-industry corporations among Malaysia and other Asian countries”. The connection between advanced and emerging countries can too raise the understanding of the association among KM using further measures.

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