

Implementation of Knowledge Management and Human Capital in Micro, Small and Medium Enterprises

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ABSTRACT

Any organization's success is contingent upon the activities of its staff. This results in ongoing changes in human capital management, where knowledge is viewed as critical for developing appropriate responses to market changes and uncertainties. This study will examine the theoretical underpinnings of knowledge management in the Micro, Small, and Medium-Sized Enterprises (MSME) sector from this vantage point. This research focuses on the importance of knowledge in business, human capital management, and knowledge management for MSME players in order to accomplish this goal. The methodology utilized is qualitative in nature and entails a review of theory and literature to establish a determined viewpoint on problems pertinent to the research object. The findings indicate that human capital management is frequently informal, resulting in an insufficient understanding by MSME actors of the importance or low value of their workforce, which is treated as an operator or manual worker rather than as a subject, thereby underestimating them by failing to recognize that they possess the necessary knowledge to strengthen their creativity and innovate in response to competitive demands. We argue that this technique violates fundamental knowledge management principles, most notably adaptability, self-confidence, leadership, and human resource development, all of which contribute to business-to-market uncertainty.

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I. Introduction

In today's world, knowledge management is becoming the essential component of a company's ability to compete effectively. As a result, they direct engineering management to improve the capabilities and encourage the creativity of their employees (Indiyati, 2014). To achieve this, management made several changes, including organizational culture, information, motivation and incentives, and staff training or education. This reorganization requires discussing what factors contribute to business success, both from an academic and business perspective (Munir, 2011).

To date, the best answer to this question is to achieve competitiveness and productivity, and it is necessary to apply knowledge management, which is intended to strengthen and develop attitudes among employees as well as skills among employees to find quick solutions, solutions to solve problems (Lestari et al., 2013). Latief et al. (2019) suggest that such management will allow for the acquisition of knowledge, which will make it feasible to deal with the exponential speed of change in businesses and their adaptation to the environment.

Large companies that use knowledge management to generate value in the market have been observed in recent decades, thanks to the ability of their employees to produce, develop and innovate, which results in increased value for the organization (Aldi, 2005). As a result, knowledge is the most valuable asset, and as a result, it must be sought where it

belongs, namely in each individual (Rihardi, 2021). It explains how changes have been brought about in organizations and production processes, namely, flexible organization, differentiated production, versatile and multifunctional workers, in short, new business structures that are responsive to changes and demands of the global market (Praharsi, 2016).

MSMEs must be ready to face global issues, such as encouraging product and service innovation, developing human and technological resources, and expanding marketing areas due to their empowerment in the face of globalization and intense competition (Irawan, 2020). This must be done to increase the competitiveness of MSMEs themselves. The aim is to be able to compete on a level playing field with domestic and foreign products that are increasingly flooding Indonesia's industrial and manufacturing centres, considering that MSMEs are an economic sector that can survive in the era of globalization which is characterized by intense economic growth and intense competition (Wijoyo, 2021).

Micro, Small and Medium Enterprises (MSMEs) are included in the new flexible production scheme as part of a plan for coordinating with large businesses, sharing tasks and assisting in production expansion through special procedures. When faced with this new strategy, MSMEs developed as a complement and alternative to business expansion, aligning themselves with the manufacturing processes of other large organizations. On the other hand, these production units are distinguished by the fact that MSMEs are small organizations with intensive work processes, small capitalization, limited expansion, and opportunities for technological change, among other characteristics (Irmawati et al., 2013).

From a managerial point of view, MSMEs present several shortcomings, among which it is possible to overlook management aspects such as quality, efficiency, and competition. In addition to these shortcomings, it can be pointed out that managerial ignorance of human capital has become a fundamental obstacle to achieving innovation in the products or services they provide and a significant source of inefficiency. In addition to several studies, it is also revealed that MSMEs do not understand the business environment factors between the business environment in low competition and high competition levels (Bismala, 2016). These qualities cause SMEs to struggle to meet the demands of a competitive and changing market. Their organizational and production decisions are not based on a model providing essential management tools to conduct knowledge research, development, and action. Consequently, it is imperative to investigate how small and medium-sized companies can improve their knowledge management on human capital.

II. Method

The research method used in this research is the descriptive qualitative method. The descriptive qualitative research method is a step taken by researchers to describe an object phenomenon or social order described in narrative writing (Sugiyono, 2011). Researchers collect and explain phenomena about management knowledge and Human capital in Micro, Small and Medium Enterprises. The research method uses a literature study method, namely library research, with data collection techniques by examining books, literature, theories, articles and notes on the internet according to related problems (Nazir, 1988). This research is a literature study, although similar but different. What is meant by this research is that analysis is carried out only based on written works, including research results that have been published or not.

