

# KNOWLEDGE MANAGEMENT OF HUMAN CAPITAL IN THE MSME SECTOR

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## Abstract

Business development now leads to knowledge and human capital as a source of wealth for a company and no longer money capital or assets owned. Many large companies dominate the market not because they have significant capital but rather because they have an innovative, intelligent and highly creative workforce. The MSME sector in Indonesia is currently still experiencing difficulties implementing knowledge management from human capital. This study will examine knowledge management in small enterprises from a theoretical standpoint. The value of knowledge in business, human capital management, and knowledge in small firms is discussed. This study's methodology is descriptive qualitative, focusing on crucial concerns of knowledge management and human capital for MSME actors. They are seen as operating, strategic people and not as subjects, and so underestimated by not realizing that they have the necessary knowledge to strengthen their creativity and innovation in order to compete. Because MSME business practices lack adaptability, self-confidence, leadership, and human resource development – all of which contribute to increased business-to-market unpredictability.

**Keywords:** Knowledge Management, Human Capital Management, Micro, Small and Medium Enterprises (MSME).

## A. INTRODUCTION

In the era of advances in information technology, knowledge management has become a central element of the competitiveness of enterprises. In this case, they direct their management strategies to improve workforce skills and foster innovation (Sagala et al., 2020). To this end, processes that result in change are applied: in organizational culture, information, motivation and incentives, and staff training or education (Hendawan, 2019). The application of knowledge management is intended to strengthen and develop the attitudes and skills of workers to find quick solutions to problems. Organization and market. In this perspective, Aldi (2004) suggests that such management will enable knowledge acquisition, which allows dealing with the exponential speed of change in companies and their adaptation to the environment.

Large companies that use knowledge management are considered capable of achieving competitive advantage thanks to the capacity of their workforce to produce, create and innovate, generating value for the company (Munir, 2011). Knowledge is the most valuable asset, and as such, it should be sought where it resides, primarily in employees. It explains how changes have been brought about in organizations and production processes, namely flexible organizations, differentiated production, versatile and multifunctional workers; in

short, new business structures adapted to changes and demands of the global market have been formed (Esthi & Sukmawati, 2011).

The role of the workforce in the MSME sector is so significant in terms of quantity, but it turns out to be contradictory in terms of quality (Meldona, 2021). Empirical results show that the quality of human resources in the MSME sector is still low with several characteristics, including human resources in many MSMEs are still not appropriately managed, MSME management is still very informal, and the obligations of employers and employees to each other are implicit and only based on trust (Suindari & Juniariani, 2020). Therefore, the new economic concept based on the guidelines of globalization encourages flexible production, which opens up space in the market for merging units of production actors between MSME companies, integrating this into the new world production scheme as suppliers and producers of very complex processes to public or private companies. The new flexible production scheme combines small companies to coordinate with large companies, sharing responsibilities and supporting production expansion through unique processes (Lestari, 2019).

MSME entrepreneurs are booming, facing this new scheme as a complement and alternative to business development, articulating themselves with the production processes of other large companies. However, these production units are characterized by a precarious organization, intensive work processes, and low capitalization, with a slight possibility for expansion and technological change (Suwatno, 2021). From a managerial point of view, MSMEs present several shortcomings, among which it is possible to mention ignoring management aspects such as quality, efficiency and competition; coupled with these shortcomings, it can be shown that managerial ignorance of human capital becomes a fundamental obstacle to achieving product or service innovation they provide. (Sill et al., 2018).

Given these characteristics, SMEs face competitive and changing market demands without a suitable answer. Their organizational and production decisions are not based on a model providing the necessary management tools to carry out knowledge and action. Hence the importance of exploring knowledge management of human capital in small and medium-sized companies.

## **B. METHOD**

This study uses a qualitative approach. Qualitative research describes the complex social realities that exist in society. Researchers use this type of qualitative research because this research can provide a comprehensive and clear picture of one situation with another, find patterns of relationships between specific aspects and other aspects, and find hypotheses and theories (Semiawan, 2010). The data analysis technique used in this study is descriptive qualitative analysis, namely processing and presenting and analyzing qualitative data by combining data obtained from various sources, including interviews, legislation, books, journals, and internet sources related to knowledge-management of Human Capital in the MSME sector.

## C. RESULT AND DISCUSSION

### Human Capital Management in Micro, Small and Medium Enterprises

Considering that micro, small and medium enterprises (MSMEs) can be created by family groups or by professional experts, their organizations can be characterized as simple, without a formally defined hierarchical or flexible structure, centralizing their actions and workers in the same space, to carry out tasks. Routine and individualized parts of the product which are then assembled, under the owner's specifications and control. MSME entrepreneurs present a particular arrangement that identifies organizational dynamics, gains relevance for the company's orientation, low or medium risk-oriented business management culture, management professionalization and rare personnel qualifications, relational approach in managing human factors and the inorganic nature of structures (Suci, 2017).

