Pakistan’s 9th International Convention on Quality Improvement
November 14–15, 2005 - Karachi, Pakistan

VALUE CREATION ROLE OF KNOWLEDGE MANAGEMENT

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ABSTRACT

Knowledge is seen as a driver for the definition and development of an organizational strategy and a key determinant of sustainable organizational competitiveness. The shift to knowledge as the primary source of value means that knowledge plays a key role in the organizational effectiveness. This paper highlights the importance of developing and managing the intangible assets and intellectual capital of organizations to create distinctive and sustainable value. It sets forth the concept of Knowledge Circles to enhance activities along the Knowledge Value Chain. Some of the factors that will impact knowledge management initiatives in Pakistani organizations have also been identified.

INTRODUCTION

The present milieu of business is characterised by fast, volatile, high-value competition and organisations must be agile, responsive and flexible to survive. Knowledge is seen as a driver for the definition and development of an organisational strategy and a key determinant of sustainable organisational competitiveness. The shift to knowledge as the primary source of value means that knowledge plays a key role in the definition, functioning, and performance of firms.

This paper highlights the importance of developing and managing the intellectual capital of organisations to create distinctive and sustainable value. Drawing upon the knowledge-based view of organisations, it seeks to further the discussions on capturing tacit, socially embedded knowledge, its externalisation and codification, and the knowledge creation pathways that exist within organisations. It sets forth the concept of Knowledge Circles to enhance activities along the Knowledge Value Chain to ultimately create strategic advantage for the organisation. The authors have provided a perspective on knowledge management initiative in Pakistani organizations.

Literature is abound with definitions of knowledge management and picking any one would be a matter of choice. The ensuing definition would provide a general
reference point for this paper. Knowledge management is “the systematic process of finding, selecting, organizing, distilling and presenting information in a way that improves an employee's comprehension in a specific area of interest. Knowledge management helps an organization to gain insight and understanding from its own experience. Specific knowledge management activities help focus the organization on acquiring, storing and utilizing knowledge for such things as problem solving, dynamic learning, strategic planning and decision making. It also protects intellectual assets from decay, adds to firm intelligence and provides increased flexibility”iv.

From an organizational standpoint, knowledge is available both within and outside an entity. What and why are important questions in the quest for organizational knowledge. Consequently, content creation is the key to good knowledge management initiatives. Frequently, organizations would like to capture knowledge regarding best practices, customers, core competencies/capabilities, competition, products and services, and future trends and technologies. Knowledge management initiatives help organizations in quality improvement, innovation, efficiency, better decision-making, change management, alignment with customer needs, and the like.

REDEFINING CORPORATE VALUE

We now recognize knowledge as a key source of competitive advantage in the business world, but we still have little understanding of how to create and leverage it in practice. Traditional knowledge management approaches attempt to capture existing knowledge within formal systems, such as databases. Yet systematically addressing the kind of dynamic “knowing” that makes a difference in practice requires the participation of people who are fully engaged in the process of creating, refining, communication, and using knowledgev. The new economy has introduced a new lexicon in which knowledge capital, intellectual capital, learning organisations, intangible assets and human capital describe new forms of economic valuevi. For decades, the trend has been shifting away from a product-driven economy based on tangible assets to a knowledge economy based on intangible assetsvii. This shift means that the knowledge component of products and services becomes an important strategic resourceviii and the dominant component of customer value. Thus, it can be said that the only source of competitive advantage which can be leveraged ix is the ability to create, find and combine knowledge into new products and services faster than the competition.

INTANGIBLE ASSETS AND CORPORATE STRATEGY

Corporate strategy describes how an organisation will create value for its stakeholders, defines its customer value proposition and how intangible assets will be transformed into tangible outcomes.

Value creation can be sustainable only when those core competenciesx which are the underpinnings of the customer value proposition, are developed. In order to allow core competencies to continuously develop, knowledge assets that support the organisation’s key capabilities must be aligned with corporate strategy, managed and measured.

