

Knowledge Management as a Source of Competitive Advantage – A Conceptual Study

Dr. Asif Iqbal Fazili
Assistant Professor
School of Business Studies,
Islamic University of Science & Technology
Awantipora, Pulwama (J &K)

Danish Khan
Research Scholar
School of Business Studies,
Islamic University of Science & Technology

ABSTRACT

The study of knowledge is as old as human history, it has only been recognized in the last decade as a crucial element of the industrial development of firms. The ability to store, capture, and disseminate knowledge within and across organizational boundaries has challenged managers for many years. However, as product lifecycles have reduced and environmental volatility has increased, the need to manage knowledge is intensifying, particularly across the value chain. Firms view knowledge and knowledge management as part of their strategic orientation.

The concept of knowledge Management (KM) as a powerful competitive tool has been strongly emphasized in many strategic management literatures, yet the sustainability of the competitive advantage provided by KM capability is not well-explained. Knowledge represents a vast potential for gaining sustainable competitive advantage. Knowledge Management (KM) is a process of capturing, development, storage, retrieval, and dissemination of information and expertise within an organization to support and improve its business performance. It refers to a multi-disciplined approach in achieving organisational objectives by making the best use of knowledge. Success in today's global, interconnected economy springs from the fast and efficient exchange of information. Sustainable competitive advantage is no longer rooted in physical assets and financial capital, but in effective channelling of intellectual capital

Organisations believe in managing their intellectual resources and capabilities in order to become and remain competitive. To this end, knowledge management (KM) has become a fundamental concept for those interested in the ever-changing events of the business world. Organizations invest heavily in building KM systems. They must strategically assess their knowledge resources and capabilities, and need to establish their knowledge strategy to sustain competitive advantages. By creating a nurturing and "learning-by-doing" kind of environment, an organization can sustain its competitive advantages.

In this backdrop the present study is an endeavour to examine the importance of knowledge Management (KM) in creating the competitive advantage and to add fresh insights into the existing arena of Knowledge Management

Key Words: Knowledge Management, Competitive Advantage, Resource Based view

"In post-capitalism, power comes from transmitting information to make it productive,

not from hiding it."(Drucker,1995)

INTRODUCTION

The field of strategic management focuses on understanding sources of competitive advantage (Barney, 2001; Priem & Butler, 2001). A variety of factors have been shown to have an important effect on the ability of organizations to acquire competitive advantage, including the relative capability development of a firm (Johannessen & Olsen, 2003), and a firm's ability to differentiate its products (Johannessen & Olsen, 2003; Teece et al., 1997). Knowledge management has been described for its possible role in creating competitive advantages for organizations (Grant, 1996; Johannessen & Olsen, 2003; Lado & Wilson, 1994).

Due to the increased rate of change, competition and market turbulence organizations today are looking for new ways to compete. It has been recognized that knowledge can create wealth. Knowledge today can be seen as a key source of competitive advantage for organizations. Thus the processes through which knowledge is acquired and applied must be effectively managed. According to Peter Drucker "knowledge is the only meaningful economic resource". One important process is to recognize or rediscover assets that an organization although has but seldom uses them. These provide opportunities to innovate, to cut costs, to save time, reduce time-to-market, etc. As suggested by Drucker's quote, that knowledge may be seen as a source that, like land, oil or iron ore has independent existence outside human and social systems.

The development and practice of knowledge management (KM) is continuously and dramatically increasing in organizations and due to improvements in KM, the race for seeking a competitive edge through knowledge increases at an even faster rate (Hofer-Alfeis, 2003). Businesses have long recognized the importance of managing their intangible assets. The development of brands, stakeholder relationships, reputation and the culture of the organization is readily viewed as providing sustainable sources of business advantage (Chong, Holden, Wilhelmij and Schmidt 2000). Knowledge management requires a companywide strategy which comprises of policy, implementation, monitoring and evaluation. Such a policy should ensure that knowledge is available as and when needed and can be acquired from external as well as internal sources.

LITERATURE REVIEW

1.1 Knowledge

The assumption seems to be that if knowledge is not something that is different from data or information, then there is nothing new or interesting about knowledge management (Fahey and Prusak, 1998). For example, Vance (1997) defines information as data interpreted into a meaningful framework whereas knowledge is information that has been authenticated and thought to be true. Maglitta (1996) suggests that data is raw numbers and facts, information is processed data, and knowledge is "information made actionable."

