

# Organizational Amnesia: the Barrier of Value Creation and Organizational Performance in Small and Medium Sized Enterprise

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## **ABSTRACT**

Small and medium-sized enterprises (SMEs) in Indonesia have essential role in economy. Their existence was appearing significantly when the financial crisis in Asian 1997 and the world economic crisis in 2008. Therefore, the existence of SMEs for business and society is essential, so their sustainability should be maintained through creating value and improving productivity. However, unlike the large companies that typically have resources to maintain information and their knowledge extensively, SMEs fall into lack of resources that driving them on amnesia consistently (S J Hall & De Raffaele, 2013) and it will influence the ability to create value and increase their performance. The paper aim is to describe the existence of organizational amnesia (OA) as the failure of organizations to learn reliably at the organizational level (Kransdorff, 1998). This indication is proposed will affect SMEs to create value and improve organizational performance. Some conclusion and future research have been recommended.

#### **Keywords:**

Organizational amnesia, Value creation, Organizational performance, Small and medium-sized enterprise

Received: 07 September 2018; Accepted: 20 September 2018; Publish; Oktober 2018

## **How to Cite:**

Sadat, A., Lin, M.. (2018). Organizational Amnesia: the Barrier of Value Creation and Organizational Performance in Small and Medium Sized Enterprise. Journal of Business and Behavioural Entrepreneurship, 1(2), 1-13. https://doi.org/https://doi.org/10.21009/JOBBE.001.2.01

#### INTRODUCTION

The importance of small and medium-sized enterprise (SME) to world economies is well documented (Birch, 1989; Storey, 1994). SME with hundreds of employees make up the largest business sector in every world economy (Culkin & Smith, 2006), and governments entire the world are increasingly promoting and supporting SMEs growth as part of their overall national development strategy due to their important role in GDP growth and driving socio-economic development (Karadag, 2016). In literature, there are some criteria and approaches to define SME, and it should be noted that there is not a global standard definition 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). For instance, the OECD defines an SME as the firms employing up to 249 employers, and it can be breakdown into three levels, namely: micro firm (1 to 9), small firm (10 to 49) and medium firm (50-249). While, UK Government was adding some criteria about SMEs such as the balance sheet total not more than £11.4 million, little or no previous experience of developing new products and struggling to survive or compete purely on manufacturing because of low-cost rivalry.

Furthermore, Airaksinen, et al. (2018) noted that the role of SMEs in world is very important, as they represent around 99 % of all enterprises and absorb the amount of significant employees. Based on OECD report 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 existence of SME is pivotal and should obtain more roles in business and society. However, many SMEs enable to utilize their knowledge optimally due to some weaknesses, so it will decrease their ability to creating value and increasing performance. Raising this problem allows the author to do some investigation and discussion in the existing literatures.

Previous studies in knowledge management tend to analyse the processes of dissemination of knowledge and utilize information in large companies rather than the micro sized organization (Cerchione, Esposito, & Spadaro, 2016). Only in recent year literature has been focusing knowledge management in SME (Frey, 2001; Mcadam &

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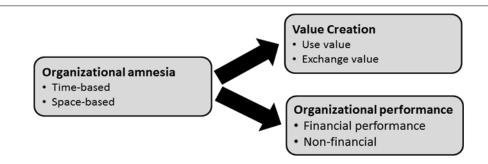
Reid, 2001; Wong & Aspinwall, 2005; Pillania, 2008). Indeed, there are some gaps that should be fulfilled by researchers to contribute and support SME, particularly why micro enterprises tend to be failure to utilize their knowledge as the source of information. Inability to capture and diffuse learning in the organization due to the inaccessibility of the knowledge generated from the learning called organizational amnesia (OA) (Kransdorff, 1998). 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 causes are a high level of turnover, shift-work rotation, downsizing staff level and perceive the benefit of knowledge management itself. Furthermore, the limited financial and human resources present within SMEs 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 SME in Indonesia do not put knowledge management as priority (LPPPI & BI, 2015).

