

# THE ROLE OF KNOWLEDGE-ORIENTED LEADERSHIP AND CUSTOMER KNOWLEDGE MANAGEMENT IN DRIVING INNOVATION IN SMES: A CONCEPTUAL FRAMEWORK

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## Abstract

In the era of dynamic and changing behaviour, innovation has become a crucial factor for Small and Medium Enterprises (SMEs) to grow, adapt, and survive. Despite their importance, SMEs are often perceived as vulnerable due to limited financial capital and human resource capabilities. However, adopting knowledge-oriented leadership (KOL) and leveraging customer knowledge management (CKM) can offer a strategic pathway to overcome these limitations. This paper proposes a conceptual framework that examines the role of knowledge-oriented leadership (KOL) and customer knowledge management (CKM) in promoting innovation within small and medium-sized enterprises (SMEs). Drawing on the knowledge-based view of the firm, the framework posits that leaders who emphasize knowledge sharing, learning, and strategic knowledge utilization can effectively harness customer knowledge to drive innovation outcomes. When the firm systematically acquires, shares, and applies customer knowledge, it can act as a valuable source of insight in developing new products, improving service, and business model innovation. This study contributes to the literature by combining KOL and CKM perspectives and offers a theoretical framework for further empirical validation. The framework also acts as a strategic manual for SME practitioners who want to use knowledge-centric methods to improve their capacity for innovation.

**Keywords:** Customer Knowledge Management, Innovation, Knowledge-Oriented Leadership, SMEs

## INTRODUCTION

The role of Small and Medium Enterprises (SMEs) is critical to economic growth (Ruslaini, 2021). However, SMEs often face various limitations in human resources, financial constraints, fierce competition, and market changes (Guerrero et al., 2022; Prakash et al., 2021). These multifaceted limitations can significantly impact the growth, competitiveness,

and sustainability in the market (Wu, 2018). Therefore, SMEs must continuously adapt, innovate, and strengthen their internal capabilities.

To overcome those limitations, SMEs need to innovate to be able to increase competitiveness, adapt to market changes, increase efficiency, and ultimately drive profitability and growth in the long term. According to Adam & Alofaysan (2023), the strengthening of product innovation capability will have a positive impact on marketing innovation so that it can improve the overall performance of SMEs. SMEs will be more agile to adapt to the rapid changing of market needs. Astuti et al. (2019) emphasized that innovation is a competitive weapon in creating core competitive values for win the tight market competition.

Knowledge is a strategic asset of the company to gain competitive advantages (Yu et al., 2017). The strategic and systematic use of knowledge within the company will be able to assist in decision-making, adapt to rapid market changes, encourage innovation, and improve business performance (Odunladi & Olakunle, 2024). Therefore, effective knowledge management supports not only the functions but also the elements of strategic management.

The role of knowledge-oriented leadership (KOL) and customer knowledge management (CKM) in driving innovation is a potential solution to the problems faced by SMEs. For instance, Chaithanapat et al. (2022) found that KOL has a positive relationship to innovation quality. These findings suggest that KOL adoption can improve innovation performance for SMEs that prioritize innovation quality. However, different results were found in (Awashreh & Hamid, 2025). This is due to the lack of awareness of the importance of organizational knowledge management in achieving organizational goals. Previous literature primarily addressed large enterprises, leaving a gap in understanding its strategic implementation within SMEs. SMEs need to develop KOL that can encourage learning, exploration, and knowledge utilization for driving innovation and business performance. On the other hand, there is CKM that helps companies understand their customers' needs, wants, and behaviours.

This paper proposes a conceptual framework based on a knowledge-based view (KBV) approach be constructed to explain the relationship between KOL, CKM, and innovation in the SME sectors. In more detail, this paper will explore the current conditions in this field, the role of KOLs in creating an environment that support innovation in SMEs, optimizing CKM in driving innovation in SMEs, and integration between KOLs and CKM in the form of stronger innovative capabilities in resource-constrained SMEs. By offering

this conceptual framework, the paper aims to contribute theoretically to the fields of knowledge management and innovation studies, while also providing practical guidance for SME leaders seeking to build innovation-driven organizations through knowledge-based strategies.

