

# Chapter 70

## Knowledge Management and the Roles it Plays in Achieving Superior Performance

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### ABSTRACT

*Knowledge is one of the most critical organizational resources, and Knowledge Management (KM) has been identified as one of the key aspects in organizational strategic management. In addition to creating functional value by protecting and utilizing organizational knowledge, strategic knowledge management also serves as a central nerve system within the organization that facilitates organizational learning, organizes the market intelligence about customers and competitors, maximizes the value of organizational knowledge, and contributes towards superior organizational performances. The objectives of this chapter are to develop a theoretical model that delineates the relationship among several organizational variables that are of strategic importance to performance, including Market Orientation (MO), Learning Orientation (LO), and KM. A national survey was conducted to collect information from managers of Canadian manufacturing companies. A total of 307 informants returned the survey. Data was analyzed using Structure Equation Modeling (SEM). The results demonstrate that a firm's KM mediates the positive influences from the firm's LO and MO on market performance.*

### INTRODUCTION

A firm's ability to learn effectively and manage its knowledge efficiently is critical to the firm's competitiveness and innovativeness. Conceptualized as a resource, knowledge is increasingly being seen as the most important source of sustainable competitive advantage for an organization (Nonaka, Toyama & Konno, 2000). It is the combination of what an organization knows (i.e. the type and quality of the knowledge it possesses), and what an organization does with its knowledge (i.e. the management of the

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knowledge), that results in a dynamic capability and a source of sustainable competitive advantage for a firm (Alavi & Leidner, 2001). Moreover, a market orientation in the firm provides a guiding focus for the direction of learning; that is, market-oriented firms focus their learning on customers, competitors, and inter-functional coordination, thereby enhancing the meaningfulness and usefulness of the knowledge being acquired and managed.

It is not clear, however, through what kind of mechanism a firm's cultural orientations, such as learning orientation and market orientation, would lead to superior performance. There has been limited evidence to delineate what processes, or dynamic capabilities, would translate the firm's dispositional propensity to learn and be customer- and competitor-oriented into superior performance. In this study, we attempt to develop a theoretical framework that integrates knowledge management (KM), learning orientation (LO), and market orientation (MO), investigate the inter-relationships among these factors, and empirically tests the paths of influence. We argue that merely possessing a cultural orientation to learn and be market-oriented is not enough; firms must also engage in systematic processes of knowledge acquisition, dissemination, and application to be able to convert these cultural factors into concrete performance.

In the following sections of this paper, we start by reviewing the literature on the direct relationships between LO, MO, KM, and performance. Next, we develop our mediation model that examines the role of KM as a mediator of the LO-performance and MO-performance relationships. We then empirically test our model with data collected from managers in firms across Canada. Finally, we discuss the results and implications of this research.

## **BACKGROUND**

### **Resources, Capabilities and Performance**

The resource-based-view (RBV) of the firm posits that each organization is endowed with unique and finite resources; this resource endowment provides the firm opportunities to gain competitive advantages (Barney, 1991; Hunt & Morgan, 1995; Penrose, 1959; Peteraf, 1993). Managerial actions, strategies, and capabilities enable the firm to fully realize such potential competitive advantage and achieve superior performance (Ketchen, Hult & Slater, 2007). It is generally accepted that the firm's ability to create and manage market-based knowledge is a potential source of competitive advantage (Nonaka, 1994; Nonaka & Toyama, 2005). When MO, LO and KM are combined, they create a unique organizational dynamic capability that encompasses not only a propensity to learn and a market-based focus, but also a collection of infrastructures and processes that regulate how market intelligence is collected, distributed, analyzed, and shared as knowledge (Gold, Malhotra & Segars, 2001; Hoe, 2008). Based on the RBV of the firm, Yang (2008) argues that both LO and KM are important resources for superior performance and represent capabilities that affect a firm's competitive posture.

### **Learning Orientation**

Research has shown that an organization's learning orientation (LO) is an important antecedent to superior performance. According to Day (1994) and Sinkula, Baker and Noordewier (1997), LO is an organizational value that influences the propensity of the firm to create and use knowledge; it is reflected in a commitment to learning, open-mindedness, and shared vision. Learning-oriented firms value learning

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