

# The Role of Knowledge Management Capability and Digital Ecosystem to Enhance Digital Transformation for SMEs

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**ABSTRACT:** Small Medium Enterprises (SMEs) have a significant role in the economic growth of the nation, but some issues have already existed. Lack of human resources, competitiveness, and many more are examples. In the recent era, SMEs have the opportunity to develop their potential human resources by exploring their employees' knowledge of technology. SMEs are expected to be able to respond to the digital business environment through digitalizing business. The digital transformation of SMEs empowers the ability of both the organizations and employees since knowledge management capability has an absorptive capacity to process the external knowledge; thus, knowledge management capability of SMEs needs to be improved. On the other hand, the digital ecosystem provides a place for integrating the business entities as a support system. This study aims to fill up the knowledge gap by discussing the relationship between knowledge management capability and digital transformation with the digital ecosystem as a moderating variable.

*Keywords:* Knowledge management capability, digital ecosystem, digital transformation

## 1 INTRODUCTION

In running a business, there must be some difficulties and obstacles that are faced by entrepreneurs. Concerning SMEs (Small Medium Enterprises), they generally face some problems, including human resources, lack of supplier access, promotion, limited-service scale, administrative costs, high competitiveness, and many more (Bhasin & Venkataramany, 2010; Nurhidayati, 2017). Whereas, SMEs play an essential role in supporting economic growth both in Indonesia and Malaysia. In Malaysia, SMEs are the most significant contributor that makes Malaysia becomes one of the most open economies in the world (Bhasin & Venkataramany, 2010; Neck et al., 2011; Nurhidayati, 2017). The topic of innovation and digital becomes a controversy in the discussion of SMEs' research. Some previous researchers stated that technology and innovation are not the subjects of the discussion of SME. However, some researchers stated that SMEs contribute to the discussion of innovation. Thus, this article considers that the discussion on technology and the digitalization of SME is still relevant, especially in the recent era. In fact,

an innovative and advanced system must exist and be applied in order to support the SMEs run well.

However, digital technology is included in new knowledge, especially for an organization whose system is still conventional. Hence, the ability to manage knowledge is needed. Previous research has stated that knowledge management capability is fundamentally essential to exploit knowledge resources from outside of the organization (Grandineti, 2016). Knowledge management capability refers to the ability of an organization that does obtain not only new knowledge and exploit it to become a new knowledge, but also useful to separate and protect the knowledge (Attia & Eldin, 2018; Bamel & Bamel, 2018). Separating the knowledge aims to differ with other knowledge so that the knowledge can be learned by the staff immediately. While protecting the knowledge means the knowledge should not be imitated or even stolen by others.

The environment also supports the digital transformation process. Stakeholders in the entrepreneurial ecosystem include organizations themselves, governments, banks, capital providers, and interconnected public sector institutions that form a trans-

formation (Brown & Mason, 2017; Godley et al., 2019; Mason & Brown, 2014). Some relevant stakeholders in one environment make digital transformation works effectively on the business; this is what is called the digital ecosystem (Hanna, 2018). Mobilization of relevant stakeholders helps to fund and maintain SMEs so that business activity runs well and has a long-term continuity (Hanna, 2018; Saleh & Omoush, 2018; Zhang & Dhaliwal, 2009). Organizing business will be more stable and effective in the division work with stakeholders if the digital ecosystem is productive and healthy (Li et al., 2017). Thus, the digital ecosystem is vital for the continuity and mobilizing digital transformation in business (Li et al., 2017; Spigel, 2017).

## 2. DISCUSSIONS

### 2.1. Digital Transformation

E-business has become a new style in today's dynamic business environment, reaching almost every aspect of organizational activities. Advances in e-business applications present new opportunities for business organizations and entrepreneurs to innovatively rethink and reshape their business strategies (Saleh & Omoush, 2018). The purpose is to save energy and cost in many aspects, such as human resources, transactions, exchange information, and many more. It also utilizes new knowledge and empowers the organization and employees to be more advanced and innovative in the millennial era (Dutot & Horne, 2015; Saleh & Omoush, 2018). Some benefits of digitalizing the organization are a paperless, smart procedure, and automatic. It is available to sales and purchases product, increase productivity, customer service, collaborate with business partner, make product transaction with suppliers easier and flexible as well by using internet platform, which is supported by existing IT infrastructures (Heilig et al., 2017; Saleh & Omoush, 2018; Tassej, 2004).