The organizational characterization of MSMEs reflects that human resource management is usually informal, stemming from the owners' limited knowledge of management and the low value placed on their workforce. This is what Subardjo & Rahmawati (2022) call an organizational weakness: the company's board does not have adequate management training to run the organization successfully. This is common in groups of professionals who decide to form a company but manage it improvised because they are trained to practice their profession and not run a company. On the other hand, having few workers means that it is not essential to have a personnel manager who takes care of their needs and requirements because they are attended directly by the micro-business owner, centralizing all managerial functions (Sidabutar, 2014).

Then the question arises of how human capital is managed. The answer is that most micro-enterprises, given their fragile structure, find it necessary to employ their workers or rely on relatives temporarily. This implies the high cost of having personnel on unlimited contracts. For this purpose, they go to the labor market to get workers or workers with specific characteristics, such as mastery of trade, experience and skills, this in exchange for a fixed-term contract and variable salary or, if not, they train family members to perform particular tasks that reduce the quality of their products.

By paying attention to the problems raised, the managerial function of personnel in MSME actors is almost non-existent; therefore, the formulation of goals, policies and strategies in the organization is not formalized, resulting in a lack of adequate human resources to carry out the production process. Efficiently and effectively. One of the factors causing this shortfall is "lack of experience and lack of training of micro-entrepreneurs. It seems very easy to join a minor service or production company because it believes that only a few qualified personnel are needed. However, knowing the trade alone is not enough; Formal training and experience are essential to contribute to the effectiveness of MSMEs (Wahyudiono, 2020). Undoubtedly, only possession of skills, technical knowledge, abilities and expertise in a particular trade is ensured, but updates and advancements are limited or impossible.

When considering the problem in all its complexity, it is necessary to make mandatory reference to the training and development of Human Capital in MSMEs. This process in most

MSMEs does not exist or is very slow. Therefore there is no planning based on organizational needs that are oriented towards changes in knowledge, skills, attitudes and human capacity to increase the effectiveness of their work and organizational efficiency. MSME entrepreneurs start from the belief that workers hardly need basic training and knowledge because, in their work, they will empirically acquire new ways or forms to carry out daily operations. Each worker must reprogram their knowledge according to the demands and changes in the organization and its environment (Mersita et al., 2019).

This reflects the micro entrepreneur's vision of personnel training and development, which sees it as a cost rather than an investment, for several reasons:

1. Lack of knowledge on how to manage personnel
2. Unusual shape. It is employing appropriate human resources, i.e., fixed-term contracts, a situation that does not guarantee permanent employment in micro-enterprises, which does not provide training and development benefits.
3. Companies managed by one person and created with modest capital limit their investment only to acquiring raw materials.
4. The intensive use of labor and the urgency of technology and production processes deny the possibility of increasing human resources not to take up production time and meet customers.

The use of human capital has left a lot of talks, manifesting demotivation, low productivity, apathy, coupled with the absence of leadership that is not very participatory, proactive, and innovative, which is characterized by guiding staff to identify with the organization and its work. Human capital is treated as an operational subject and not a strategic matter. This practice demeans human resources by not recognizing that they have the knowledge and can be diversified to strengthen their creativity and innovate according to organizational and market changes (Faza & Hidayah, 2015).

This practice distances itself from knowledge management, whose principles are adaptability, self-control, reliability, initiative and human resource development, and strengthening companies in the face of market uncertainty. With this model, small companies can organize, distribute and share knowledge among all employees, as they are non-pyramidal or hierarchical organizations, which allow them to fit into a competitive environment more easily. In this sequence of ideas, Timothy (2017) states that "today, intelligent organizations that can respond successfully to the needs of their clients are starting to take on relevance." That is why knowledge management is seen as a model for creating value, changing and building an organizational culture that replaces the old management scheme.

### **Knowledge Management from Human Capital for MSME Entrepreneurs**

For the market to recognize a competitive company, it must demonstrate its expertise. If knowledge is a critical factor in the global market, it is clear that MSME actors must put effort into its development and implementation. The question is how to do it? The answer cannot be a magic formula for all microenterprises, as the specificity of each must be taken

into account. But if the general elements can be pronounced, which serves as an orientation for designing particular strategies on how to be included in knowledge management.

The first aspect that micro-entrepreneurs should pay attention to is recognizing and appreciating their human capital. Knowledge management in these production units must be based on organizational humanization, leading to openness, teamwork, continuous learning, knowledge communication and feedback, and innovation among all organization members, thereby ensuring collective and not knowledge seizure individually. In this way, workers identify and engage themselves more when there is actual participation, respect for their rights, needs and actions within the organization, but more outstanding commitment when they become convinced that they are not just another commodity and whose climate is human relationships of mutual trust (Perez & de Pablos, 2003). Micro-enterprises must get rid of the obsolete organization that characterizes them to start building with all their members a platform that serves as a place for knowledge production and management; the key point to become an intelligent organization capable of identifying their problems, weak points, their strengths, their space and opportunities in the market, as well as recognizing that they are not isolated, that they have competitors, and that they have to generate, create and innovate alternatives that help to promote differentiated and transformative solutions to achieve competitiveness: market positioning and social welfare for its members (Stevens, 2010).

