

# Knowledge Management – A Strategic Perspective

## Preamble

*"In the emerging economy, a firm's only advantage is its ability to leverage and utilize its knowledge."*

...Larry Prusak, Executive Director - The Institute for Knowledge Management

We are living in an economy of kaleidoscopic change where the only element, which is constant, is change. The industry environment is being influenced by unexpected, multiple changes reducing the period for which organizations can hold on to a competitive advantage. Every sector of industry in every corner of the globe has been affected by this change.

One of the catalyst of this change has been the market which has also changed from a seller's market to a buyer's market. The buyers are more informed, thanks to the growth of Internet and consequently, information dissemination.

Organisations, over the years, have practiced many methods to create and sustain competitive advantage. Some of the initiatives are TQM, BPR, SCM, and CRM. These initiatives, although have resulted in firms attaining some competitive advantage, are replicable and not sustainable over a longer period of time. Hence, organisations are now focusing on methods of creating new knowledge and harnessing existing knowledge to gain sustainable competitive advantage.

The importance of focus on knowledge as a source of competitive advantage is understood better when one looks at the ratio of market value to book value of a knowledge intensive firm, e-g Infosys which has got a ratio of more than 10.

This paper emphasizes the importance of harnessing and creating knowledge and the strategies that they could follow to achieve sustainable competitive advantage.

## Strategy concepts and frameworks

Strategy is a method/plan adopted by a firm to balance it's external environment (opportunities and threats) and the internal capabilities (strengths and weaknesses)

Various management consultants and thinkers have defined the process of strategy in various ways. Porter's model focused on defining a firm's strategy in terms of it's product/ market positioning. Building on Porter's notion of competitive advantage, the resource based view of strategy argues that the resources and capabilities of an organisation can be a source of competitive advantage if they processes certain characteristics of being rare, durable and

difficult to imitate, flexible and durable. If firms have resources with these characteristics, they can position themselves strategically on the basis of these resources and capabilities. Most of the tangible resources may not have these characteristics and hence organisations have to focus on intangible assets to be a source of competitive advantage. Many authors have stressed on the strategic importance of intangible assets for firms to achieve competitive advantage (Itami, 1987; Hall, Teece). Teece et al (1990s) in their paper on 'dynamic capabilities' emphasise on knowledge as a source of competitive advantage through the definition of the term. They define the term dynamic capabilities as follows :

*“ The term ‘dynamic’ refers to the shifting character of the environment; certain strategic responses are required when time-to-market and timing is critical, the pace of innovation is accelerating and the nature of future competition and markets is difficult to determine. The term ‘capabilities’ emphasizes the key role of strategic management in appropriately adapting, integrating, and re-configuring internal and external organizational skills, resources and functional competencies toward changing environment”.*

The emphasis, from this definition, is on adapting to the changing environment, through organizational learning and innovation, for which knowledge is the base. This knowledge based view of strategy, which emphasizes building, and sustaining competitive advantage on the basis of the knowledge resources and capabilities of a firm has gained currency due to the following reasons

- market is in a state of flux and going through a string of realignments
- resources and capabilities are easily replicable
- the unprecedented growth of information superhighway has accelerated the spread of explicit knowledge and consequently the speed of replicability
- Tacit knowledge gained through years of experience is not easily replicable.

and hence any strategy based on market and product mix or resources and capabilities may not provide the firm with a sustainable competitive advantage. The importance of integration of knowledge available in the organisation is also stressed upon by authors like Huff, who, argue that managers look upon collective knowledge and experience in constructing mental models of strategic issues and terms this as 'strategic frames' and any strategic decision is a combination of multiple strategic frames.

