Innovation Link Between Organization Knowledge and Customer Knowledge

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INTRODUCTION

In 1959 Penrose referred to the importance of knowledge for using resources more innovatively and profitably, and in the same year Drucker indicated greater value should be placed on knowledge workers. An article by Nonaka (1991) suggested that the source of lasting competitive advantage is knowledge. Since then there has been a growing interest in knowledge, and an emerging view that the sharing of knowledge and creation of new knowledge leading to innovations is the key to providing future economic growth. In 1998, Amidon referred to the survey in 1996 produced by *The Economist* describing how rich economies will increasingly depend upon "their ability to innovate" (p. 24).

THE ORGANIZATION

At the corporate level it is important for organizations to recognize the value of knowledge. An environment accepting that knowledge sharing is the norm provides a conduit for the generation of innovations. Continuous innovation is necessary for survival in what is now a highly competitive global environment. Innovation springs from the knowledge within the organization. Corporate knowledge is accumulated through its systems and procedures, its databases and its technology, and from its employees sharing and applying their knowledge to the operational requirements of the business. The interaction of employees with external parties such as customers, suppliers, industry contacts and those residing in the wider community also provides a considerable source of knowledge for the organization.

Employees bring to an organization their individual knowledge bank gathered as a result of their education and experience of life. The longer they work in an organization, the more knowledge they accumulate about its operations, products and customers. Nonaka (1991) refers to the spiral of knowledge in the organization and says that knowledge begins with the individual. Taking this further, Inkpen (1996), when referring to the spiral of organizational knowledge creation, indicates the importance of moving knowledge from the level of the individual to group level and on upwards to organizational level.

It is perhaps worth taking cognizance of Davenport and Prusak (1998, p.108), who say, "Despite the corporate mantra that employee knowledge is a valuable resource, most firms do not make concerted efforts to cultivate the knowledge oriented activities of their personnel". Although knowledge comes from employees, Teece (1998, p. 62) indicates it is the organization that provides "the physical, social, and resource allocation structure so that knowledge can be shaped into competences". It is worth remembering that Drucker (1994, p. 71) said it is the knowledge workers who own the tools of production. Previously, "The industrial workers needed the capitalist infinitely more than the capitalist needed the industrial worker," but in the knowledge society organizations "…need knowledge workers far more than knowledge workers need them". It should be kept in mind that employees take their knowledge home with them each evening, and in some situations they may not return, thus depriving the organization of valuable knowledge. However, if it is recognized that employees have knowledge of value, then organizations need to maximize the benefit of that knowledge, and determine how to harness it to the advantage of the organization and the individual (Mitchell, 2002a).

When assessing the potential of knowledge, Carneiro (2000, p. 87) suggests organizations "…need to look for the knowledge that is able to add value. Value adding knowledge is very different to an information-mix." Lester (2001) also advises, "Managing knowledge is not like managing information, it involves focusing on, nurturing and winning the trust of the professional knowledge workers and the confidence of customers and suppliers" (p. 172). This means organizations need to look closely at encouraging a culture involving the development of good relationships based around trust, and in which knowledge is readily shared. Sharing knowledge increases the knowledge among those who share and adds value to the organization while at the same time making it difficult for competitors to copy.

It is, therefore, important for organizations to try to move the tacit knowledge of its employees into explicit knowledge to be embedded in the organization's knowl-

edge repository for all to share. Codifying tacit knowledge is not easy, and all the knowledge the employee holds will never be captured. However, knowledge that can be codified becomes available for sharing with others in the organization. Knowledge sharing and creation of new knowledge emerges as a result of working in teams where problems that arise need to be resolved. Opportunities for social interaction should be encouraged – it is not unknown for useful knowledge to be exchanged in such an environment. While sharing knowledge for the benefit of the organization involves everyone, knowledge is also shared, wittingly, or unwittingly, with those external to it. This can present a two-edged sword. While knowledge can be lost, it can also be gained. However, from the knowledge of all those involved in the knowledge sharing process, along with the knowledge held within the structure of the organization, there emerges collective knowledge. Whether it is focused within the organization, or encompassing knowledge external to it, collective knowledge provides a catalyst for the development of innovations (Mitchell, 2002b).

THE ORGANIZATION AND INNOVATION

According to Kanter (1996, p. 94), "Structures and practices that may work well for the perpetuation of the known tend to be at odds with innovation." Creativity is a product of knowledge, and shared knowledge provides opportunities for organizations to be innovative – an important element for moving ahead (Mitchell, 2002b). Innovative organizations are growing organizations, with 3M being a classic example; therefore the organizational environment is important if innovation is to occur.

Amidon (1997) refers to Japanese firms placing customers at the heart of the innovation process. She goes on to say that innovation should be a strategic focus and to make a commitment to work with customers. Amidon provides a framework to assess the ability for organizations to develop ideas and take them to market. The innovation assessment encompasses 10 modules, identified as: collaborative process; performance measures; education/development; learning network; market positioning; products/services; market penetration; market image, leadership/leverage; technology/internet. For each module there are questions to be asked, and answered, and the model used views the organization from both an internal and external perspective. According to Amidon, executives who have followed the process have found creative ways of improving efficiency and effectiveness. Innovation is not solely dependent on new knowledge. Ideas emerge from unexpected sources and applying

knowledge, recognizing potential and seeing opportunities is what brings innovative ideas to fruition (Mitchell, 2002d). As Drucker (1998) indicated, innovation needs knowledge, ingenuity and focus.

The view put forward by Johannessen, Olaisen, and Olsen (1999, p. 116) is that "Managers need to focus their attention on innovation. …create commitment…initiate change. To enhance innovation managers also need a high level of integrity. This means the ability to create trust …". Johannessen et al. identified the characteristics of people who manage the innovation process as being proactive in creating opportunities; willing to take risks; and goal setting. It is also necessary for managers to recognize the importance of innovation and its relationship with the knowledge of employees, its customers, suppliers and other external parties, and the need to promote an innovative culture.

However, management must thoroughly understand the level of knowledge, expertise, skills and competencies resident within the organization, and be able to identify what additional capabilities are needed if it is to successfully work for the development of innovations in a collaborative environment. Organizations that are aiming for success will maximize the benefit, for example, of cross-functional teams from which a montage of knowledge provides the opportunity for the creation of new knowledge from which new innovations can emerge. It may, therefore, be necessary for organizations to be prepared for changes arising from introducing an innovative environment that encourages closer working relationships with customers. No organization stands in isolation. Every organization is dependent upon and has responsibilities for its customers, suppliers, stakeholders and the wider community. There are real opportunities for organizations to effectively work together to become more innovative

The Organization, Innovation and Customer Relationships

"Customer loyalty is an asset" (Brooking, 1996, p. 26). Getting to know about customers – their needs, wants, expectations – is critical to the ongoing success of the company. Brooking identifies what she terms "Customer Audit Questions" that include: who are we selling to, why do those customers buy from us, who are repeat buyers, how do we monitor such events, and how often are customers contacted. Armed with such a knowledge base, the organization is in the position of being not only informed about its customers but also in a positive situation when interacting with them.

Research carried out in 1999 by Mitchell (2002c) found that organizations routinely increase their knowledge of

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