Of course, managing knowledge is not something magical. There must be the willingness, capacity and responsibility of micro-entrepreneurs to assume the commitment and skills not individually but with the participation of all, thereby encouraging the production and application of knowledge. . In this perspective, organizational commitment to train and develop human capital is significant. To this end, it is necessary to design parallel and interactive processes for workers and become catalysts for motivation, acquisition and development of skills. Full integration into organizational dynamics is facilitated (Ike, 2008). Therefore, it is up to micro-entrepreneurs and their workforce to design policies and strategies to increase the knowledge and experience of each worker. According to Ike (2008), for elaboration, a process in which the needs of organizations and workers are identified to understand at what level of knowledge it is and whether it is suitable to face market challenges.

The policy should be accompanied by an evaluation methodology, which aims to monitor the results and impact of the training for micro-enterprises and their members. Training and education is the variable that most strongly marks the difference between firms acquiring needed new skills and those trying to survive in the market with outdated strategies.

Micro-enterprises that choose the knowledge management model will be able to escape the vulnerability and incompetence that characterizes them, as they will have human resources that are more prepared, updated and engaged with the organization. Within this framework, a company will be built that learns can create, acquire and transfer knowledge by using communication as a vehicle because new ideas are not produced in isolation or individually but in interdependence and a conducive social environment. For SMEs, it is difficult to survive in isolation in the market and generate knowledge. Achieving this requires adequate

information systems and technology, systematic knowledge of market changes, research processes, and aspects not in the market majority. However, these shortcomings can be overcome through an innovative local system, which according to Legge (2020), is a territorial entity that integrates socio-cultural realities, productive specialization, a professional qualification system and human resources, a particular set of institutions and educational systems.

The integration is based on the application of knowledge management, not in isolation in each company, but through knowledge that is shared and socialized so that a change in the development and competitiveness paradigm, that is, translated into a network of micro-enterprises that ensures product or service innovation with the help of other institutions. In this sequence of ideas, practices will be carried out, leading to sharing knowledge, sharing tacit and complex ideas and reflections, helping each other solve problems and achieve innovation, possessing and developing knowledge capacities, and developing a common approach to the organization—competence, among others.

For the establishment of innovative local systems and cooperation networks, MSMEs are interconnected to increase production and build cooperative relationships with research centres, universities, and technology because the platform for generating knowledge is research. It is said to be an academic space that can function within a company or university, or another type of higher education institution, to cooperate in personnel training and function as an observatory of knowledge according to the specific goals and objectives micro-enterprises.

It is important to emphasize that there is a difference between academia and business from an ideological and political point of view. They look at each other with distrust because they have different interests. However, according to Terentyeva et al. (2000), the shared need gave rise to new forms of the association through the training of human resources needed by the company, which could only be done in an academic space.

In short, the responsibility for generating knowledge cannot fall on the productive unit but must be shared with the organizations or institutions that provide knowledge, both public and private. Micro-entrepreneurs can make training agreements, where workers will learn to drive new tools that allow them to process and systematize information, which will later be transformed into knowledge to be adapted and applied effectively in every action or task of the production process they undertake involved in. touch evolve. It should be underlined that the learning process must be continuous, owned by all members and not exclusive to the owner. In short, corporate managers who have the initiative to initiate knowledge management projects need to be clear about the role that knowledge factors play in the enterprise and the know-how to transmit knowledge. Awareness is the same for every employee of the organization; a clear strategy should be defined on how to improve and share it.

## D. CONCLUSION

In micro, small and medium family businesses, there is no separation between management positions and members of the owner's family, occupying positions in the administrative and production areas without experience or formally defined functions; therefore, the management style is based on the criteria of authority, one person, centralized, among others, neglecting the knowledge, experience and knowledge of its workforce, which can and should participate in the definition and clarification of more efficient organizational and production strategies. That is why the introduction of knowledge management is relevant for building integral organizations in which the learning organization criteria apply. Micro-entrepreneurs have to face new ways of managing their productive units, engaging with their workers and other social actors to generate knowledge, thereby ensuring that skills grow with the organization. Managing knowledge is currently considered the most considerable force in achieving competitiveness. Still, changes are needed in traditional functions, such as: selecting personnel based on company needs, training them technically and managerially to develop skills and skills based on organizational and market changes, and creating appropriate compensation. Motivate staff for better productivity. Based on internal and external knowledge, MSME actors will build a cooperative relationship system, radically changing the logic of individual competition, relying on collaboration and knowledge exchange. On the other hand, by changing the management model in small businesses, a new relationship between productive actors and the workforce will be established, which does not only touch on aspects of salary, working hours, and other contractual benefits. Implementing factors, such as education and training, strategic elements for both micro-entrepreneurs and workers. In this perspective, the new management in SMEs changed the view maintained by the recruited personnel. This change involves assessing human intelligence and solving problems as a team in a tailored way to the needs presented.

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