



## **ROLE OF KNOWLEDGE SOURCING IN ALBANIAN SMALL AND MEDIUM-SIZED ENTERPRISES**

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### **Abstract:**

*Knowledge sourcing can contribute to the growth and development of Small and Medium sized enterprises (SMEs) in developing countries such as Albania. The role of knowledge sourcing in knowledge sharing and management has not been explored to a great extent, especially in the context of developing countries. SMEs constitute a significant proportion of economy in most developing countries. According to the European Union commissioned report on SME development in South Eastern Europe, Albanian SMEs constitute significant proportion of Albanian economy with SMEs constituting 99% of registered businesses. The report also states the weak points in SME development in Albania including human capital development and technology capacity among others. The lack of technological, financial and human resources hinders the growth and development of SMEs in developing economies. The small size in terms of human resources limits the potential of knowledge sharing within the organization. SMEs can take advantage of knowledge sourcing, in association with their local and international partners, to improve the efficiency of their existing products and processes. This paper investigates the role of knowledge sourcing in human capacity development in Albanian SMEs. This study focuses on the knowledge sourcing practices, if existent, in the SMEs and identifies potential barriers to knowledge sourcing. This study involves survey of 15 SMEs distributed among three priority economic sectors: construction, ICT, and financial services. This study would benefit researchers in understanding the role of knowledge sourcing in SMEs in the context of emerging transition economies such as Albania. This paper would also contribute to the existing literature on knowledge management in SMEs in Albania as well as other countries with similar demographic and economic conditions, especially in emerging post-communist transition economies.*

*Keywords: Knowledge, Sourcing, Albania, SMEs .*

# **1. KNOWLEDGE SOURCING IN SMES IN TRANSITION ECONOMIES**

Transition economies in South Eastern Europe such as Albania have limited resources and cannot invest significant resources on research and development as well as innovation in different technologies. Chung and Yeaple (2008) state the key reasons for nation's firms to use a knowledge sourcing strategy including the inability of the nation to develop new technology and knowledge. In such cases the firms in these nations can source the knowledge from companies in other developed nations. Small and medium scale enterprises in general and especially in transition economies often do not have the adequate resources required for funding research and development.

## **1.1. Knowledge sourcing, innovation, and competitiveness**

Knowledge sourcing contributes significantly to innovation with a firm (Roy & Thérin, 2008; Kang & Kang, 2009; Vega-Jurado, Gutiérrez-Gracia & Fernández-de-Lucio, 2009). Firms can integrate their internal knowledge with external sources of knowledge. Companies often focus on developing and managing their internal knowledge assets with comparatively low focus on sourcing knowledge from external sources. While internal sources of knowledge complemented by strong research and development are key sources of innovation, this model is not quite applicable for small and medium scale companies with limited financial and human resources.

Small and medium-scale enterprises mainly depend on and have extensive access to local labor market of skilled experts. According to Lorentzen (2008), local pool of knowledge plays an important role in the development of competitive knowledge for firms through the formation of knowledge networks. In the case of small and medium scale enterprises in transition economies such as Albania, the importance of local skilled labour is even more relevant as this forms a key economical and innovative source of knowledge. Small and medium scale enterprises can tap into the local sources of knowledge and use this knowledge to increase competitiveness.

Small and medium scale enterprises do not have the resources to develop and invest on knowledge management information systems as compared to large companies that have resources both in terms of finance and manpower. However, small and medium scale enterprises can take advantage of local knowledge networks developed through the sharing of tacit knowledge among local experts.

## **1.2 Knowledge sourcing in Albanian SMEs**

Small and medium scale enterprises (SMEs) form the crux of Albanian economy, with a share of more than 99 % of registered businesses and 73 % of GDP (EU SME Project Albania, 2010). This significant share in Albanian economy presents Albanian SMEs with a significant information-base and opportunity to harness this information to usable knowledge. Sustained knowledge sourcing could assist SMEs in the process of continual innovation and could provide SMEs with a strategic competitive advantage. The external sources of knowledge could be from sources within the country or international sources. The external sources for SMEs within the country could include suppliers, alliances with other SMEs and creating knowledge networks. Knowledge sourcing at inter-firm level within the nation is a useful option for SMEs. The inter-firm relationship in most cases would a buyer-supplier

relationship with the SMEs supplying to a larger partner-firm. The quality of relationship between these firms offers SMEs with a vital source of external knowledge that could be integrated with the internal knowledge of the firm (Chien-Hsiung, 2010).

