

# Chapter 19

## Knowledge Management Orientation and Business Performance: The Malaysian Manufacturing And Service Industries Perspective

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### ABSTRACT

*Even though knowledge has been recognized as a crucial strategic resource in most organizations, Malaysian companies are still at infancy stage of **knowledge management**. Research and academic writing dealing with knowledge management implementation among Malaysian companies are still scarce. Previous research on the knowledge management efforts among Malaysian companies indicated that these local companies are rather slow in its implementation and still largely rely on the physical aspects of production. This study investigates the level of knowledge management implementation among Malaysian manufacturing and service companies and further explores the effects of such implementation on their overall **business performance**. The findings suggest that these companies emphasize the dissemination and utilization of knowledge over the creation of new knowledge, thus subjecting them to continuously becoming copiers and adaptors of knowledge.*

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## INTRODUCTION

The emergence of knowledge-based economy signaled the end of the traditional economic paradigm. The world economy began to lead its life to a knowledge-based direction as boundaries between nations begin to disappear, global competition between international companies become stiff, and technologies change at an unbelievably rapid pace (Clarke, 2001). The knowledge economy, or K-economy was charted by the OECD in their 1996 report as:

*“the knowledge-based economy places great importance on the diffusion and use of information and knowledge as well as its creation. The determinants of success of enterprises, and of national economics as a whole, is ever more reliant upon their effectiveness in gathering and utilizing knowledge. Strategic know-how and competence are being developed interactively and shared with sub-groups and networks, where know-how is significant. The economy becomes a hierarchy of networks driven by acceleration in the rate of change and the rate of learning. What is created is a network society, where the opportunity and capability to access and join knowledge and learning intensive relations determines the socio-economic position of individuals and firms” (OECD, 1996, p. 14)*

Even though knowledge has been known to be the critical source of progress since the origin of humanity, the most significant change has been in the area of how it is explicitly managed and manipulated as a source of competitive advantage. The shift has forced organizations to realize the importance of managing their knowledge assets rather than the usual land, labor and capital. The major factors of production in the traditional economic paradigm, have now been replaced by what is believed to be the most important factor of all – knowledge (Cliffe, 1988, Hansen et al., 1999; Davenport, 1997).

Zack (1999) argues that knowledge has been viewed as a valuable strategic resource by business organizations, and has therefore emphasized the need to bring that **knowledge** to bear on problems and opportunities. Organizations that know more about its customers, products, and technologies and markets and the linkages should be able to perform better. In many cases, knowledge alone drives the ability of firms to raise capital and acquire the other means of production. Progress in developing a new paradigm is made when the old paradigm is challenged and the old paradigm's explanations no longer are adequate to support the new findings (Kuhn, 1996). This is what is happening in business as new ways of managing innovation replace the old firm methods and strategies. The increasing gap between the book value and the market value of some business entities indicate the increasing importance of knowledge-based intangible assets (Marr, 2003). Firms such as General Electric and IBM have very low percentage of tangible assets – factories, inventories, and property – and most of their market capitalization is in the form of intangible assets (Kluge et al., 2001). Only 5% of Microsoft's market value is explained in its balance sheet (Marr, Mountsen & Bukh, 2003). Their perceived worth is in the knowledge assets that they possess or in their market-perceived capability to create new knowledge.

The dynamic nature of knowledge to identify and find solutions to business problems has eventually undergone another transition as researchers and practitioners realize that the same concept can also be applied to other human organizations. Knowledge management has evolved into a critical and crucial tool to face challenges facing modern societies. Almost every aspect of common thread of technological development possesses knowledge in itself and there is a need to ensure that this knowledge is not only well managed, but new knowledge is constantly being created (Baqir and Kathawala, 2004).

This study is aimed at identifying the level of knowledge management implementation among

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