III. Result and Discussion

A. *The Important Role of Knowledge for Companies*

Today's business is a subject that learns, adapts, and responds to the demands of a cultural context characterized by instability, virtuality, and a plurality of expectations. A company's success is determined by the talents, attitudes, abilities, and knowledge of its employees. According to Ruhana (2012), it is imperative to consider the capacity of its members and their added value and the potential to change behaviour inherent in a rigorous learning process. Human capital knowledge,

intelligence, training, and education seem relevant in a changing global economic situation. Of course, this reality puts pressure on production units and workers in organizational structures, which require the reinvention of their usefulness to meet current global market conditions. In such a context, education and training of the workforce are essential to maintain and develop the business. Selecting the right employees can increase or destroy organizational productivity (Labola, 2019).

Knowledge and innovation replace financial capital as a wealth creator in the language of new human capital management models, such as knowledge management, with competence (Tarigan & Septiani, 2017). Companies have created criteria for selecting the information they need to compete. They want workers with more than general knowledge, i.e. knowledge that can be applied in a changing and fast-paced environment. A theoretical knowledge that underlies the achievements that workers must develop to meet the demands of their work is an essential part of applied knowledge or know-how that allows workers to use knowledge to achieve organizational goals as a result of knowledge and the global economy, Mardia et al. (2021) claim that repetitive and routine operations replace innovation and originality. This creates new commercial and industrial structures capable of reacting to the needs of the global economy.

In this way, the worker's brain cannot be the recipient of knowledge but must be used as the primary means of production. Here the management model ideas gain strength, highlighting that knowledge, experience and talent must be used to provide new ideas, improve practices, innovate. Therefore, the goal is to generate value in the organization.

The globalized world has led to changes in technology, innovation, acquisition and better handling of information, among others, impacting companies, especially in work organization and processes. This impact is reflected more clearly in the changes brought about in human resource management. The workforce is required to identify and commit to innovation and create a knowledge base for the enterprise market. From this perspective, according to Sutejo & Mangkunegara (2013), the company is strategically trying to improve conditions that allow the development of workers, making efforts in education and training, namely in steps in the field of education. In our opinion, the challenge for entrepreneurs is to train their human resources so that they know what they have to do intelligently and independently. In this new business scenario, an innovative organization is needed with knowledge-based skills defined strategies to guide the company's running.

B. Human Capital Management in Micro, Small and Medium Enterprises

Considering that family groups or expert professionals can create micro, small and medium enterprises (MSMEs), their organizations can be characterized as simple, without a formally defined hierarchical or flexible structure, centralizing their actions and workers in the same space carry out tasks. The product's routine and individual parts are then assembled under the owner's specifications and control. Small companies present a particular arrangement that identifies organizational dynamics gains relevance "personal company 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 the structure (Sugiyanto, 2007). 2021).

The organizational characterization of SMEs reflects that human capital management is usually informal, stemming from the owners' limited knowledge of what management means and the low value placed on their workforce (Riniwati, 2016). This is referred to as an organizational weakness, i.e. the company's board does not have adequate management training to run the organization successfully. This is common in professional groups who decide to form a company but manage it improvised because they are trained to practice their profession and not run a company (Febriantoro, 2018). On the other hand, the fact that 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 by the micro-business owner directly, centralizing all managerial functions, immediately regarding the selection and composition of personnel, and other matters, which will have a direct impact on the success of the company's operations.

Then the question arises of how human capital is managed. The general answer is that most microenterprises, given their fragile structure, find it necessary to hire their workers or rely on relatives temporarily. This implies the high cost of having personnel on unlimited contracts. To this

end, they go to the labour market to find workers with specific characteristics, such as mastery of trade, experience and skills, in exchange for fixed-term contracts and variable salaries or, failing that. They train family members to perform tasks assigned to them, which reduces the quality of their products (Suci, 2017).

One of the most frequently used ways to recruit is to receive applications from individuals who apply for jobs. According to Larasati (2018), this mechanism is a cheap source of labour for production. Still, the quality of applicants can vary because they generally come without reference to experience or knowledge about the activities to be carried out. Another way is through the public employment office, which is linked to the Ministry of Manpower and responsible for providing information about applicants actively seeking employment.

Due to a lack of job knowledge, MSME actors have no idea how to select personnel. Therefore, job interviews are a little-used tool, wasting the opportunity to establish a two-way process, an essential step in any organization. With the applicant evaluating the employer, at the same time, the employer considers the applicant. On the other hand, applicants get a clear idea covering the job to decide. In other words, Human capital planning is based on empirical, ignoring the number of vacancies to be filled, a specific description of what a candidate must do to occupy a job position sufficiently.

Given the lack of clarity on Human Capital Management, reference requests and verification are excluded, so MSME Actors can be helped to make decisions and avoid serious consequences stemming from hiring mistakes. On the other hand, Sedyastuti (2018) shows that MSMEs do not have the means to develop human resource capacity. To integrate work with learning, they turn to external professional assistance, which is generally a state agency. From the perspective of micro-entrepreneurs, the education and training provided by these agencies do not meet the real needs of the processes occurring in the MSME unit.

When considering the complexity of the problem, it is necessary to make mandatory references to training and human resource development in the MSME sector. This process in most MSMEs does not exist or is very slow; therefore, there is no planning based on organizational needs-oriented towards changes in knowledge, skills, attitudes and human capacity to increase the effectiveness of their work and organizational efficiency. Micro-entrepreneurs start from the belief that workers hardly need basic training and knowledge because they will empirically acquire new ways or forms to carry out daily operations.

