THE EFFECT OF KNOWLEDGE MANAGEMENT STRATEGY ON KNOWLEDGE MANAGEMENT PERFORMANCE AND BUSINESS PERFORMANCE

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ABSTRACT

In the current business environment, it is important to know about how to manage knowledge resource effectively that is bested to knowledge management performance. Evidences showed that the implementation of knowledge management (KM) projects compliant with various KM strategies can provide organizations with dynamic capabilities for improving knowledge quality and quantity, as well as for consolidating the value and practicability of knowledge. Since knowledge and knowledge management are so important for achieving business performance, the knowledge strategy is likely to be a critical issue of strategic choice for the firm. Thus, we contend that KM strategy will contribution to knowledge management performance as well as business performance. The empirical data will be collected from manufacturing, service, and financial industry in Taiwan to examine the proposed research model. Finally, meaningful findings and conclusions will be proposed and discussed.

Keywords: Knowledge management strategy, knowledge management performance, business performance

1. Introduction

In the post-capitalist society, knowledge has been regarded as a significant resource that more important than other physical assets (e.g., land, capital and labor, etc.). With the growth in knowledge work in developed economies, the proportion of knowledge workers in the workforce is increasing, thus making the productivity of knowledge workers form a basis for economic growth (Drucker, 1993). In the new era of a complicated and rapidly-changing business environment, therefore, knowledge management (KM) is regarded to be a pressing issue, as corporations have found that knowledge is the critical organizational asset and potential strategic resource that yields competitive advantage (Alavi and Leidner, 1999; Davenport and Prusak, 1998; Grant, 1996; Johannessen and Olsen, 2003; Teece, 1998; Zack, 1999a). More specifically, the implementation of KM projects compliant with various KM strategies can provide organizations with dynamic capabilities for improving knowledge quality and quantity, as well as for consolidating the value and practicability of knowledge (Hansen et al., 1999; Hoffman et al., 2005; Keskin, 2005; Kogut and Zander, 1992; Spender and Grant, 1996; Yu et al., 2004).

Various trends in KM research have emerged. Early research focused on understanding what differences exist among the various data, information and knowledge, and the effects of these differences on KM (Machlup, 1980; Wiig, 1993). Current research on knowledge management covers conceptual issues and managerial themes (e.g., Alavi and Leidner, 2001; Argote et al., 2003; Conner and Prahalad, 1996; Grover and Davenport, 2001; Kogut and Zander, 1992; Nonaka, 1994; Nonaka and Takeuchi, 1995; Schultzze and Leidner, 2002); issues pertaining to KM implementation (e.g., Alavi and Leidner, 1999; Chua, 2004; Feng et al., 2004/2005; Pan and Leidner, 2003; Tiwana and Ramesh, 2001); design, analysis and verification of KM models (e.g., Diakoulakis, 2004; Moffett et al., 2002; Nemati, 2002; Zhang, 2002); and survey-based studies examining issues that contribute to KM success (e.g., Merali, 2000; Schultzze and Boland, 2000). It has been realized that chose right strategy for organizational operations is critical. Additionally, in practical terms, the basic alignment mechanism for organizational activities is ‘strategy’ (Bierly and Chakrabarti, 1996); and if knowledge and knowledge management are so important for achieving business performance, the knowledge strategies are likely to be a critical issue of strategic choice for the firm. Consequently, the current study focuses on strategy that is critical to
business in today’s knowledge-based organizations. We postulate that performance including KM performance (measuring by knowledge quality and user knowledge satisfaction) and business performance (measuring by growth and profitability), including growth and profitability, are affected by the KM strategy.

2. Theoretical background hypotheses development

2.1 KM strategy

Since knowledge has been regarded as a strategic resource for an organization (Abou-Zeid, 2003; Choi and Lee, 2002; Conner and Prahalad, 1996; Kogut and Zander, 1992), it is important to know how to effectively manage various kinds of resources (e.g., people, process, IT) comply with knowledge. KM strategy is the right tool determining how to employ these various resources, thus, are regarded as the facilitators for KM outcomes (Beckman, 1999; Hansen et al., 1999; Zack, 1999a).

In previous studies, KM strategy is classified by the nature of knowledge itself, e.g., explicit or tacit (Polanyi, 1997; Shih and Chiang, 2005). Explicit knowledge refers to transfer information in a systematized manner whilst tacit knowledge refers to transfer information through social networks. These two concepts are similar to that of Hansen et al.’s (1999) classification of KM strategy as “codification strategy” which is also called “system strategy” and “personalization strategy” which is also called “Human strategy” respectively. While codification strategy seeks to retrieve and store knowledge in explicit form (e.g., in information systems or databases) that can be easily transferred and reused by anyone in the organizations; the personalization strategy, on the other hand, seeks to capture and share tacit knowledge that resides in human minds, behavior, and perception. It evolves from person-to-person interact extensively to obtain knowledge. In other words, organizations who employ system strategy attempt to share knowledge formally, conversely, those who employ human strategy attempt to share knowledge informally (Choi and Lee, 2002).