## METHODOLOGY

This study is a qualitative approach aimed at examining the role of knowledge-oriented leadership and customer knowledge management in fostering innovation in SMEs. Studies related to the integration between KOLs and CKM in the context of SME innovation are still fragmented, so a qualitative approach will provide a deeper and more comprehensive understanding of these concepts.

This study applies a critical review method by in-depth analyzing published scientific articles to see the phenomenon (Nurqamarani et al., 2023), evaluate its conceptual strengths and weaknesses, as well as differences in results from existing studies (Hyett et al., 2014). The results of this study are expected to build a new theoretical foundation by suggesting a framework based on findings and criticism of existing theories. According to (Nurqamarani et al., 2023), there are 2 main stages for this method which are illustrated in the following table.

**Table 1.** Research Procedure

Stage	Procedure
Planning Stage	Identifying research topic
	Defining the formulation of the problem
	Defining inclusion and exclusion criteria
Execution Stage	Conducting literature review
	Extracting and analyzing data
	Compiling findings and reports

Source: (Nurqamarani et al., 2023)

The planning stage is a critical stage in determining the research direction. During this stage, the research topic is defined, the problem statements are formulated, and the inclusion and exclusion criteria are established. This study focuses on the role of knowledge-oriented leadership (KOL) and customer knowledge management (CKM) in fostering innovation in Small and Medium Enterprises (SMEs). The research questions guiding this study are as follows:

- a. What is the current condition of the field of study?
- b. What is the role of knowledge-oriented leadership in creating an environment that supports innovation in SMEs?

- c. How can customer knowledge management be optimized to drive innovation in SMEs?
- d. How can integration between KOLs and CKM form stronger innovative capabilities in resource-constrained SMEs?
- e. How can a conceptual framework based on a knowledge-based view (KBV) approach be constructed to explain the relationship between KOLs, CKMs, and innovation in the SME sector?

In the planning stage, the criteria used to select the paper to be reviewed are also determined. The inclusion and exclusion criteria for this study are as follows.

**Table 2.** Inclusion and Exclusion Criteria

Criteria	Description
<b>Inclusion Criteria</b>	
Type of paper	Journal articles and proceedings
Language	English
Year of Published	2015-2025
Status	Open Access
Context	Business
<b>Exclusion Criteria</b>	
Type of paper	Book chapter, monographs, theses, and interview-based books
Language	Not written in English and Bahasa Indonesia
Status	Article in press

Source: Author

Based on the above criteria on **Table 2**, a literature search was conducted using three sources: Scopus, Taylor & Francis, and Google Scholar, to address the predefined research questions. The search employed specific keywords as outlined in Table 3. Subsequently, an abstract screening was carried out to assess the relevance of each article to the study's focus, followed by an in-depth review of the full papers. The results of this process are presented in Table 3.

**Table 3.** Data extraction

Source	Keywords	Keyword Screening	Abstract Screening	Selected
Scopus	knowledge AND oriented AND leadership; AND customer AND knowledge AND management; AND innovation AND SME	0	0	0
	knowledge AND oriented AND leadership; AND customer AND knowledge AND management; AND innovation	6	1	1
	knowledge AND based AND leadership, AND customer AND knowledge AND management, AND innovation	25	0	0
	knowledge AND oriented AND leadership AND innovation	123	10	7