Small and medium scale enterprises can also benefit from the interactions between industry actors including customers and suppliers (Waxell & Malmberg, 2007). Because small and medium scale enterprises occupy a large share of the domestic market, the information obtained through the industry actors constitutes an important source of knowledge. This source of knowledge could benefit small and medium scale enterprises significantly by facilitating innovation.

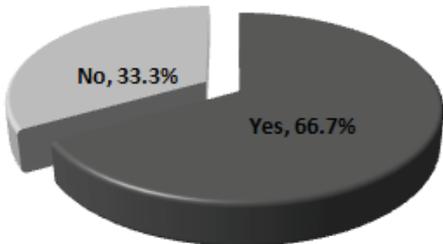
## 2. METHODOLOGY

The data is collected through a survey instrument using a questionnaire to collect responses from senior managers in 15 companies spread across three key sectors: manufacturing, banking, and construction. These three sectors are among the three key sectors identified as the top sectors in SMEs in Albania. The questions were aimed primarily at exploring interest and awareness of knowledge sourcing by the top management of the companies, and were derived from a previous survey conducted on British SMEs (Huggins, 2010). The key focus of the questionnaire was to evaluate the sources of external knowledge i.e., within the nation or outside the nation, and the methods used for sourcing the external knowledge. The legal definition of small and medium scale enterprises by European Commission is used to determine whether a company comes under this category or not. According to this definition, an SME must have fewer than 250 employees with a turnover less than 50 million Euros and balance sheet less than 43 million Euros (Sevrani & Bahiti, 2008). All the participants in this survey qualify these criteria.

## 3. FINDINGS

Knowledge source through external sources, especially from outside Albania has enormous potential for small and medium scale industries. However, less than 7 % of existing small and medium scale industries has joint venture with foreign partners (EU SME Project Albania, 2010).

**Picture 1:** Is Albanian Government support for Knowledge Sourcing (either domestically or internationally) adequate in the last five years?

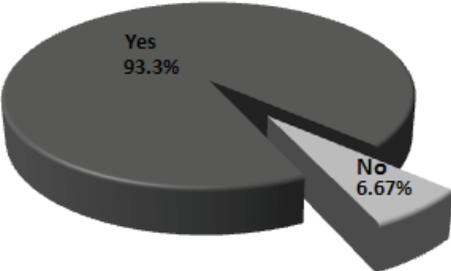


Two-thirds of the respondents thought that the government support for knowledge sourcing has improved over the last five years (Picture 1). This is in line with the Level two status of Albania in the SME Policy index 2009, and its gradual progress in moving to Levels three and

four of the SME policy index (EU SME Project Albania, 2010). Although Albania is still behind several other economies of Southeast Europe in terms of investment policy and promotion as well as human capital development, the progress over the last five years has been encouraging (OECD, 2008). Sourcing knowledge from external sources, especially through international partnerships and alliances is quite essential for small and medium scale enterprises. The increase in governmental reforms in investment policy and human capital development is likely to benefit Albanian SMEs, as they build international partnerships.

Most of the respondents agreed that knowledge sourcing makes an important contribution to encouraging innovation within a firm (Picture 2). This finding is significant as it indicates the increasing awareness among Albanian SMEs about the role and contribution of knowledge sourcing to innovation. This finding is in agreement with the existing literature and studies linking knowledge sourcing to innovation (Vega-Jurado, Gutiérrez-Gracia & Fernández-de-Lucio, 2009; Roy & Thérin, 2008; Lorentzen, 2008).