## **Reasons for emphasis on KM**

The need to focus on managing knowledge within the enterprise results from

- economic and market-driven requirements created by customer demands and international competition
- Increase in customer demands for products and services that fulfill their particular needs more precisely and to a greater advantage
- Loss of knowledge to the organisation due to increased personnel turnover
- It helps organisations to be able to repeat the processes followed in past successful projects.
- Effective knowledge management practices helps organisations avoid repeating mistakes of past projects, thereby reducing the time span required for completing current projects.

The importance of knowledge is also focused on by Michael Zack, while defining the 'strategic knowledge gap', which is the gap between what the organisation needs to know and what it does now and knowledge management is the process by which organisations could bridge this gap.

## **Value addition through knowledge**

Many firms have evidenced substantial savings or an increase in their value by using knowledge inputs and modifying their internal processes. A case in point is Texas Instruments, which was able to save the equivalent of the investment in a new semiconductor fabrication plant, by sharing best practices between the existing plants. (O'Dell 1996).

## **Process of knowledge creation and dissemination**

There are many ways in which knowledge can be created and disseminated across organisation. Any organisation that aims to create a knowledge management system should have to follow these general knowledge management initiatives.

- Creation of knowledge teams
- Sharing of best practices
- Development of knowledge databases
- Creation of knowledge centers
- Selection and use of collaborative technologies
- Creation of Intellectual capital teams

Specifically, organisations could create a knowledge portal in the organizational intranet, establish communities of practice and harness the knowledge gained by persons in an organisation, through years of experience, through the processes of debriefing and mentoring.

### *Knowledge portal*

Knowledge portal is a single point reference for knowledge storage, search and dissemination within an organisation. This ideally works on the intranet and one of the major features by which tacit knowledge is captured and stored is through discussion forums from which knowledge can be mined and extracted.

### *Communities of practice*

The focus on knowledge as a source of competitive advantage has necessitated organisations to embark on a change in structures, which would facilitate knowledge sharing and dissemination. Some of the organizational forms created for this purpose are cross-functional teams, work groups etc. The latest organizational form created for this purpose is the Communities of practice (Cop).

Communities of practice are groups of people informally bound together by shared expertise and passion for a joint enterprise (Wenger & Snyder).

They can be formal or informal groups within an organisation or across organisations, but it is important to focus on garnering the knowledge acquired through the discussions within this group.

They are more effective than teams since members of these communities organize themselves and focus on value addition and hence the commitment towards this is higher.

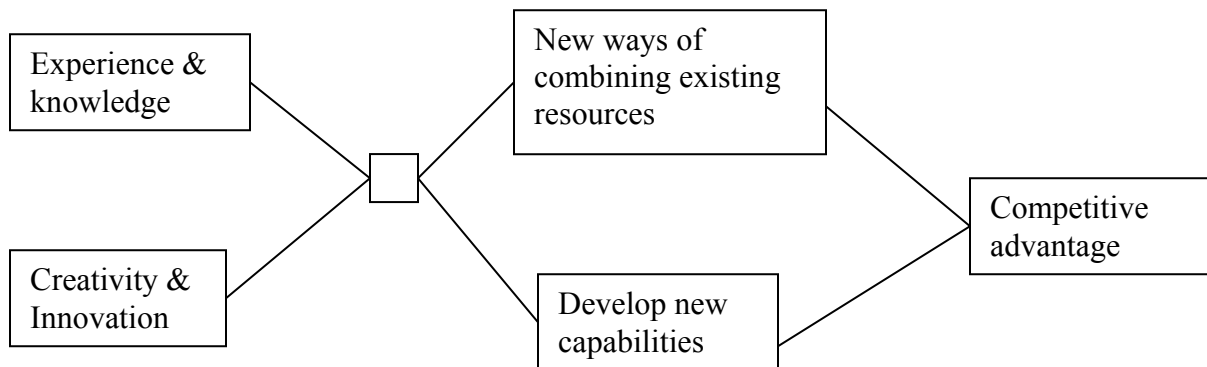
They help create a bank of best practices and thus help develop the critical capabilities, which are essential for organizational success and to sustain competitive advantage.

