Chapter 3
Innovation as a Mediator Between Knowledge Management and Organisational Performance:
Knowledge Acquisition, Knowledge Application, and Innovation Towards the Ability to Adapt to Change

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ABSTRACT

This chapter provides important empirical evidence to support the role of individual knowledge management processes and separate innovation types within firms. Specifically, knowledge acquisition and knowledge application are analyzed and empirically tested in relation to product and process innovation as well as business performance. The results support the direct impact of product and process innovation on business performance. In addition, the results show the indirect effect of knowledge acquisition and knowledge application on firm business performance through product and process innovation.

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INTRODUCTION

Development of information technology (IT) has contributed to the transformation of economies, societies, and business environments (Martín-de Castro, 2015). These changes have not only affected some or leading sectors, but all economic sectors have received new tools that significantly influence business processes (Cohen, DeLong, & Zysman, 2000). In other words, information technology has transformed all industries with different levels of influence. Brynjolfsson and Kahin (2000) state that the new era refers to the transformation of all sectors of the economy under the influence of, first of all, computers that have enabled digitization of data. This new era is known as: the digital economy, the new economy, the information economy, the knowledge-based economy, etc. What is most important in observing business of the new era are continuous and dynamic changes. Luftman, Lewis, and Oldach (1993) state that the world is experiencing profound changes and only things that are not changing are the changes themselves (Alpay *et al.*, 2012). These changes bring challenges and opportunities with them (Luftman, Lewis and Oldach, 1993). Many of these changes require a dramatic formation of business processes and activities in order to enable control of challenges and exploitation of opportunities.

Because of that, knowledge has become an essential strategic asset that distinguishes economies, societies, and firms (Hsu and Sabherwal, 2011). However, knowledge implies a productive application of information through the ability to convert information into decisions and actions (Pandey and Dutta, 2013). Thus, Darroch (2005) highlighted that „*simply owning resources is not necessarily going to provide any kind of advantage to the firm*“. In other words, knowledge contributes to creating added value for a firm only when used. The most common form of value-added creation in the new era is innovation. Therefore, knowledge management (KM) has been seen as an essential concept and according to many authors, a source of innovation (Carneiro 2000; Kalotra 2014; Darroch 2005).

(Lopes *et al.*, 2017) emphasize that for organizational sustainability, the organization should focus on knowledge and innovation management. Specifically, knowledge-based innovations enable the creation of a sustainable basis for competitiveness in organizations. Innovative firms support new ideas and change, encourage risk-taking and new business approaches (Tsai and Yang, 2014). Besides using their strengths, these firms are always looking for new opportunities (Dibrell, Craig and Hansen, 2011) and they are more capable of developing creative solutions than their competitors which contributes to the business success (Hult, Hurley and Knight, 2004). Knowledge management and innovation are widely considered to be valuable capabilities associated with the competitive advantage and superior business performance (Chen and Huang, 2009; Chen and Huang, 2012). Thus, this relationship has been well established in the literature. However, this study aims to

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