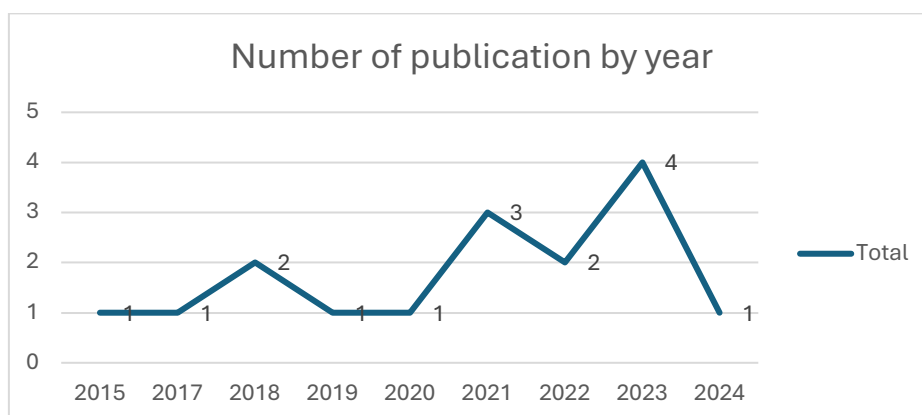
Source	Keywords	Keyword Screening	Abstract Screening	Selected
	Customer knowledge management AND innovation	638	7	6
Taylor & Francis	knowledge AND oriented AND leadership AND customer AND knowledge AND management AND innovation AND SME	604	1	1
	Knowledge oriented leadership AND customer knowledge management AND innovation	2000	2	1
	Knowledge based leadership AND customer knowledge management AND innovation	2000	0	0
	Knowledge oriented leadership AND innovation	2000	2	1
	Customer knowledge management AND innovation	2000	0	0
Google scholar	knowledge oriented leadership; customer knowledge management; innovation; SME	17300	6	5

After going through the screening process and also removing duplicate articles, the number of articles to be analysed in more depth is 16 scientific articles.

## RESULTS AND DISCUSSION

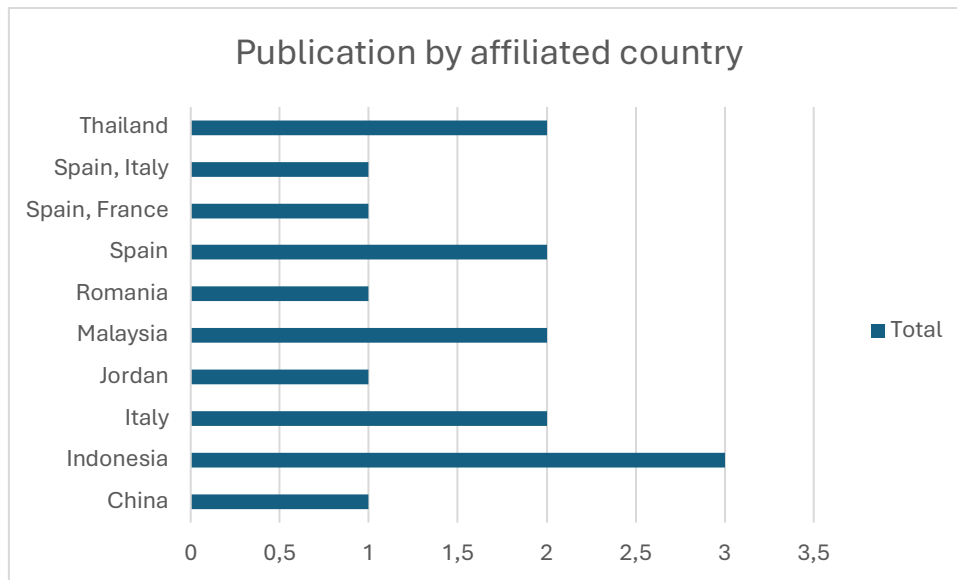
### Data Overview of the Current Study

Of the 16 scientific articles that will be further reviewed, the most recent publication is from 2023. Studies related to knowledge-oriented leadership and innovation have been widely published. The increase in publications began in 2021 and peaked in 2024. Meanwhile, studies related to customer knowledge management occurred in the range between 2015-2022. The studies focus on customer knowledge management and innovation. For a study that integrates knowledge-oriented leadership, customer knowledge management, and innovation, found in 1 article published in 2022. The distribution of scientific articles to be reviewed further can be seen in Figure 1.



