

# Strategic Knowledge Management, Innovation, and Performance

**K****Fakhraddin Maroofi***University of Kurdistan, Iran*

## INTRODUCTION

There is one challenge that all businesses face in the unpredictable world of knowledge-based competition. That challenge is to balance organizational innovativeness and flexibility with disciplines that turn innovative pursuits into tangible business advantage. However, the mere act of adapting knowledge itself does not guarantee strategic benefit (Zack, 2002); instead, knowledge has to be managed. In next years, firms that create new knowledge and apply it effectively and efficiently will be successful at creating competitive benefits. Skyrme (2001) explains knowledge management (KM) as ‘the explicit and systematic management of important knowledge – and its related procedure of creation, organization, dispersion, use and utilization. KM doctrines have been studied and executed in every organizational training and declaration (Kebede, 2010). This difference has donated to the rapid advance of the field, but also to a lack of merging of ideas and terminology (Clarke & Turner, 2004). In this situation, there are several challenges to determining; KM as a separate systems (Kebede, 2010). From a viewpoint, firms are observing the importance of managing knowledge if they want to remain competitive (Zack, 1999) and grow (Salojrvi, Furu, & Sveiby, 2005). Now that technologies executed to increase knowledge sharing have grown up, researchers and professional are able to express on the factors of their success (Hall & Goody, 2007). In spite of all advances in these viewpoints, the result has been an inconceivable and confusing body of knowledge and many managers do not know which variables can improve KM schedules success (Moffett, McAdam, & Parkinson, 2002). There is not an explicit model about the variables which KM have a significant influence on. Influences of KM schedules on innovation and integrated in performance have been analyzed in works (Choi, Poon, & Davis, 2008). Few studies test the link between knowledge and performance (Tseng,

2008), thus existent a research gap on how and under which circumstances KM enterprises lead to better results. Besides, organizational knowledge plays an important role in innovation procedure. However, it is difficult to show final decision from the literature about the relationship between effective KM, innovation and performance since research examining this link is developing (Darroch, 2005). Thus, the aim of these research is to contribute to the advance of KM research from a strategic point of view and spread knowledge involving a certain subject whether KM can be translated into better organizational performance, directly or indirectly through an increase on firm’s innovation. We suggest and test a model that links two KM strategies (codification and personalization) and their results on innovation and on financial and non-financial performance. Our final decision, based on an empirical study consisted of 195 Iranian organizations and structural equations modeling which help academics and managers in designing KM strategic schedules in order to obtain higher effectiveness, efficiency and profit capacity.

## BACKGROUND

Strategic KM associated to the procedure and substructure firms employ to obtain, create and share knowledge for developing strategy, linking KM strategy to business strategy and making strategic decisions (Zack, 2002). A firm’s knowledge strategy describes the approach an organization to take to straighten its knowledge resources and abilities to the rational necessity of its strategy, thus reducing the knowledge gap existent between what a company must know to carry out its strategy and what it does know (Zack, 1999). A similar definition is provided by Bierly, & Daly (2002), who state that “the set of strategic choices addressing knowledge creation in an organization include the firm’s

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KM strategy, which furnishes the firm with guidelines for creating competitive benefit.” Both definitions are considerate the convenience of explicitly managing knowledge with an explicit knowledge strategy. Firms must take a global and firm vision when managing its knowledge and selecting KM tools to be executed. An essential element is the balance firms should observe between examination and utilization (March, 1991), i.e. between the creation, finding, reutilize or a focus on efficiency in knowledge resource management. Bierly and Chakrabarti (1996) concluded that more forceful knowledge strategies, highlight by more innovative firms, cause higher financial performance. In a similar way, Zack (1999) suggested two directions: resisting change vs. forceful. Hansen, Nohria, & Tierney, (1999) symbolism of knowledge strategies differentiates between personalization and codification of knowledge. This classification is based on the distinction between tacit and explicit knowledge, and the distinct use of IT (Martini & Pellegrini, 2005). In the codification strategy knowledge is extracted from the person who developed it, made independent of that person, and reutilized for various purposes, while the personalization strategy focuses on conversation between individuals (Table 1).

This research focuses on the KM strategies symbolism by Hansen et al. (1999) because, first, their work is well-known and accepted in the field of KM, and has

been used for other studies. Second, it includes prior significant classifications (examination vs. Utilization by March (1991) or human direction vs. system direction by Choi and Lee, (2003)) and relates to the distinction between tacit and explicit knowledge (Davenport & Vlpel, 2001). Third, the ideas of personalization and codification of knowledge are understood by academics and professional. However, Hansen, Nohria, & Tierney, (1999) classification has also been disapproved due to its inconsistency of unite codification and personalization (fixed in the middle), stating that companies who attempt to excel at both strategies risk failing at both. The embedded the middle situation is an example of the focused viewpoint in KM strategy (Choi & Lee, 2002, 2003). Choi, Poon, & Davis, (2008) find that strategies directed to explicit knowledge (systems or codification) or to tacit knowledge (human or personalization) are non-complementary with regards to organizational performance, thus supporting Hansen, Nohria, & Tierney, (1999) idea about the danger of being fixed in the middle. Our research is based on the classification by Hansen, Nohria, & Tierney, (1999) and on the focused viewpoint suggested by those authors and empirically tested in Choi, Poon, & Davis, (2008) regarding the non-complementary of codification and personalization.

*Table 1. Codification and personalization KM strategies*

|                            | <b>Codification</b>  | <b>Personalization</b>  |
|----------------------------|--|---|
| Economic motivation        | Knowledge reutilize  | New explanations and knowledge development  |
| Knowledge managed          | Explicit   | Tacit   |
| Focus                      | Person-to documents  | Person-to-person  |
| Use of IT                  | IT investment: connecting people and reusable knowledge  | Simplify IT investment promote dialogue and tacit knowledge sharing   |
| Main tools                 | Decision support systems<br>Document repositories Knowledge maps Workflow  | Mentoring groups Video conferencing, E-mail<br>Discussion forum   |
| Human resources Management | E-learning, Rewarding the use of and contribution to databases   | Mentoring Rewarding<br>knowledge sharing with others  |
| Advantages                 | Economies of scale Time savings<br>No need of reinventing the<br>Wheel Quicker and wider access and distribution of<br>knowledge | Flexible and adaptable<br>Knowledge Improvements in<br>task quality Improvements in<br>clients image Management of<br>un-codifiable knowledge |
| Disadvantages              | High cost Codified knowledge loses richness  | Unwillingness to share<br>Inappropriate culture   |

Source: Hansen et al. (1999), Alvesson and Karreman (2001), Hansen and Haas (2001), and Inuzuka and Nakamori (2004).

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