Changing markets, stakeholder expectations and a heightened awareness of corporate social responsibility clearly showed that in the era of globalization the rules of the game had changedxi. Financial performance alone was not enough to gauge corporate success; aspects of performance such as business process efficiency, innovation and stakeholder relationship management needed to be measured and managed in addition to the financial performance of organisations.
Organisations realized that intangible assets that support the organisation’s value proposition had to be mobilized and aligned with corporate strategy in order to maintain and refresh core competencies for continuous process and product innovation.

As a result, integrated performance management systems such as the Balanced Scorecard, the Business Excellence Award and the Performance Prism have been introduced that provide frameworks within which intangible assets can be tracked and developed over time, in line with corporate strategic objectives.

Innovative knowledge is what firms require to dominate an industry by changing the basis for competition. Organisations need to innovate to create new processes and products in order to sustain competitive advantage for without innovation, a company’s value proposition will eventually be imitated, eroding competitive advantage.

In order to innovate and create new value, employees must be equipped with the right learning and given the right information about their organisation. Therefore, it is critical for organisations to identify their knowledge assets and have the ability to leverage them.

Competitive advantage emanates from the ownership of knowledge assets, the underpinnings of organisational competencies, which in turn pave the way for process improvement and product innovation. Increasingly, companies are transforming themselves into ‘learning organisations’ so that their knowledge assets can be continually developed and performance capacity can be enhanced.

Organisations are better positioned to accumulate and disseminate knowledge because they can mobilize the social capital embedded in human relations to create intellectual capital. Organisational advantage is obtained through the networks of relationships within firms that combine to form the firm’s “social capital” that is in turn harnessed to produce the firm’s “intellectual capital”. Knowledge creation begins with socialization. Learning of individuals has to be transferred to groups and from groups to organization to harvest knowledge management benefits.

Organisations learn as a result of the individuals learning within them and a healthy organisation is characterized by a robust culture of formal and informal learning, and by abundant internal communication in all media. Organisations provide the “ba” that fosters human interaction, forges a shared identity and supports individual learning through human interaction, ultimately increasing its wealth creating capacity. Organisations provide institutional settings for human interactions, a precursor to the formation of social capital. These institutional settings encourage the horizontal and vertical diffusion of knowledge across the organisational structure, since knowledge of an organisation’s products and processes is not found in any one individual but is distributed across its members and hierarchies.

The diffusion and transfer of knowledge across hierarchies takes place largely through informal relationships that exist outside formal organisational structures. These relationships are initiated as a result of employees with a common goal, ‘shared identity’, gravitating towards fellow employees who are perceived to be experts on issues which may arise during the production process. The catalysts for forging these relationships are therefore, ‘know who’, ‘know what’, ‘know why’ and ‘know how’. Unfortunately, tacit knowledge is frequently overlooked. Most companies have elaborate systems to capture and share their explicit
Knowledge but much less attention is paid to implicit knowledge.

These networks, described in various literature as “communities”, “worknets”, “knowledge networks” etc., encourage dynamic learning that in turn positively impacts the organisation’s intellectual capital by increasing its depth and breadth. Informal relationships lend certain ‘fluidity’ to the formal organisational structure; employees have the freedom to share knowledge, discuss views, and improvise.

**KNOWLEDGE CIRCLES**

For an organisation to enhance performance, it must be able to create new knowledge by combining knowledge with knowledge and knowledge with resources, as well as change internal processes and structures.  

Knowledge Circles seek to engage employees for creating and sharing knowledge. This concept envisages establishing tighter links between groups with a common objective; to achieve group intelligence where people reason and think collectively, to empower employees by creating cross-disciplinary teams and to create an enabling environment typified by a high degree of collaboration.

Because knowledge is spread across hierarchies, these circles traverse horizontally to connect individuals and groups in functional areas and vertically to connect production activities along the value added chain. This high degree of inter-connectivity ensures that employees are fully engaged within their environment, have an intimate understanding of the organisation’s core competencies and the contribution they make to the development of these core competencies.

As noted above, knowledge networks tend to form naturally around common problems or where there is shared identity. Knowledge Circles focus on the informal relationships that exist within functional areas, on how these networks overlap between functional areas to stretch across organisational hierarchies. These overlaps are the points at which diverse knowledge intersects and help to build social capital.