Machlup (1983) referring to information as a flow of messages and meaning, which may increase, or revise the knowledge of the recipient. Dreske (1981) defines information as the raw material for production of knowledge. The Cranfield University study of knowledge management in Europe posits that the key difference between information and knowledge is that the receiver must trust the source of knowledge, although the same can really be said of information. Some EIS (executive

informationsystems), for example, labelled the source of the information so that managers would be able to trust, or not trust, the information based upon their opinion of the source.

Knowledge is information possessed in the mind of individuals: it is personalized information (which may or may not be new, unique, useful, or accurate), related to facts, procedures, concepts, interpretations, ideas, observations and judgments.

As Fahey and Prusak (1998) suggest, knowledge does not exist independently of a knower: it is shaped by one's needs as well as one's initial stock of knowledge. Knowledge is the result of cognitive processing triggered by the inflow of new stimuli.

Schubert (1998) suggests that knowledge is "a state or fact of knowing" with knowing being a condition of "understanding gained through experience or study; the sum or range of what has been perceived, discovered, or learned."

1.2 Knowledge Management (KM)

Knowledge and its application are the means by which creativity can be promoted (Nonaka and Nishiguchi, 2000; Nonaka and Takeushi, 1995), innovation facilitated (Hargadon, 1998; von Krogh, Ichijo and Nonaka, 2000), and competencies pulled in such a way as to advance overall organizational performance whether in the public, private or not-for-profit sectors (Pitt and Clarke, 1999).

The term 'Knowledge Management' has been applied to a very broad spectrum of activities designed to manage, exchange and create or enhance intellectual assets within an organization, and that there is no widespread agreement on what KM actually is (Haggie and Kingston, 2003)

KM is a multi-dependent discipline integrating business strategy and process, organizational community and culture, collaboration, learning, expertise, and technology (Silver, 2000).

Defining KM is difficult because it has multiple interpretations (Choi, 2000).

KM is a conscious strategy of getting the right knowledge to the right people at the right time and helping people share and put information into action in ways that will improve organizational performance (van Ewyk, 2000). KM can be thought of as a deliberate design of processes, tools, structures, with the intent to increase, renew, share or improve the use of knowledge represented in any of the three elements (structural, human, and social) of intellectual capital (Seemann, DeLong, Stucky and Guthrie, 1999). KM is about encouraging individuals to communicate their knowledge by creating environments and systems for capturing, organizing, and sharing knowledge throughout the company (Martinez, 1998:89).

KM has two main objectives:

- (1) to make the organization act as intelligently as possible in order to secure its viability and overall success, and
- (2) to otherwise realize the best value of its knowledge assets (Wiig, 1997). Knowledge management's purpose, thus, is to leverage an organization's intellectual assets in sustaining competitive advantage.

Macintosh (1998) highlights some of the reasons listed below as drivers for knowledge management:

- **Competition:** The market place is increasingly competitive and the rate of innovation is rising, therefore knowledge must evolve and be assimilated at an ever-faster rate.
- **Customer focus:** Enterprises are organising their businesses to be focused on creating customer value. Management structures as well as staff functions are being reduced. There is a need to replace informal knowledge management of the staff function with formal methods in customer aligned business processes.
- **The challenge of a mobile workforce:** There are trends for employees to retire earlier and for increasing mobility, which leads to loss of knowledge. The mobility of the workforce will increase to the point where many employees will regard their career as a series of projects sponsored by a series of companies.
- **Equity in the work place:** With the implementation of the Equity Bill in South Africa this implies that enterprises have to ensure equity in terms of gender, race and creed. This may lead to knowledge being lost due to giving some employees severance packages and early retirement. Enterprises need to ensure that there is knowledge transfer from employees leaving the enterprise to those remaining within the enterprise.
- **The global imperative:** Most corporations are becoming international in the sense that they have foreign customer and supplier relationships. More and more enterprises are becoming transnational- operating as truly global companies in the sense that no one region is predominant. Transnational operation requires strong organisational communications and knowledge retention capabilities, which depend on organisational and individual learning and a unifying culture.

OBJECTIVES:

- To find out the capability of an organisation's knowledge management in gaining competitive advantage.
- To find the impact of relationship between knowledge management and competitive advantage?