This reflects the microentrepreneur's vision of personnel training and development, which sees it as a cost and not an investment, for several reasons: firstly because of a lack of knowledge on how to manage personnel, secondly because of its unusual form, employing appropriate human resources, i.e., contracts. Fixed-term, a situation that does not guarantee permanent employment in micro-enterprises, which does not provide training and development benefits. In this regard, Olawale & Garwe (2010) state that the most significant barrier to investment is labour rotation. On the other hand, MSME actors have negative incentives because they do not always benefit from these investments. Third, they are a company run by one person and created with modest capital, limiting their investment to only acquiring raw materials. In many companies of this type, faced with the need to reduce costs, staff reductions are immediately carried out without analyzing other options, and this results in some cases that it is impossible to meet the goals in terms of productivity due to the redistribution of tasks that can become redundant for a worker, which lowers its performance when burdened with work.

The last reason is intensive labour use, the importance of technology and production processes, denying the possibility of increasing human resources so as not to take up production time and meet customers. Likewise, micro-entrepreneurs have doubts about achieving high competitiveness in the market, allowing the recovery of expenditures made to train and develop human resources. Budiarto et al. (2018) state that all entrepreneurs, especially the MSME sector, are reluctant to deal with general training, staying only with specific training, defined as a set of practical knowledge needed to operate work instruments.

This practice distances itself from knowledge management, whose principles are adaptability, self-control, reliability, initiative and human capital 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 allows them to fit into a competitive environment more easily.

C. Strategy for Developing Knowledge Management in MSMEs

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 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 the principle of organizational humanization, which should lead 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 themselves and commit more when there is actual participation respect for their rights, needs and actions in the organization (Agung, 2013).

It is imperative that MSME businesses get rid of the obsolete organizations that characterize them, to start building with all their members a platform that serves as a place of production and management of knowledge, the critical point to become an intelligent organization capable of identifying their problems, their weak issues, their strengths, spaces and their opportunities in the marketplace, as well as recognizing that they are not isolated, that they have competitors, and that in essence they must generate, create and innovate alternatives that help to promote different and transformative solutions to achieve competitiveness, market positioning and social welfare for its members (Sudirman, 2020).

Of course, managing knowledge is not magical; there must be the willingness, capacity, and responsibility of micro-entrepreneurs to assume the commitment and skills not individually but with all participants, 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 a catalyst for motivation, acquisition and development of skills, through which full integration into the dynamics of the organization is facilitated. Therefore, it is up to MSME actors, together with their workforce, to design policies and strategies that aim to increase the knowledge and experience of each worker (Sunarto, 2020).

MSMEs who 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 to create, acquire and transfer knowledge by using communication as a vehicle. New ideas are not produced in isolation or individually but in the context of 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 that are not in the market. Majority. However, these shortcomings can be overcome through an innovative local system. This territorial entity integrates socio-cultural realities, productive specialization, professional qualification systems and human resources, a particular set of institutions and educational systems (Sudirman, 2020).

The integration is based on the application of knowledge management, but not in isolation in each company, but through knowledge that is shared and socialized, so that changes in the development and competitiveness paradigm, that is, are translated into MSME networks that guarantee product or service innovation with the help of institutions other. In this sequence of ideas, practices will be carried out which will lead to knowledge sharing, sharing tacit and complex ideas and reflections, helping each other to solve problems and achieve innovation, possessing and developing knowledge capacities, creating a common approach to organizations (Purnomo et al., 2020).

For the establishment of innovative local systems and cooperative networks, micro-enterprises need not only to be interconnected to increase production but also to establish collaborative relationships with research centres, universities and technology, because the platform for generating knowledge is research, creating knowledge circles, where ideas -ideas flow, structures are productive, and people are strengthened. The Knowledge Management Unit 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 a knowledge observatory according to the specific goals and objectives of micro-enterprises (Novitasari et al., 2021).

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 converted into knowledge to be adapted and applied effectively in every action or task of the production process they undertake involved 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, the managers of companies who have the initiative to initiate knowledge management projects must be clear about the role played by the knowledge factor in the company and know how to transmit knowledge. Awareness is the same for every employee of the organization; a clear strategy must be determined on how to improve and share it.

IV. Conclusion

The inability of micro-entrepreneurs to open up space that addresses their precarious conditions in the market is due to the absence of a management strategy that allows them to utilize and value the knowledge and experience of all members of the organization and its environment. 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. Here the education sector plays an important role, significantly higher education, by providing knowledge generated based on the development of sustainable production units. This collaboration allows higher education institutions to be helpful to the community, who will engage with reality provide solutions to problems.

MSME actors based on internal and external knowledge 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 will be established between productive actors and the workforce, which does not only touch aspects of salary, working hours, and other contractual benefits. Factors to be implemented include education and training strategic elements for both micro-entrepreneurs and workers. In this perspective, the new management in MSMEs changes the appearance that has been maintained with 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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