

# Chapter 1

## Creating Value Through Knowledge Management and Systematic Innovation Capability

**Marianne Gloet**

*University of Melbourne, Australia*

**Danny Samson**

*University of Melbourne, Australia*

### **ABSTRACT**

*Competitive advantage in today's advanced economies is driven by innovation and the ability to manage ever-increasing forms of knowledge on a sustained basis. Knowledge-intensive industries compete primarily on their capacity to innovate and thrive on cutting-edge knowledge, which drives both research and innovation. Knowledge-intensive organizations constantly seek to reinforce sustainable links between forms of knowledge and modes of innovation. In such a dynamic environment, the proactive management of knowledge assets is essential to achieving both innovation capability and innovation performance. Since knowledge-intensive organizations play a significant role in value creation through innovation, the ways in which organizations approach knowledge management (KM) influences innovation and becomes a source of competitive advantage. As such, KM emerges as an essential management and organizational capability in the drive to create value through knowledge. This chapter explores the ways in which KM contributes to systematic innovation capability in knowledge-intensive organizations.*

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## **INTRODUCTION**

Competitive advantage in today's advanced economies is driven by innovation and the ability to manage ever-increasing forms of knowledge on a sustained basis. Knowledge intensive industries compete primarily on their capacity to innovate and thrive on cutting-edge knowledge, which drives both research and innovation. Indeed, knowledge intensive organizations (KIOs) constantly seek to reinforce sustainable links between forms of knowledge and modes of innovation. In such a dynamic environment, the proactive management of knowledge assets is essential to achieving both innovation capability and innovation performance (Jensen et al., 2007; Kuusisto & Meyer, 2003; Miles, 2007). Since KIOs play a significant role in value creation through innovation (Muller & Doloreux, 2009; Van der Aa & Elfring, 2002), the ways in which organizations approach knowledge management (KM) influences innovation and becomes a source of competitive advantage. As such, KM emerges as an essential management and organizational capability in the drive to create value through knowledge.

Arguably, as a neutral construct, knowledge achieves consequence through human action. In this context, the human values and assumptions underpinning the learning process reveal the considerable power of not only knowledge but also the processes associated with its management (Alavi, Kayworth & Leidner, 2006; Ibrahim & Reid, 2009; Nonaka & Takeuchi, 1995). Currently, many people consider knowledge as the determining factor in economic growth (Oyelaran-Oyeyinka & Sampath, 2009). For example, Storey and Barnett (2003: 146) describe knowledge as the "key competitive sustained resource" and an organization's most important asset. Knowledge is also a primary factor of production on which competitive advantage rests (Beijers, 1995; Halawi, Aronson & McCarthy, 2005). As Davenport and Prusak (1998: 161) note, the successful management of knowledge requires a particular "combination of human, technical and economic skills", highlighting that it is neither a haphazard nor an unmanaged process. With this growing awareness of the need to manage an organization's knowledge effectively and engender a particular arrangement of people, technology and skills, KM emerged as a distinct field of study.

Since knowledge and innovation are inextricably linked, a growing body of literature focuses on the ways in which KM can enhance and support the innovation process. However, there are challenges associated with organizational efforts to develop innovation as a core competency (Kandampully, 2002) because of the complexity of the innovation process, the diversity of knowledge assets and a broad range of approaches to KM (Malhotra & Morris, 2009). Moreover, different markets place different values on knowledge assets (Gibbons et al, 1994). This complexity combined with the interdependence that characterizes global competition compels organizations to acquire, develop and consume knowledge assets in order to achieve

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