

# Chapter 29

## External and Internal Knowledge in Organizations

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### **INTRODUCTION: KNOWLEDGE MANAGEMENT AND COMPETITIVE ADVANTAGE**

In this article we discuss how knowledge and learning contribute to developing sustainable competitive advantages in firms. We argue that effective knowledge management (KM) initiatives for this purpose should support appropriate learning initiatives (which we define in terms of learning trajectories [LTs] of individuals and groups within the firm) in order to ensure that knowledge needs are adequately covered over time.

Trends in today's environment such as globalization, technological evolution, and deregulation are changing the competitive structure of markets in such a way that the effectiveness of traditional sources of firms' competitive advantage is blurred.

More and more, any firm can have access to physical or financial assets, and even to technology, in exactly the same open-market conditions. Consequently, firms need to develop distinctive capabilities, their own "ways of doing things" that are difficult to imitate by competitors. Such capabilities are eventually related to persons in the firm, who at the end of the day develop and apply their abilities and skills, organized in certain ways and based on what these people know. Thus, developing idiosyncratic knowledge that gives meaning to a firm's distinctive ways of doing is increasingly important (Bell, 1973; Drucker, 1993). Idiosyncratic knowledge of this kind is difficult to imitate because it cannot be bought in open markets. That is, it has to be learned, requiring resources, time, effort, and a specific context (organizational, social, etc.) that makes it so path dependent that reproducing it in a firm different from that in which it originated is very difficult (Andreu & Sieber, 2001). In addition, knowledge has three fundamental character-

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istics that make it especially interesting. First, it is personal in the sense that it originates and resides in persons who assimilate it as the result of their own experiences. They incorporate it into their “base” once convinced of its meaning and implications, articulating it in the context of an organized whole that gives structure and meaning to its different “pieces” (Kolb, 1984). Second, its utilization (through which it does not dissipate) allows persons to understand perceived phenomena (each in his or her own way) and evaluate them, judging how good or convenient those phenomena are for each person at a given time. Third, it serves as a guide for action, helping to decide what to do at a given juncture because action endeavors improve the consequences of perceived phenomena (Andreu & Sieber).

These characteristics make knowledge a solid basis for competitive advantage. As far as it results from the accumulation of persons’ experiences, therefore being mainly tacit (Polanyi, 1962), imitating it will be difficult unless precise representations (in the form of explicit knowledge) exist that facilitate its transmission and sharing. The personal experience-accumulation process leading to new knowledge takes place in a social or organizational context (Pentland, 1995; Tyre & von Hippel, 1997), and it unfolds following a different path for each person (dependent, among other things, on his or her previous experience and knowledge). Thus, knowledge is both path and context dependent. To the extent that duplicating contexts and paths in this sense is difficult, knowledge imitation will be costly, and consequently competitive advantages based on it will tend to be sustainable (Grant, 1996; Teece, Pisano, & Shuen, 1997). As a result, knowledge value tends to be higher in the context in which it was developed than it would be in a hypothetical open market. Nevertheless, not all knowledge is the same in terms of potential competitive advantage as we discuss in the next section.

## **EXTERNAL AND INTERNAL KNOWLEDGE**

Competitive forces put pressure on firms not only to streamline their business processes, but also to be able to incorporate relevant knowledge from the environment. In other words, any firm needs access to knowledge that allows it to do something that, although also done by competitors, is demanded and valued by clients. We call this kind of knowledge *external knowledge*. It is brought into a firm from the environment and is useful not only to a particular firm, but also to their competitors in the marketplace. Hence, its market value is approximately equal to its value within the firm. It can be traded in the market and, in general, it tends to be rather technical and explicit, which makes it relatively easy to acquire, be it through training or simply by hiring or buying it (Becker, 1962; Williamson, 1981).

Relying on external knowledge alone, however, does not lead to competitive advantage. Although it may be a competitive necessity, it needs to be complemented by a different kind of knowledge more idiosyncratic and capable of differentiating a firm’s offer in the marketplace. It is an organization-specific knowledge that refers to the firm’s particular modes of functioning and to its particular organizational context. It acts as an organizational glue when the fast incorporation of external knowledge into a firm may threaten its cohesiveness and sense of unity. It is therefore more valuable inside the organization than in the market, and is less prone to imitation. Developing this kind of knowledge is much less environment driven, and it belongs more to the realm of organizational routines and organizational idiosyncrasy. We call this kind of knowledge *internal knowledge*. Although not valued directly by the labor or factor market, it contributes to achieve competitive advantage as it adds critical value for the customer<sup>1</sup>. Internal knowledge can be understood as the organizational context that (a) plays the role of a skeleton where

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