# Chapter 4.3
# The Implementation of Knowledge Management in Service Businesses

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## ABSTRACT

Knowledge management is increasingly being mentioned in practice and research as a mechanism for gaining competitive advantage. Not only the high-tech industry needs to put knowledge management to use, but also the service industry. This article presents a conceptual framework to provide insights for managers to implement knowledge management in service businesses. Especially, we provide a four-stage approach in this study that was adopted from the processes of knowledge management proposed by Alavi and Leidner (2001) and we suggest two to four strategies for each process. [Article copies are available for purchase from InfoSci-on-Demand.com]

## INTRODUCTION

Keeping and developing relationships with current customers is a key business strategy. Knowledge management does play an important role for organizations to help employees to provide better products or service for their customers. Learning how to build stronger relationships with customers is often recommended as a way of ensuring the survival of firms in turbulent and/or highly

competitive market conditions (Webster, 1992). In situations where products and processes can be rapidly copied, the only real source of competitive advantage is to stimulate learning by employees (de Gues, 1988). Organizations should learn and evolve to survive in the fast changing and intensely competitive environment.

There is a growing market for services and increasing dominance of service in economies worldwide (Zeithaml & Bitner, 2003). In the more and more competitive service industries, increased customer loyalty is a critical driver of a firm's long-term financial performance (Jones & Sasser, 1995). The world-class service providers such as McDonald's and American Express, together with many small service companies, are exporting knowledge, creativity, and technologies that the world needs (Zeithaml & Bitner, 2003). Firms should learn and seek ways to satisfy their customers, resolve their problems, and improve the ways they serve customers. For instance, customer complaints provide valuable insights into root causes of operations failures. Many quality-award winners, such as, Federal Express, Xerox, and Ritz-Carlton, use their failure data when they make decisions on process improvements, and couple service recovery with initiatives to increase customer satisfaction in the future (Tax & Brown, 1998). However, most customers have more negative feelings about the organization after service recovery (Hart, Heskett & Sasser, 1990), and up to 50% of customers who experience problems are not satisfied with the recovery strategy (Best & Andreasen, 1977; Zeithaml, Berry & Parasuraman, 1990). Tax and Brown (1998) also reported that the majority of customers are dissatisfied with the way businesses resolve their complaints. That is, the vast majority of firms do not take advantage of the learning opportunities afforded by customers' complaints, service failures, and recovery. There should be a mechanism for firms to learn, transfer, and apply what they have experienced.

The new concept in the service industry, knowledge management, may help firms to achieve this goal. Knowledge management refers to identifying and leveraging the collective knowledge within the organization to enhance competitiveness (von Krogh, 1998). Knowledge is a limitless resource in the knowledge-based economy, therefore, organizations should learn, store, transfer and apply knowledge to add value or gain competitive advantage (Sveiby, 1997). As knowledge management has become the hot issue in high-tech industries, we ask whether it provides some insights for managers to put into practice in service industries? Actually, in service industries, there are fewer innovations or technology changes than in high-tech industries. Could the concept, knowledge management, still be applied to service businesses? Unfortunately, there is no research yet to discuss these two important issues simultaneously. We provide a discussion framework in this article including service failure, service recovery and knowledge management. This study also explores the implementation of knowledge management and the enabling roles of knowledge management in service businesses.

## SERVICE BUSINESSES

In product-oriented businesses, the physical reality of the product provides a simple but powerful base on which to describe a business. The definition is much more difficult for service-oriented business to answer because services are more abstract than products (Thomas, 1978). However, the definition of service is important, as the evolution and growth of service is increasingly attracting our attention. That is, a service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Services encompass a wide range of industries, while the following companies are considered service companies: AT&T (telecom-

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