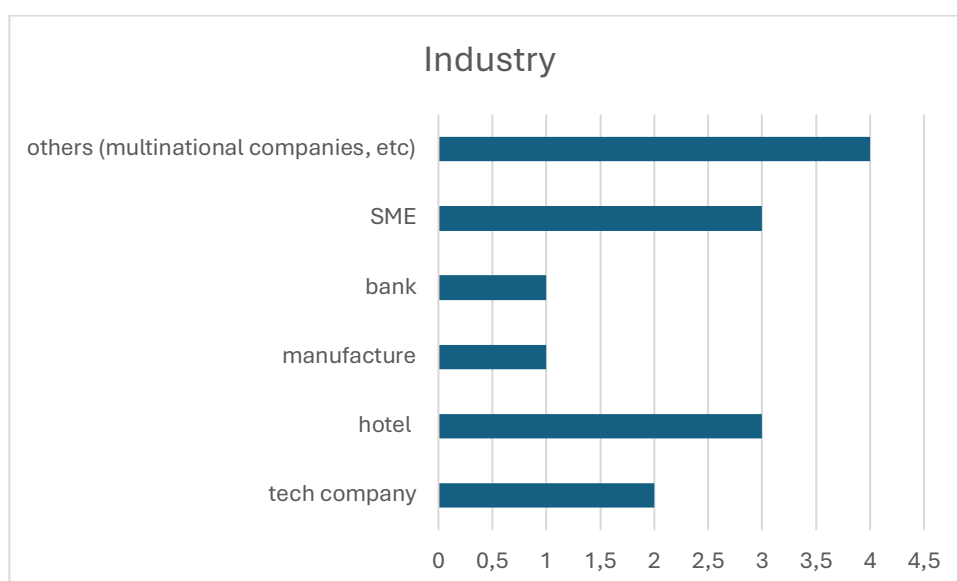
**Figure 1.** Number of publication by year

Based on the author's affiliation, Indonesia is the highest country that publishes related to knowledge-oriented leadership, both for innovation and sustainable competitive advantage. Meanwhile, things related to customer knowledge management are widely published from Italy and Malaysia. In more detail, the number of publications by the affiliate country can be seen on **Figure 2**.



**Figure 2.** Publication by affiliated country

Based on the industry and excluding 2 review paper, most of the sample came from large and tech companies, such as bank, manufacture, hotel, and tech companies. Only 3 paper specific to SME. In more detail, the number of publications by industry sample can be seen on **Figure 2**.



**Figure 3.** Publication by industry

## **Knowledge-Oriented Leadership (KOL) in creating an environment that supports innovation in SMEs**

Knowledge-oriented leadership is very important for companies to have with various external forces, such as technological developments, shifting consumer needs, and rapid market competition (Hamid et al., 2023). According to (Hamid et al., 2023), KOL is a leader who is able to create a work environment that encourages the creation, sharing, and utilization of knowledge among employees. KOL combines the aspects of transformational and transactional leadership to support employee in generating and applying knowledge effectively, especially in driving innovation and adaptation (Chaithanapat et al., 2022). In transformational leadership, leaders become role models who also motivate employees, encourage employees to think creatively, generate ideas, and encourage employees to solve problems and share knowledge (Chaithanapat et al., 2022; Chaithanapat & Rakthin, 2021; Safari & Azadehdel, 2015). Meanwhile, for transactional leadership, there is an emphasis on achieving organizational goals with a focus on routine, structure, and performance through rewards and penalties (Chaithanapat et al., 2022). KOL balances stability and innovation for effective knowledge management and organizational performance. The study confirms that leaders who promote knowledge sharing, learning, and intellectual stimulation positively affect employees' ability and willingness to innovate and their overall job satisfaction (Alzghoul et al., 2024).

Based on (Kadarsah et al., 2023) and (Sjachriatin et al., 2023), some key points of how KOL contributes to creating an environment that supports innovation and how to adapt in SMEs:

- a. Foster a knowledge center culture
- b. KOL promotes continuous learning, knowledge sharing, and open dialogue. In SMEs, we can do it by encouraging daily or weekly discussion among employees, creating comfortable environments for sharing ideas, and leveraging informal mentoring and peer learning.
- c. Data Driven Decision Making
- d. This paper highlights the crucial role of data driven. In SMEs, data driven can be started by analysing customer feedback or sales patterns.
- e. Aligned Knowledge Use with Business Problem
- f. KOL ensures that the information and knowledge possessed are not isolated but are used in real life in business decision-making. In SMEs, we can utilized the

customer information and assign employees who own different product knowledge to create in business decision.

- g. Encouraging employees in innovation
- h. There is needed of trust between leader and employee to empowered employees creativity and to take initiative. This inclusive approach increases motivation and nurtures grassroots innovation from within the SME.