# RESEARCH MOTIVATIONS AND QUESTIONS

There are several motivations to perform this research: first, since still few researches described the existence of OA in the context of SME, so it would be very valuable to fill this gap. Next, the presence of this paper will make a significant contribution, particularly in the knowledge management literature extensively. Last, investigating the existence of OA will assist the business owner to understand clearly that an organization needs to be able to use the knowledge generated from their learning to create business value and competitive advantage (Tiwana, 2000). Based on the background above the framework can be draw as Figure 1 and allow this paper to focus on the questions: does OA exist in SME? Moreover, how does the effect of OA on creating value and performance? Regarding those question, this paper will discuss based on literature how OA will influence value creation and performance in SME.

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**Figure 1:** The relationship between organizational amnesia, value creation and organizational performance

#### WHAT IS ORGANIZATIONAL AMNESIA

The author believes that the ultimate objective of enterprises is to be more competitive in the market place that is why they need to optimize the potential knowledge. However, in spite of the tendency to build knowledge management and organizational learning capability in SME, the studies have shown that it is not effortless for an organization to learn (Othman & Hashim, 2004), also not all organizations 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 around more than a couple decades (Stein, 1995) with many definitions have been proposed. This phenomenon in knowledge management literature is named organizational amnesia (OA) (Kransdorff, 1998). OA indicated enterprises have either lost their organizational memory or incapable of recalling their past experience and also inability to communicate lessons from one part of the organization to other parts.

This situation means that 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. Related to this situation Othman & Hashim (2004) divided OA to be two types. The first is named "time-based OA", reflect the failure to utilize learning that has taken place to make the necessary adaptation or create value, and second is "space-based OA" that related to the inability to move or diffuse lessons learned at one place to other places in the organization (Figure 2). In SMEs context this kind of phenomenon are normal and always happen in

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daily SMEs activities and it would affect the way organizations behave, in turn will influence their overall decision. Storey & Kahn (2010) noted the critical position of corporate memory in decision making process also some researchers have explored the extent to which memory affects how managers make decisions.

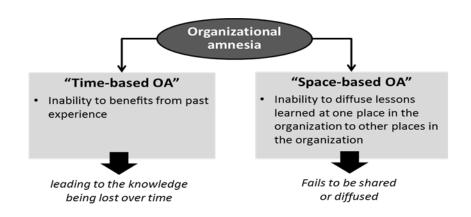


Figure 2: The types of organizational amnesia

Furthermore, the lack of resources originate in the micro enterprise results in the excessive reliance on tacit knowledge, thus implies that a micro-sized company is consistently on the threshold of corporate amnesia and practically will affect various corporate activities. Conversely, large companies typically have the resources to manage information extensively whereas SME has difficulties in implementing it. Hall & De Raffaele (2013) emphasized several barriers such as due to cost and not apply a proper method, encouraging SMEs to collect primary or secondary information from organizational stakeholders either personal or impersonal (Keh, Nguyen, & Ng, 2007) and used them in the decision-making process (Menon & Varadarajan, 1992). However, relying largely on information from external sources is not favourable in the long term. Contrarily the companies should have their own and store essential information that they need to respond the business environment to survive.

## CAUSES OF ORGANIZATIONAL AMNESIA

To understand the causes of organizational amnesia are cannot be separated with

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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 a heuristic tool to explain and quantify learning process. There were some scholars also tried to explain the dimension of an organization learning process entire organization 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 an 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, 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.

Meanwhile, Crossan, Lane, & White (1999) present 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 representing 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 is 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

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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.

From perspectives about organizational learning 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 thing 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' files 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). Therefore, 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 still need a specific skill (Othman & Hashim, 2004), and everyone also has different intelligence (Kogut & Zander, 1992). Deal with the human factor Cohen & Levinthal (1990) mentioned that previous knowledge of human being will affect the way they utilize the new knowledge. Long term experience and the accumulation of knowledge in memory will increase the person ability to

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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.