### 2.2. Digital Ecosystem

The environment is one of the initial and important factors that influences the development of a business. The environment influences the structure, strategy, and entrepreneurial process. Therefore, a supportive environment strengthens business transformation, such as the transformation from a conventional system into a digital system (García-sánchez & García-morales, 2018). The existence of

the entrepreneurship ecosystem is the answer to the need for innovative and creative promotion to solve social and economic problems (Nicotra et al., 2018). The digital ecosystem is defined as an infrastructure supported by IT to build a business ecosystem and share information and knowledge. It is as an accelerator to create a new digital organization (Li et al., 2017). The digital ecosystem could be said to be a new environment for business. The digital technology-based ecosystem triggers environmental turbulence (unpredictable change in an industry), but at the same time, provides the ability to deal with the new environment as well. Organizations need to consider the ecosystem growth by monitoring the relationship with the stakeholders so that this ecosystem has value and digital transformation strengthens (Koch & Windsperger, 2017). Relevant stakeholders have an important role in running the organization as well (Hanna, 2018). Digital evolution by changing stakeholders in the ecosystem, in terms of interacting, working together, and collaborating, could achieve digital transformation. Proactive stakeholders increase the company's excellence compared to other competitors and create a long-term relationship (García-sánchez & García-morales, 2018; Pappas et al., 2018).

### 2.3. Knowledge Management Capability

Knowledge management capability is the ability of a company to increase existing knowledge through continuous learning to create new knowledge (Attia et al., 2018). The ability mentioned here does not only the ability to manage knowledge and information that is new for the organization such as IT, but also the organization is expected to be able to address the protection system dealing with the knowledge and information. The organization encourages the employees to use the ability as a tool to work more efficiently and innovatively as well (Bamel & Bamel, 2018; Tseng, 2016). In learning new knowledge more effectively, to separate the knowledge as the asset of the organization is needed. It means the organization segregates which knowledge is basically owned by and considered to be part of the organization. The purpose is to identify suitable sources of knowledge that enhance learning quickly for the organization (Freeze & Kulkarni, 2007).

In a knowledge management capability, every organization has an absorptive capacity for external knowledge. It is undeniable that proper capacity

management can absorb knowledge and develop technical skills to produce a digital transformation in business to be more advanced. The process stimulates the organization to be able to detect profitable market opportunities (García-sánchez & García-morales, 2018). This capacity lies in the ability of human resources to recognize the value of new information, assimilate it with internal knowledge, and apply it to the organization's commercial goals. Absorptive capacity mentioned here is an understanding in the process of monitoring, evaluating, and obtaining or committing to the memory of external knowledge so that the organization could exploit knowledge efficiently and effectively (Grandinetti, 2016).

Based on the literature above, this paper proposes a conceptual model of the relationship of knowledge management capability toward digital transformation for SMEs. The robust digital ecosystem will speed up the escalation of the relationship between knowledge management capability and digital transformation.

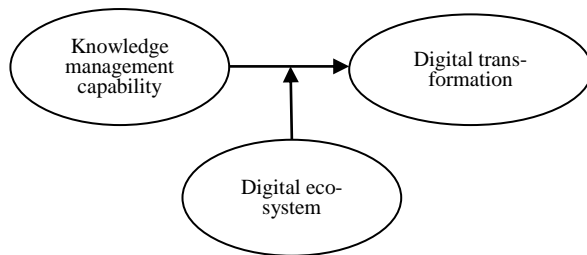


Figure 1. Conceptual Model

### 3. CONCLUSIONS

Digital transformation is the activity that transforms a conventional system into a digital system. There are many advantages by transforming the organization to be digital organizations since nowadays; all aspects of society are digital-based. Every organization should have knowledge management capability, which has the absorptive capacity to absorb new knowledge to be learned by the employees internally. As such, the organization can empower employees with the new knowledge that exists, and then the digital transformation process can work well. Moreover, the digital ecosystem strengthens the transformation of the SMEs since the environment supports the transformation to be well prepared in facing the digital era.

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