### **The Role of Customer Knowledge Management in Driven Innovation in SMEs**

Customer knowledge management (CKM) has a crucial role for SMEs in helping SMEs to stay competitive and innovative (Chaithanapat & Rakthin, 2021). CKM is a systematic process of obtaining, managing, and utilizing knowledge related to customer needs, preferences, experiences, and behaviors (Chaithanapat et al., 2022). This process captures various interactions and feedback from customers and applies them to improve customer relationships (Chaithanapat et al., 2022) and formulate strategies and innovations of products and services offered (Alani et al., 2019). With CKM, it can help SMEs to better understand their customers, be able to anticipate customer demands, and facilitate decision-making. This is done to increase customer satisfaction and competitive advantage.

Based on (Castagna et al., 2020), some key components of CKM are:

- a. Knowledge for customers

Information for customers to understand product or services offered. To help our customers understand our product or services, SMEs can provide simple guideline, FAQs, or content on social media.

- b. Knowledge from customers

Knowledge gathered from customers, such as feedback, complaints, suggestions, or behavioral data. Data from customers can be used for the upcoming strategies.

- c. Knowledge about customers

Internal understanding about customer preferences, histories, needs, and characteristics derived from interaction and data analysis.

To be able to apply CKM to SMEs in the midst of limited funds and resources, SMEs can take advantage of simple technology that is cost-effective. Such as: the use of social media such as Facebook, Instagram, and WhatsApp to interact with customers. Through social media, SMEs can also monitor messages, complaints, and concerns from customers



for future improvements. SMEs can also create a simple database that records customer information to be used in further communication with customers and personalizing customer needs.

By focusing on customers, SMEs focus their innovation more customer-centric, so that they are able to produce products, services, and business processes that are more adaptive, competitive, and valuable. Through CKM, SMEs can better understand changing customer needs and expectation, supporting co-creation through involving customer product development, better targeting, and data-driven decision making (Castagna et al., 2020).

### Integration between KOLs and CKM form stronger innovative capabilities

Based on the findings of (Hamid et al., 2023), KOL does not have direct influence on innovation performance. It means that leadership alone is not sufficient to increase the innovation performance. KOL needs a mediating role to drive innovation. Practically, leader who have managerial awareness of utilize knowledge as strategic asset become crucial. Integration between KOL and CKM can create stronger innovative capabilities in resource-constrained SMEs by fostering a culture of continuous learning, knowledge sharing, and customer engagement despite limited resources. Intergration between KOL and CKM in resource-constrained SMEs acts as a catalyst for innovation by maximizing external knowledge sources, ensuring strategic focus on customer needs, and embedding a culture of learning and adaptation driven by visionary leadership (Chaithanapat et al., 2022).

### Conceptual Framework

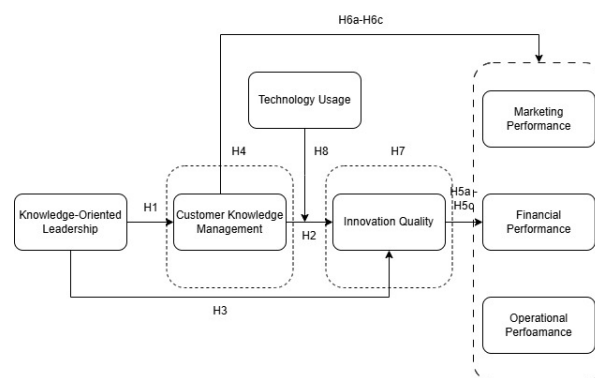


Figure 4. Proposed conceptual framework

### CONCLUSION AND RECOMMENDATIONS

To overcome internal constraints and external barriers of SMEs, knowledge-oriented leadership is able to create a continuous learning environment to drive innovation in the

organization. To focus on customer needs, preferences, experiences, and behaviors, utilizing customer knowledge management becomes critical to get the insight for, from, and about the customer. This will increase the business performance as well as sustainability as a long-term goal.

### **Practical Implication**

This conceptual model contributes to the literature by integrating leadership and knowledge management perspectives in the context of SME innovation.

It emphasizes the strategic role of customer knowledge and proposes a practical roadmap for SMEs to strengthen their innovation systems.

### **Theoretical Implication**

The framework can be utilized for the further quantitative study

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