Knowledge Management: The Way to Organizational Competitive Advantage

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Abstract: The paper explains the crucial knowledge management (KM) processes which are rapidly growing in importance in the present day globalized knowledge based economy. A firm’s intellectual capital is thus increasingly seen today as possessing the potential to become the primary wealth creator in many business organizations. The researchers, therefore, stick to the description of the primary activities of learning, creativity and performance, which are inherent in the holistic frame of modern KM systems, and which sequentially follow each other as typical knowledge processes evolve in a knowledge centric organization.

Keywords: Knowledge Management, Market Based View, Resource Based View.

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Introduction

Knowledge is today recognized both as a process of leveraging resources as well as a resource itself. As a tool for leveraging resources, for instance, knowledge serves to promote organizational learning and innovation. Both learning and innovation, in turn, help organizations secure sustainable competitive advantage over the period (Meso and Smith 2000). The view that knowledge is a resource itself is explicitly notable, since it performs crucial input and output functions (Assudani 2005). The foremost input functions of knowledge include: provision of needed human capital, Information technology (IT) and know-how. These inputs are processed to produce output functions such as product and/or service innovation resulting from new knowledge as intellectual capital and new learning. Knowledge management (KM) and its related strategy concepts are, therefore, rightly acclaimed as crucial components for organizations to survive and maintain their competitive advantage (Martensson 2000).

The contemporary epistemological literature accounts for increasing managerial reliance on a firm’s knowledge related activities. While the importance of the structural capital of an enterprise is not waning, it is instead the maintenance of a “balanced human capital portfolio” which is emerging as the basis of a firm’s strategy to gain sustainable competitive advantage (Wiig 1997). This paradigm shift is caused by numerous forces inherent in the present information age. The most striking of these forces include; technological advancement and the resultant slackening of the traditional market entry barriers, increasing competition, shorter product life-cycle and increasing risk (Evanschitzky et al., 2007). Some other factors such as the emerging tide of globalization and the rise of IT and e-commerce have also accounted for increasing thrust among the present day corporations to crave for strategic advantage through persistently refining their intellectual capital (Goh 2005).
In this backdrop, the strategic outlook in operations seems to be shifting from a market-based view (MBV) to a resource-based view (RBV) of competition (Salen 2000). With the shift occurring from focusing on a firm’s products to focusing on internal factors in terms of resources and capabilities, some of the earlier models such as isolated product/market analysis and Porter’s five forces framework stand somewhat obsolete (Anderson 2010). The RBV of a firm therefore has emerged as a new paradigm in strategic analysis (Wilks and Fensterseifer 2003), as well as a popular theory of competitive advantage (Fahy 2000).

**Emerging Intellectual Capital**

KM is widely seen today as an integral part of a broad concept—the intellectual capital. Quite often, KM is therefore rightly described as management of the intellectual capital controlled by an organization (Martensson 2000). With the advent of KM, intellectual capital is being increasingly recognized in the literature as the only true strategic asset (Meso and Smith 2000). Modern organizations are frequently depicted as open systems that frequently interact with their environment. The organizational strategy therefore mostly consists in adjusting its inherent intellectual resources and skills to a constantly changing complex external environment (Martensson 2000).

It is precisely on this account that the strategic considerations in business operations have, of late, brought the RBV of a firm to limelight. The RBV simply states that the mix, type, amount and nature of a firm’s internal resources (of which human capital stands paramount) should be considered first and foremost in devising strategies that can lead to sustainable competitive advantage (David 2010). As defined by the RBV, the intellectual capital appears to have acquired an intrinsic value as the real strategic asset of a firm, since it is “rare, valuable, imperfectly imitable and non-substitutable” (Meso & Smith, 2000 p. 224).
The overriding importance of managing intellectual capital is reflected by the fact that the entire process is linked to attaining the learning objectives in knowledge centric organizations (Salen 2000). Organizational knowledge has been shown in the literature as being consisting of two major divisions – tacit and explicit knowledge (Nonaka & Takeuchi, 1995; Meso & Smith, 2000). In this context, Salen (2000) terms the explicit knowledge, being captured in organizational databases, customer files, softwares and manuals, as “structural capital,” while the tacit knowledge, residing in the minds of the company’s employees, suppliers and customers, is termed as “human capital”. Salen (2000) thus concludes that a firm’s intellectual capital represents an ordered blending of its structural and human capital.

It may be noted that organizational learning is all about re-bundling a firm’s internal competencies and resources to seek innovation and above all to maintain competitive advantage over time (Adams and Lamont 2003). Since internal competencies are usually defined in terms of employee skills and ability, knowledge is therefore increasingly identified as a key resource that is valuable to an organization’s ability to innovate and compete (Bollinger and Smith 2001). Though frequently discussed in the literature as mechanisms for capturing and disseminating knowledge, KM systems practically aim at fostering innovation resulting directly from continued organizational learning (see, for instance, Nonaka & Takeuchi, 1995; Meso & Smith, 2000).

**Sequentially Relating Learning, Creativity and Performance**

It follows from the above that the application of KM systems entails three primary activities of learning, creativity and performance, which sequentially follow each other as typical knowledge processes evolve in a knowledge centric organization. The figure 1 below explains the
relationship between an organization’s KM activities on the one hand, and learning, creativity and performance on the other. It is notable that the concepts of learning, creativity and performance – drawn separately against each of the succeeding stages of an organization’s knowledge evolution process - are locked in a sequential relationship.

