

Creating Value with Regional Communities of SMEs

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INTRODUCTION

This article provides a conceptual argument that the knowledge management (KM) approach of communities of practice (CoPs), and their virtual equivalents (VCoPs), can create value for clusters of regional small and medium enterprises (SMEs). The article firstly shows that value creation in regional clusters occurs by encouraging collective learning and reciprocal knowledge exchange. The article then shows that CoPs, and VCoPs in particular, have been the most successful value creation mechanism in large organisations. We argue that VCoPs hold considerable potential for value creation in regional clusters of SMEs by promoting innovation, more effective knowledge sharing, and recognising the value of VCoPs as capital. The strategic integration of SMEs in regional clusters is analogous to large organisations' global operations. In this environment VCoPs combine industry-specific knowledge with firm specific knowledge and emerge as a new source of social capital.

BACKGROUND

Towards the end of the 20th century, a new global knowledge-based economy emerged as global knowledge became increasingly sophisticated and diversely located. Concurrently, developments in information and communication technologies (ICT) have significantly increased the ability to create, transfer, and maximise knowledge worldwide (Kulkki, 2002). Today, knowledge is the primary source of competi-

tive advantage and the key to success for organisations in the knowledge economy (Grant, 2002; MacKinnon, Cumbers & Chapman, 2002; Patriotta, 2003). To capitalise on the value of knowledge, organisations “need to know precisely what gives them competitive advantage, keep this knowledge on the cutting edge, deploy it, leverage it in operations and spread it across the organisation” (Wenger, McDermott & Snyder, 2002, p. 6). People, as the creators of innovation and renewal, are the sources of value in knowledge. This human capital has the potential to create value at all times by generating something that did not previously exist. In fact Chattel (1998) asserts that human capital is core for the design of the future. It is also the basis on which communities of practice are built (Stewart, 1997). With the development of ICTs, these communities of practice now have the ability to operate over large areas, their communication facilitated by the Internet. These virtual communities of practice have the potential to create value to an even greater extent if they are properly understood and nurtured.

Creating value through knowledge and the use of VCoPs is an issue for organisations and for other economic formations, including clusters or networks of individual businesses. This article presents a conceptual approach to the creation of value through VCoPs based on existing knowledge management (KM) and cluster research. We conclude that VCoPs should be an important value-creating mechanism for regional clusters of small and medium enterprises (SMEs). Considerable attention has been paid to how VCoPs can be established and promoted (e.g., Ardichvilli, Page & Wentling, 2003). What is

needed is an understanding of how KM systems create value, and what features of these initiatives enable SMEs in regional clusters to be self-sustaining. It is our assertion that the *personalisation* technique inherent in CoPs, and used successfully in large organisations, has great potential to enable regional clusters of SMEs to create value. These concepts provide a foundation for future empirical research to identify the key elements for value creation through *personalisation*, specifically CoPs, and their associated VCoPs. This article will therefore establish the conceptual groundwork for future theoretical and empirical research which will investigate the practical mechanisms required to develop CoPs into regional clusters of SMEs.

Value Creation through Knowledge

Value creation through knowledge occurs when the organisation obtains value from its intellectual capital in the form of intangible assets. These intangible assets include *hard intangibles*, including such things as patents, royalties, copyrights, and databases, as well as *soft intangibles*, which are individual skills, expertise and capabilities, organisational culture, loyalties, and trust (Stewart, 1997). The sources of value in intellectual capital are:

- **Human capital:** people as the creators of innovation and renewal;
- **Structural capital:** organisational infrastructures including information systems (IS), procedures, and processes; and
- **customer or relationship capital:** relationships with external people (Stewart, 1997).

The underlying characteristic of value creation is that it is a mutually advantageous process of co-creation between the various organisational stakeholders (Prahalad, 2004; Prahalad & Ramaswamy, 2004; Rowley, 2004; Skoog, 2003). The participants clearly understand that this co-creation provides access to intellectual capital (human capital, structural capital, and customer/relationship capital) that would not otherwise be available.

REGIONAL CLUSTERS AS VALUE CREATORS

The importance of value creation in the context of regional clusters was first recognised by Marshall (1947). In this resource-based view, value was obtained by access to resources, labour, and technological improvements resulting from knowledge spillovers. In the 1980s a new form of technologically dynamic industrial district emerged where competing firms cooperated by adhering to norms of reciprocity (Lawson & Lorez, 1999). This enabled them to access collective goods and services such as education and research and development, and to reduce the risks involved in developing new products and processes. The most frequently cited successful examples of this type of regional cluster are the Emilia-Romagna region in Italy and the Baden-Wurttemberg region of Germany (e.g., Lawson & Lorenz, 1999; Hospers & Beugelsdijk, 2002; Humphrey & Schmitz, 2002). In both cases, geographically co-located SMEs provide specialised activities for a single stage of production in vertical value-added chains. This form of social embeddedness has the potential to lower transaction costs and in the process create value for all involved (Tallman, Jenkins, Henry & Pinch, 2004).

In the 1990s a new form of regional cluster emerged: the *innovative milieu* or *learning region*. The shift towards the knowledge economy changes the comparative advantage clusters obtained from physical resources to competitive advantage based on learning and knowledge (Mitra, 2000). In this innovative milieu, knowledge is the most important resource and learning is the most important process (MacKinnon et al., 2002). Innovative clusters typically have collective learning processes sustained by continuing exchange of knowledge and ideas; labour mobility; a high degree of openness based on geographically embedded social networks; and porous intra-firm, inter-firm, and intra-region boundaries (Saxenian, 1994; De Bernardy, 1999; Sternberg & Tamasy, 1999; MacKinnon et al., 2002). A paradoxical situation results in which firms have to cooperate in order to remain competitive. Success

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