

## Chapter 24

# Customers as External Sources of Knowledge to Foster Innovation

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### ABSTRACT

*The overall aim and contribution of this chapter is to identify the main sources of knowledge generation in Mexican firms and the organizational elements that are relevant in this process. Knowledge generation occurs through external knowledge acquisition and internal knowledge creation. The latter process is facilitated by personal motivation and the learning opportunities it offers to the organization's employees, who play a key role as initiative and suggestion carriers. In order to evaluate the phenomenon under study, which the literature review reflects as an incipient stage, an exploratory study was conducted. Several interviews were conducted in 23 firms. The results show how knowledge generation activities differ among services and manufacturing firms in 23 Mexican organizations. Services firms emphasize course socialization, meetings, customers and outsourcing, manufacturing in customers, and employee self-directed learning.*

### INTRODUCTION

Strategic knowledge generation is viewed as fundamental to a company's development and to successfully building and sustaining a competitive advantage, since it is the base to innovation. A firm is a dynamic entity which actively interacts with its environment, and reshapes the environment, and even itself, through the process of knowledge

creation is able to innovate in its processes, products or services (Nonaka and Takeuchi, 1995). A firm's innovative performance depends on how successful it is in appropriating knowledge or ideas identified as useful in external sources (Laursen and Salter, 2006).

As Kogut and Zander (1992) explain, companies are not just knowledge warehouses. They also have the capacity to learn and acquire new

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knowledge, which they refer to as a company's *combinative capability*, what Cohen and Levinthal (1990) articulate as absorptive capacity. In this sense, a company's knowledge base can be produced and reproduced within a social framework. Companies are social organizations that specialize in creating and transforming knowledge (Nonaka and Takeuchi, 1995). In the knowledge-based view there is a basic assumption: knowledge cannot exist without human subjectivities and the context that surrounds humans (Nonaka and Toyama, 2005). In this sense, individuals play a relevant role in each of the knowledge management processes: generation, transfer and utilization.

Knowledge generation is mainly an institutionalized activity, so each organization must be able to establish its own creative routines and human intervention to make this process possible. The challenge is to build systems that collect the learning processes acquired during projects and ongoing activities, to capture that knowledge in a database or document, and then to spread it throughout the entire organization (Grant, 2000). Knowledge generation is defined as the specific activities and initiatives undertaken by organizations to increase their organizational knowledge (Davenport and Prusak, 2001). These activities involve external acquisitions of knowledge and internal creation of this intangible resource. Knowledge generation is highly dependent upon the organization's culture and management style, in fact, a culture that promotes intensive communication, accepts new ideas, and is prepared to explore new processes and activities favors the generation of knowledge (Ruggles, 1998). It may be stimulated through non-hierarchical organizational structures, an active general management, and by motivating employees to innovate and learn lessons that allow them to obtain new and better knowledge (Zapata, J. Rialp and A. Rialp, 2009).

The overall aim and contribution of this chapter is to identify the main sources of knowledge generation in Mexican firms, specifically services and manufacturing, the organizational elements that

are relevant for this process and how they impact to innovation. This chapter is structured as follows: Section 2 exposes the literature review related to knowledge generation and customers as a source of knowledge; Section 3 presents the methods used to conduct the empirical study; Section 4 shows how the results are related to some empirical studies; and finally, Section 5 puts forward some conclusions and future research directions.

## KNOWLEDGE GENERATION

Theorists argue that knowledge is the distinctive resource of the firm (Grant 1996; Davenport and Prusak, 2001). The strategic approach based on knowledge identifies the generation and application of knowledge as fundamental bases of the firm (Kogut and Zander 1992; Nonaka and Takeuchi, 1995; Foss, 1996; and Grant, 1996). All successful organizations create and use knowledge as a fundamental tool as organizations interact with their environment, absorb information, make informed decisions and carry out actions based on the combination of this knowledge and their experiences, values and rules. All of these are activities that make up the knowledge generation process in organizations (Nonaka and Toyama, 2005).

Knowledge generation activities and specific initiatives are undertaken by organizations to increase organizational knowledge assets (Davenport and Prusak, 2001, pp. 61). This process has been explained as the first phase of knowledge management and takes place within the firm's community of interaction, which goes through intra-organizational levels. For Grant (2000), knowledge generation involves three main activities:

1. **Creation of Internal Knowledge:** The creation of internal knowledge is understood as a process that increases knowledge in organizations created by specific individu-

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