# ORGANIZATIONAL AMNESIA AND SMES' VALUE CREATION

To become competitive in the market place a company must be creating value better than his competitors. Edwards, Battisti, & Neely (2004) mentioned that there are three strategic choices for organization in prospecting excellent value creation, namely: 1) organizations can convey high level of value by rising their efficiency and effectiveness. This situation can be attained through the adoption of the better ways during production process, 2) organizations can initiate the innovation breakthrough into their production line of either products or services so that engenders more income; 3) implementing an essential change in value chain process consistently with the better techniques than previous. However, in those perspectives remain unclear specifically for SME in term of how those options can be manifested into practice in creating and sustaining the long term value.

As explained by Lepak, Smith, & Taylor (2007), value creation is the relative amount of value quality that perceived by the target user whether individual, organization, or society which the assessment is subjective and should be translatable into the willingness to pay for the value received. This perspective has two aspects that mentioned by Bowman & Ambrosini (2000), namely use value and exchange value. Use value refers to the specific quality of a job, task, product, or service those could be perceived directly by the user such as additional new features to improve product performance, while exchange value is the amount paid by the user to the seller for the use value of the certain task, job, product, or service.

In order creating value successfully, the companies must be able to explore the knowledge that they belong to, so they can be more innovative in delivering the most valuable product or service. March (1991) also emphasised that organization need ex-

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plorative efforts by utilizing the existing knowledge that can be use to enrich customer value. Thus the knowledge it possesses will support the creation of customer value. However, as the author mentioned above, SMEs have many limitations related to their learning capability. Hall & De Raffaele (2013) noted that comparing with the big company, in the certain situation SMEs have lack of resource. For example, if big companies can maintain their knowledge and business environment through their strong research department. Conversely, SME may only sets up by a single person to handle the whole things. Consequently the organization will face difficulty when the person in charge decides left the company. It means that it is difficult for SMEs to accumulate their knowledge and learning process in response of market or business changes.

So rather than dealing with creating value that required firms invested resources, many SMEs are just struggling with internal problems that never get done whereas success is determined by ability to maintain learning and knowledge regularly. Schulz (2001) argued that learning is a kind of organization exploitative activity that usually more certain in process and outcomes, while Dewar & Dutton (1986) stated that it is more incremental, more regular and more relevant to the current firm's process. So as the opposite of organizational learning activities, it can be argued that OA is consistently appearing in SME daily activities and it will influence negatively the value creation process.

# ORGANIZATIONAL AMNESIA AND SMES' PERFORMANCE

OA indicated that 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 market preference and business landscape. Common perspectives said that in order to response the uncertainty of business environment, the firms need listening carefully their customers, develop product and service excellent, while at the same time also preparing internal proper system to optimizing their knowledge to face competition, unless the traditional management style of SME is never sufficient as weapon to response changes. Therefore, participation of all the member of organization in the development and maintaining the business process will be fundamental aspect for fu-

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ture 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 performance. According to 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.

# CONCLUSION AND FUTURE RESEARCH

Dissimilar with the large companies that typically have resources to maintain essential information and knowledge extensively, SME always faces weaknesses of sources that driving them on the threshold of amnesia consistently. This situation would influence directly value creation process and organization performance. The barriers such as cost (Kimble, 2013) 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 SME 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 to continuously gather knowledge and information in order to deliver consistently high-quality products or services as well as to create superior customer value (Slater & Narver, 1998). Brockman & Morgan (2003) argued that companies with more information about the products and services tend to benefit in a

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higher level of performance. The authors could argue that the more organisation maintaining and acquiring knowledge the more possibility to utilize it as source of value creation and also will increase their performance. 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 knowledge management literature extensively.

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