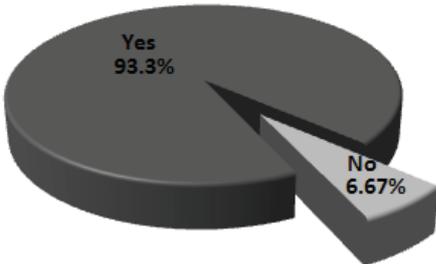
**Picture 2:** Do you think that knowledge sourcing has/will contribute to innovation?



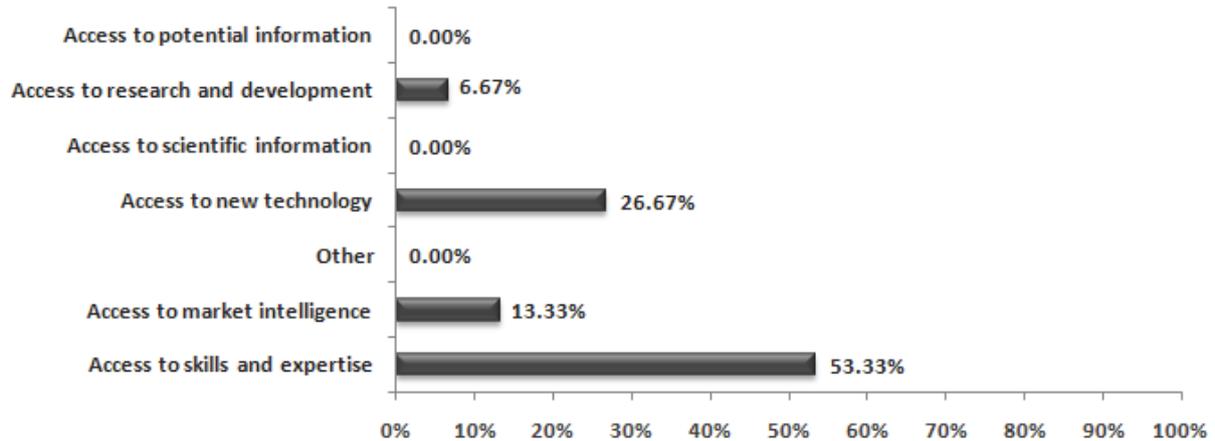
A significant percentage of respondents, more than 93 %, agree that knowledge sourcing has or will contribute to competitiveness (Picture 3). While this finding is in agreement with existing literature linking knowledge sourcing with increased competitiveness (Lorentzen, 2008), this finding is also encouraging for Albanian SMEs. This finding demonstrates the increased understanding of the importance of knowledge sourcing among Albanian SMEs.

The type of knowledge most frequently sourced from external sources wherever applicable brought forward some interesting observations. More than 50 % of the respondents felt that access to skills and expertise formed the key source of external knowledge, and more than 25 % of the respondents accessed new technology through external sources (Picture 4). The access to skills and expertise mainly involved access to locally available expertise. This finding demonstrates the importance of developing local knowledge networks. As Albanian economy is largely dependent on the small and medium scale enterprises, the development of knowledge networks, especially at a local level would be of immense benefit to Albanian SMEs.