DISCUSSION

Relationship between Knowledge Management and Competitive Advantage

The recent trend in the field of strategic management has been to emphasize the role of organizational knowledge as a basis of their competitive advantage. Explanations of competitive advantage that rely primarily on the positioning of organizations in an industry (e.g., Porter, 1980) or the deployment of organizational assets through competitive interaction with rival firms (e.g., Dixit, 1980; Shapiro, 1989) have been relatively deemphasized. Novel work continues on industry structure, but that work integrates organizational knowledge perspectives with industry (Williams, 1998) or rivalry perspectives (e.g., Korn & Baum, 1999). Empirical findings have shown that differences between organizations may account for more variance in firm performance than differences between industries (Rumelt, 1991). Although important industry effects may be present (e.g., see McGahan & Porter, 1997), organizational-

level differences are now acknowledged as a critical source of variation in firm performance over and above industry differences.

Although empirical findings make the case for organizational resources as a basis of competitive advantage, theoretical arguments have been powerful for identifying the types of resources that are key. Barney (1986) pointed out that for resources acquired through competitive markets, the value that the resource brings to the organization should be reflected in its price to the organization. For this reason, the focus for competitive advantage should be on resources developed or made valuable inside the organization rather than those purchased from outside it. The set of relevant resources is further limited by the recognition that resources cannot be the source of competitive advantage if many competitors have them. Therefore, to be the source of competitive advantage, resources must also be difficult for competitors to imitate (Lippman & Rumelt, 1982). The focus on resources that are developed within the organization and difficult to imitate puts organizational knowledge in a preeminent position as the principal source of competitive advantage (Spender & Grant, 1996; Teece, Pisano, & Shuen, 1997). Despite variance in terminology for organizational knowledge (competencies, capabilities, routines, or innovations), there is growing agreement that it is what the organization comes to know that explains its performance.

From the review of the role of organizational knowledge as a basis of the competitive advantage has been emphasized. Competitive advantage is normally defined as the ability to earn returns on investment persistently above the average for the industry (Porter, 1985).

Competitive advantage can be created in numerous ways, for instance, by size, location, access to resources (Ghemawat, 1986), or even by plain luck (Barney, 1996). Lasting advantage can come from using knowledge management to support what we do well and to add value to resources we possess that are not readily available to competitors. For organizational knowledge to offer sustainable competitive advantage, it should have the following four properties: it should be valuable, rare, imperfectly imitable and non-substitutable or imperfectly substitutable. A prerequisite of implementation of KM is to understand and develop the infrastructure elements required to support the acquisition, management, and transfer of tacit and explicit organizational knowledge. Three areas of emphasis form the literature on organizational knowledge infrastructure; these are the emphasis on people, process and technology. Innovations that exploit a firm's assets are likely to add value to those resources, and the competitive advantage that results is likely to be sustainable. The literature on KM highlights the importance of a sharing culture to support and foster a knowledge management focus (Alavi, 1999; Zack, 1999a,b; Davenport and Prusak, 1998). KM can be viewed as a socio-technical system of tacit and explicit business policies and practices. It is enabled by the integration of information technology tools, business processes, human or social capital, continuous learning and innovations. Huber (1991: 89) argues that an organization learns if any of its units acquires knowledge that it recognizes as potentially useful to the organization. Productive learning exploits, explores, and restructures an organization's values and criteria, enhances organization capability and improves an organization's performance. This is the type of learning that organizations promote (Argyris and Schon, 1996). Learning is identified as a quantifiable improvement in activities, increased available knowledge for decision-making or sustainable competitive advantage (Cavaleri, 1994; Dodgson, 1993).

CONCLUSION

The study presents a discussion of knowledge, knowledge management and relationship between competitive advantage and knowledge management based on a review, interpretation, and synthesis of a broad range of relevant literature. The literature review revealed the complexity and multi-faceted nature of organizational knowledge and knowledge management. Knowledge management involves distinct, but interdependent processes of knowledge creation, knowledge storage, retrieval, knowledge distribution, and knowledge application. At any point in time, an organization and its members can be involved in multiple knowledge management process chains. As such, knowledge management is not a monolithic, but a dynamic and continuous organizational phenomenon.

Management of knowledge can be a key source of organizational advantage. Lots of innovations depend on knowledge which has long been known but not applied to the current problem. The brief review presented here suggests development of action-oriented goals, formulation and implementation of strategies for developing, acquiring and applying knowledge. The improvement of the business processes in the organization, with a focus on knowledge development and its use in gaining competitive advantage. Since knowledge is developed within the organisation and difficult to imitate its today being looked as the principal source of gaining competitive advantage.

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