

## Chapter 6.6

# Managing Knowledge Capabilities for Strategy Implementation Effectiveness

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### ABSTRACT

The creation and the use of knowledge have increasingly been regarded as important issues for management. A wide range of studies have investigated this topic during the past decade. Notwithstanding these contributions, very little systematic attention has been paid to the linkages between knowledge capabilities and strategy implementation. Drawing from knowledge capabilities theory and strategy implementation literature, two aspects of knowledge capabilities in an organization and their effect on strategy implementation effectiveness are investigated: knowledge process capabilities (KPC) and knowledge infrastructure capabilities (KIC). This

study hypothesized that KPC affects strategy implementation effectiveness (SIE) and that KPC affects KIC. The third hypothesis proposed the effect of KIC on SIE by examining the mediating role played by KIC in linking KPC and SIE. 1,321 middle-managers were sent questionnaires via electronic mail and 162 were returned. The findings indicated the presence of a mediation effect of KIC on the relationship between KPC and SIE. This study provides guidelines for middle-managers to better understand how to develop activities of KPC and KIC for SIE. It is hoped that the results of this study will enhance our understanding of the strategic importance of knowledge in an organization, especially in the area of strategy implementation.

## INTRODUCTION

Organizations improve their performances by enhancing current capabilities or developing new capabilities. This capability is complicated and believed to coincide closely with organizational knowledge that can be conceptualized in terms of digested information embedded within organizational routines and processes (Davenport & Prusak, 1998; Eisenhardt & Martin, 2000; Myers, 1996). In order to compete effectively, firms must leverage their existing knowledge and create new knowledge in their organizations (Grant, 1996). To achieve these effects, it is imperative for firms to develop and to utilize knowledge capability. Knowledge capability is important because it enables knowledge to flow across organizational routines, thus facilitating knowledge utilization and creation (Allard, 2003; Helfat & Raubitschek, 2003). Nevertheless, there are few empirical studies that investigate the relationship between organizational knowledge and strategy implementation.

A review of the relevant literature suggests a fertile and interesting area between the general strategy process and the knowledge-based view (KBV). Specifically, the area of strategy implementation is open to investigation. The implementation area mainly questions how to effectively manage and translate firm strategy into action. New models and constraints in the knowledge economy pose challenges to implementing strategies. For example, some organizations have to reengineer organizational processes and restructure organizational units by layering the number of hierarchical levels or shortening the distance between top management and operational management (Keidal, 1994). Some organizations use information technology instead of humans to monitor and control activities directly (Leonard-Barton, 1995). The traditional strategy process has to adapt to the dynamic environment of the knowledge economy.

Since strategy implementation involves all activities in organizations (Beer, 1996; Gadish & Gilbert, 2001; Nobel, 1999) and knowledge capability is an important organizational capability, this study argues that these two areas are linked and support each other. Explicitly, from a review of the literature, little systemic attention has been given to the linkage between knowledge capabilities and the effectiveness of strategy implementation. This study examines that linkage. Middle managers were selected as respondents because they are key to the linkage (Floyd & Wooldridge, 2000; Huber & Power, 1985; Nonaka, 1991). At the front-line, middle managers are responsible for effective strategy implementation by mixing and matching organizational capabilities and resources. Furthermore, middle managers play important roles by integrating both vertical and horizontal knowledge flow (Nonaka, 1991). This integration relies on in depth experience and situation-specific knowledge. This study aims to benefit the strategy field by bringing about a better understanding of the relationship between knowledge capability and strategy implementation effectiveness.

In sum, this study addresses the important question: “How do knowledge capabilities affect strategy implementation?” It argues and demonstrates that knowledge capability influences the effectiveness of strategy implementation. Two kinds of knowledge capabilities are explored: knowledge process capabilities (KPC)—that is, the capability of a process to transform knowledge that is stored in the form of standard operating procedures and routines throughout the firm into valuable organizational knowledge, experience, and expertise, and knowledge infrastructure capabilities (KIC)—that is, the capability to manage infrastructures in the organization in order to support and facilitate organizational activities. These two knowledge constructs are believed to contribute to strategy implementation effectiveness (SIE), described as the successful

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