The characteristics of knowledge creation which are focused on making tacit knowledge explicit are

- To express the inexpressible through metaphor and analogy
- To disseminate knowledge converting individual knowledge to organizational knowledge
- Ambiguity and redundancy as factors in the process of knowledge creation

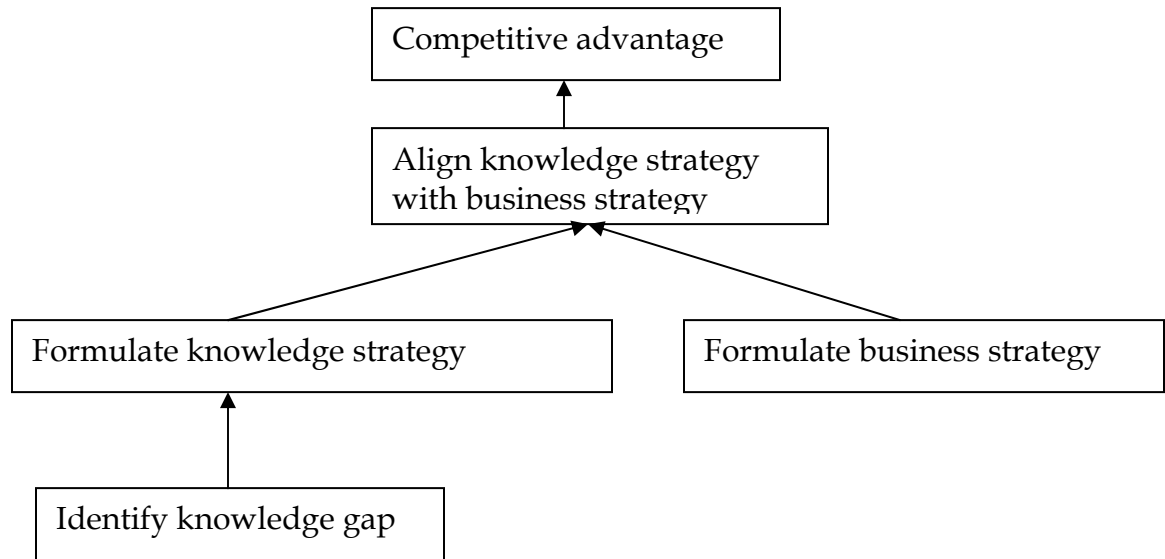
## Creativity, Innovation and knowledge strategy

Creativity and innovation play a very important in designing and driving the business strategy of any present day organisation. In the present industry scenario, an organisation does not enjoy sustainable competitive advantage, merely by possessing resources and capabilities. They should be able to combine these resources in new and different ways or develop new capabilities to gain sustainable competitive advantage. This is possible through creative thinking and innovation.



Some of the innovations brought out by organisations are a result of application of new knowledge and the others are a result of working with and recasting existing knowledge, termed as 'architectural innovation' (Henderson & Clark 1990, Henderson & Cockburn 1995) and 'combinative capabilities' (Kogut & Zender 1992).

## Approach to competitive advantage



Organisations pursue different strategies to align their KM strategies with the business strategies. Some of these strategies are

Strategy	Focus
Codification strategy	Automation and application of IT
Personalisation strategy	Building a learning strategy
Strategic management of Intellectual capital	Building, managing, and exploiting knowledge-related assets
Enterprise effectiveness strategy	applying all the available knowledge in the best interest of the firm.

## Conclusion

In the current industry scenario of flux and uncertainty, organisations cannot achieve sustainable competitive advantage, by pursuing just a product-market based strategy or a resource based strategy. They need to appreciate the importance of the knowledge existing in the organisation and harness the knowledge through appropriate knowledge management strategies and align this strategy with the business strategy. Moreover, they also need to create new knowledge through creative methods and build new capabilities to achieve sustainable competitive advantage.

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