**Picture 3:** Do you think that knowledge sourcing has/will contribute to competitiveness?

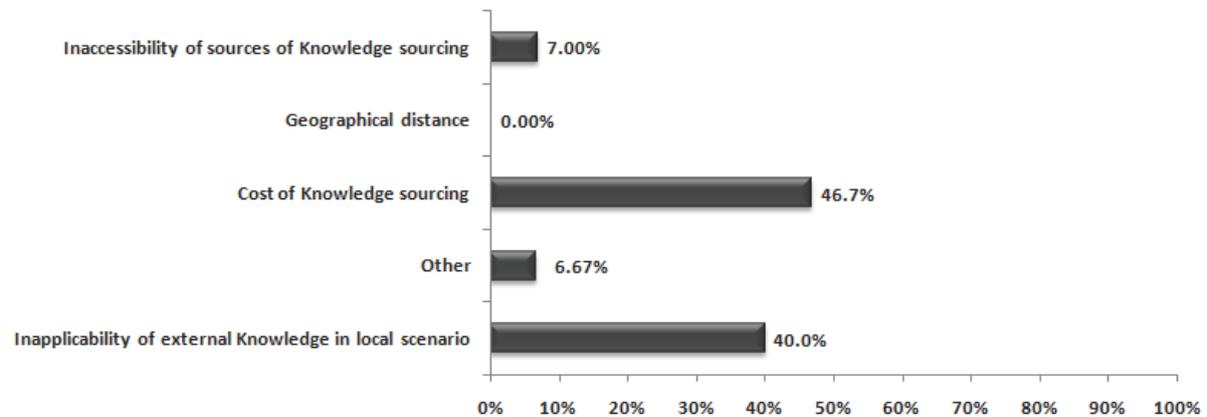


**Picture 4:** Which type of Knowledge is most frequently sourced from external sources (If applicable)?



A large number of respondents, more than 45 %, identified the cost of knowledge sourcing as a major barrier in knowledge sourcing (Picture 5). A significant number of respondents (40 %), identified the inapplicability of external knowledge in local scenario as a major barrier in knowledge sourcing from external sources. This could be related to the access to technology, which is relatively moving at a lower pace in Albanian companies as compared to SMEs in other European countries. The role of cost factor could be addressed by increasing governmental efforts to assist small and medium scale enterprises, by organizing and promoting knowledge sourcing initiatives among Albanian SMEs. The inapplicability of external sources, primarily international would be addressed in due course as SMEs adopt European and global standards.

**Picture 5:** Which factors do you see as barriers in Knowledge sourcing?



## 4. FUTURE WORK

This study gave a better understanding of the prevailing awareness among Albanian SMEs about knowledge sourcing, and also helped in identifying the key barriers in knowledge sourcing. This study also helped identify the key sources of external knowledge. These findings would help researchers in developing solutions to address the key barriers in knowledge sourcing. In future, work needs to be done on finding ways of addressing these key barriers in knowledge sourcing. The identification of the key sources of external knowledge also leaves the scope for future work in developing knowledge bases that would benefit SMEs. This study also provides the basis for future development of an integrated knowledge sourcing model that would assist Albanian SMEs.

## 5. CONCLUSIONS

The availability of limited literature on the role of knowledge sourcing in the context of Albanian SMEs has hindered research in understanding the role of knowledge sourcing on Albanian SMEs. The findings from this study have brought forward some interesting findings that would benefit Albanian SMEs. This study brings forward two key findings by identifying the most important sources of external knowledge apart from identifying the barriers in knowledge sourcing. Access to skills and expertise forms the key source of external knowledge. This source is quite important for small and medium scale enterprises, as it is quite economical to tap into this source. Because SMEs form the key part of Albanian economy, access to vast amount of skilled human resources is available at the disposal of these companies. However, to benefit from this source of knowledge, Albanian SMEs need to encourage the development of knowledge networks, primarily at a local level. The formation of knowledge networks is essential at a local level, as one of the barriers identified was the inapplicability of external knowledge at a local scenario (Picture 5). However, Albanian SMEs cannot afford to continue sourcing knowledge only at a local level, as in this age of globalization interaction with global sources of knowledge is of immense importance.

Albanian SMEs would need to extend the local knowledge networks to a global level by increasing interaction with external sources of knowledge. This integration between sources of knowledge is likely to take time, as the focus initially needs to be on local knowledge networks. Another important finding of this study is the relatively low percentages of knowledge sourcing in scientific, research, and development areas. Research and develop are key for innovation in an organization; however, this finding is in agreement with the other finding about cost of knowledge as a key barrier in knowledge sourcing. The cost of knowledge sourcing prevents many small and medium scale enterprises from developing in-house research and development. This also inhibits small and medium scale enterprises from investing on new product development and innovation. There is immense scope for Albanian SMEs to collaborate increasingly and share knowledge with other domestic and international partners to enhance research and development.

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