According to the perspectives of explicit-oriented and tacit-oriented, Choi and Lee (2003) classified KM methods into four styles, labeled dynamic, system-oriented, human-oriented, and passive. After empirical test from 54 Korean firms in the manufacturing, service, and financial industries, they indicate that dynamic style integrating explicit-oriented with tacit-oriented methods is found to have a significant impact on performance. In their case study of 31 different KM projects in 23 countries, Davenport and Prusak (1998) identify a four KM projects typology, namely knowledge repositories, knowledge access, knowledge environment, and knowledge assets. They further manifest the factors that lead to successful KM projects, including knowledge-oriented culture, technical and organizational infrastructure, senior management support, clarity of vision and language, linking KM to economic benefits, nontrivial motivational aids, multiple channels for knowledge transfer, and the level of knowledge structure. Finally, in a survey of 32 KM professionals, Singh (2000) indicates that the activities of KM value chain, including five primary knowledge activities (i.e., acquisition, selection, generation, integration, and externalization) and four secondary activities (i.e., leadership, coordination, control, and measurement), were found to have a positive relationship to competitive advantages in terms of perceived productivity, reputation, agility, and innovation. In sum, much evidences have been proved that develop a KM strategy provides a valuable opportunity to obtain a greater understanding of the way a business operates to foster their KM practices to success (Garavelli et al., 2004; Robertson, 2006). Consequently, the following hypothesis is proposed:

P1: KM strategy has a significant positive direct effect on KM performance

2.2 KM performance

Although it has been realized that successful KM projects will lead to overall improved organizational performance (Argote and Ingram, 2000; Davenport and Prusak, 1998), such linkages are indefinite and difficult to validate clearly (Yu et al., 2004). This means that there still is unexplored ground, in terms of proving any direct relationship between knowledge-related antecedents and organizational performance, since numerous factors may contribute to organizational performance (Lee and Choi, 2003; Ostroff and Schmitt, 1993) and many complementary practices must be considered in KM activities (e.g., IT, human resource, etc.). As Lee and Choi (2003) noted: “this incorporation may help to confirm that enablers ultimately create business value.” (p. 182). Thus, an intermediate outcome (e.g., knowledge quality, user knowledge satisfaction,
or organizational creativity) may be introduced as a mediator in the causal relationship (Lee and Choi, 2003, Yu et al., 2004). However, from the previous studies, lots of evidences also have been proposed to show the impact of KM strategy on business performance (e.g., Ahn and Chang, 2004; Bartczak et al., 2008; Bierly and Chakrabarti, 1996; Choi and Lee, 2003; Garavelli et al., 2004). Therefore, although the relationship between KM strategy and business performance appears somewhat contradictory, the above hypothesis is made to corroborate the testimony.

P1: KM strategy has a significant positive direct effect on business performance.

P2: KM performance has a significant positive direct effect on business performance.

P3: KM performance has a significant positive direct effect on business performance.

The conceptual model underlying the present research is illustrated in Figure 1. As one can see in the model, we developed three propositions. Empirical data will be collected to test this research model in the future.

![Conceptual Model](image)

**Figure 1. The Conceptual Model**

3. Conclusions and future direction

It already has been examined that a positive direct relationship exists between KM and performance. Our study echoes this point of view. We contend that the development of right KM strategy will achieve high-level business performance. Based on the premise that the business value from KM, thus, we developed a KM strategy model for analyzing and assessing its effect on KM performance and business performance. It means that firms used system-oriented (codification) KM strategies will focus their IT strategies on strategic use of IT, meaning that they not only collect operational knowledge to connect people with reusable codified knowledge, they also focus on generating large overall revenues. On the other hand, firms that use human-oriented (personalization) KM strategies must have reward systems that encourage workers to share knowledge directly with others; instead of providing intensive training within the company, employees are encouraged to develop social networks, so that tacit knowledge can be shared.

Extension of this work would move in two directions. First, this model needs to be verified with empirical data in order to assess this research model and hypotheses. Second, by separating firms with two types of KM strategies they used, differences with statistical testing methods of ANOVA can be applied to verify what kinds of strategy has more significant effect on performance. Since alternative of KM strategies have their own underlying arguments and meanings, it would be beneficial that made this kinds of comparison for KM practices.

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