![Diagram of Knowledge to Learning, Creativity and Performance](image)

**Figure 1:** Linking Knowledge to Learning, Creativity and Performance. Source: Adopted and modified from Meso & Smith (2000)
Organizational learning takes place as a result of unhindered interaction occurring frequently among individuals (as also among groups) in a usual knowledge centric organization. The figure 1 depicts organizational learning as a cyclical process consisting of two vital components: articulation and internalization. It may be noted that creativity and innovation, while serving as the bases of organizational performance, proceed directly from organizational learning. With the increasing pace of learning, an organization becomes more and more innovative and, above all, responsive to change. The whole process, therefore, culminates in organizational efficiency and performance.

Numerous theoretical models, such as those proposed by Nonaka & Takeuchi (1995); Meso & Smith (2000), have stated that articulation occurs when tacit knowledge of individuals is transformed into explicit knowledge of the entire organization. Explicit knowledge is initially captured in ordered repositories, systems and/or operating technologies (Salen 2000). Since it is easily shareable and communicable (Firestone and McElroy 2003), people in the organization learn and imbibe explicit knowledge to the extent that it becomes their personal trait.

The cyclical process therefore entails retransformation of explicit knowledge into tacit knowledge through the process of internalization (Meso and Smith 2000). As the cycle is ready for the second turn, the company’s tacit knowledge, being loaded with added experience and understanding, is again transformed into explicit knowledge during the next spell of the articulation process. In this way organizational learning, while emanating from the iterative process of articulation and internalization, gives way to creativity and innovation.

Resulting from creativity, innovation has been defined as the knowledge-value conversion process which aims at implementation of new or improved products, processes and systems (Ferraresi et. al., 2012). KM initiatives in an organization mostly aim at capturing innovation which promotes customer satisfaction through better product
and/or service quality (Anantatmula 2007). The figure 1 thus depicts innovation as a corollary of the new knowledge which itself is created in the process of organizational learning.

Over the past few years, KM practices have been increasingly recognized as important drivers of innovativeness and business performance (Ferraresi et. al., 2012). In this regard (Lee et. al., 2012) proposed a valuable model to suggest the relationship between KM infrastructure, consisting of cultural, structural, managerial and technology related factors, and a firm’s knowledge process capability. Thus acquiring from broader KM infrastructure, such vital processes as acquisition, conversion, application and protection of desired knowledge assets, have been presented in the model as vital determinants of organizational performance.

It is a firm’s intellectual capital which, as suggested by the ground evidence, serves as the primary wealth creator in the practical business environment (Karp 2003). This trend is plainly evident, since the advent of knowledge intensive economy has practically made it almost impossible for many corporations in the arena to gain competitive advantage through exclusive reliance on traditional and tangible tools of competition. Hence, in the backdrop of increasing managerial reliance on learning and creativity, knowledge is becoming progressively more useful today than ever before (Carnario 2000). The resultant transformation of knowledge from tacit to explicit leads to continued innovation which, in turn, becomes an inevitable necessity for most businesses to survive (Ho 2008).

It is rightly observed that encompassing both structural as well as human components, a firm’s intellectual capital represents the case of evolving refinement over the period. Meso & Smith (2000), for instance, point out that the knowledge conversion process from tacit to explicit entails man’s increased capacity of understanding the theoretical underpinnings of the problems, which in turn facilitate practical steps in
the problem solving phase. The conversion process finally culminates in our understanding of the purpose or rationale of a given occurrence.

Cognition, though it resides at the initial stage of the knowledge evolution process, is generally recognized in the literature as the core ability leading to the development of rare competencies (Nobre and walker 2011). There is yet another aspect of cognition referring to the perception of associations among different system components. The insights gained in this way lead to new interpretations which, as pointed out by Carnario, 2000, tantamount to achieving new knowledge level with a new perceived value.

Being equipped with cognitive ability, human intellect acquires gradual refinement as it evolves along the knowledge trajectory of an organization. Several studies (for instance, Nonaka & Takeuchi, 1995; Quinn, 1996 and Hamel, 1998) have confirmed that human intellect progresses as it moves beyond cognitive perceptions to practical understanding and thus ultimately comes to grasp the underlying rationale of specific functions and processes.

Conclusions

It follows from the above that KM systems along with their related strategy concepts are being increasingly recognized in the contemporary literature as crucial components for organizations to survive and stay competitive. The resultant emphasis on KM as efficient management of a firm’s intellectual capital has taken place side by side with the paradigm shift in the strategic managerial operations from a market based view to a resource based view of competition. The resource based view primarily focuses on a firm’s internal competencies and resources which, in turn, rely on enhancing the pace of learning initiatives in modern knowledge centric organizations. In this backdrop, knowledge is rightly identified as a key resource which contributes directly to an organization’s ability to
innovate and compete.

Viewed in the holistic perspective, KM systems may be described as entailing three primary activities of learning, creativity and performance. Appearing as a direct corollary of the learning process, these primary activities unfold sequentially along with the evolution of critical knowledge processes in a knowledge centric organization. It is precisely in view of the increasing managerial reliance on learning and creativity over the past few years that KM is becoming progressively more useful today than ever before.

References