Networks within any functional area will have a group moderator, a position determined by a person’s degree of centrality on the network map. The ‘stickiness’ of tacit knowledge makes it best transferred over shorter paths within the network; the group moderator will manage the diffusion of tacit knowledge within the network, ensure the conversion of tacit knowledge to explicit knowledge, its subsequent codification and transfer to other networks in the form of shared artifacts and methodologies, resulting in increased network benefits. Group moderators will also ensure that inertial forces interfering with innovation such as routines, behaviour patterns or beliefs are minimized by eliminating redundant knowledge, encouraging the adoption of more effective methods and maintaining a high degree of interconnectivity with other intra-organisational networks.

**PAKISTANI PERSPECTIVE ON KNOWLEDGE MANAGEMENT**

As against the developed world, organizations in the developing countries do not have congruous understructure for knowledge management initiatives. Myriad of Pakistani organization certainly fall in this category. Senior management has to realize that developing critical knowledge and expertise is extremely crucial for success of companies in future. It has become of vital importance to find out ways and means to conserve the institutional memory.
The prerequisites for the success of knowledge management initiatives fall in the domains of organizational culture, leadership, organizational structure, power structure, employee involvement and empowerment, management model, business process management. On most of these counts developing countries fall below acceptable levels.

Moving up a notch to reach the societal culture, we are faced with far bigger problem. Some of factors that act against knowledge management initiatives trickle down from societal culture. The developing countries are, generally, not geared to automatically support a knowledge culture. On general observation, it can be noted that cultures that do not nurture values of openness and cherish knowledge sharing cannot provide the right human material to organizations for their knowledge management initiatives. Organizations have to make much bigger effort in hostile societal culture because members of the organization carry specific societal culture baggage. Knowledge management can hardly bloom where the societal culture creates “confidentiality” even for the frivolous. Knowledge creation is obviously stunted in societies where loss of power is associated with knowledge sharing. There has to be a paradigm shift.

Organizations have to provide the right environment for knowledge management. Knowledge is embedded in people and its creation occurs in the process of social interaction. Sharing and building knowledge happens through the social processes of collaboration. An employee shares tacit knowledge when he finds supportive culture that is open and places value on knowledge. The real challenge in Pakistani organizations seems to be conversion of tacit knowledge into explicit knowledge.

To move ahead in the knowledge management terrain, organizations will have to provide conducive culture, collaborative management style, appropriate leadership, supportive organizational structure, etc.

CONCLUSION

The agility and competitiveness of organisations is dependant upon their ability to leverage their intangible assets. Knowledge is a key determinant of corporate value therefore, organisations must be able to identify, manage and measure it.

To maintain their competitive edge, organisations need to build their intellectual capital and mushroom their knowledge management initiatives. These initiatives require an enabling environment that encourages employee involvement in social processes of knowledge creation. Organisations should:

- Create culture of employee involvement
- Create a supportive and collaborative culture
- Communicate company strategy clearly
- Align knowledge networks within the organisation with corporate strategy
- Align HRM processes - starting with recruitment and selection processes - with knowledge management philosophy
- Build an inclusive culture that encourages employee participation across all hierarchies (e.g. TQM, BPR, IT, process-centric structures)
- Provide appropriate IT/IS infrastructure and other media to facilitate the codification, diffusion and transfer of knowledge
- Create and maintain easy-to-use "knowledge maps"

Though the authors do not preach the creation of Chief Knowledge Office role in most Pakistani organizations but they do recommend having someone oversee the
knowledge management function.

Knowledge Circles encourage knowledge creation through employee interaction and overcome organisational silos to provide opportunities for the cross fertilization of knowledge within the organisation. Knowledge Circles cut across horizontal, vertical, and organisational boundaries to facilitate continuous process improvement and innovation. This tool has the potential to build the critical mass required for continual improvisation and innovation thereby, launching the organisation on a prolonged growth trajectory.

Knowledge Circles will not work in isolation and would need the critical elements of right leadership and supportive culture. Each implementation of Knowledge Circles and knowledge management initiatives has to be organization specific because of socio-cultural differences that are experienced between various organizations.

END NOTES

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