

Chapter 8

Proliferating View of Knowledge Management and Balanced Scorecard Outcome Linkage

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ABSTRACT

This chapter aims to develop the decomposed model to examine the impact of specific knowledge management resources (i.e., knowledge infrastructure capabilities and processes) on balanced scorecard outcomes (learning and growth, internal process, customer satisfaction, and financial performance). Prior research often utilizes composite models when examining the knowledge management-organizational performance link. But, understanding how individual resources relate to organizational performance remains gap. This study addresses this gap by assessing the links between specific knowledge management resources and organizational performance.

INTRODUCTION

Knowledge is regarded as the main and invaluable asset in new ultra-competitive environments in developed countries, since knowledge is the only factor which can arouse change and innovation in organizations. For many organizations achieving improved performance is not only dependent on the successful deployment of tangible assets and natural resources but also on the effective management of knowledge (Gold et al., 2001; Lee and Sukoco, 2007; Mills and Smith, 2011; Wu and Chen, 2014; Zack et al., 2009). Zack (1999) emphasized that organizations consider it to be their most valuable and strategic resource. Organizations need to manage their knowledge efficiently to enhance their performance, produce greater payoff and obtain a competitive advantage (Allameh et al., 2011; Easterby-Smith and Prieto, 2008; Meso and Smith, 2000). Much of the overall spending by organization on knowledge management initiatives is driven by strategic imperatives that depend on the effective management

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of the knowledge resources (Lee and Sukoco, 2007). RBV suggests that organizations have bundle of knowledge resources and capabilities, which are valuable, rare and non-substitutable, used for achieving sustainable competitive advantage and superior performance standards (Barney, 1991; Karkouliau et al., 2013). Several case studies, applications, and rich literature support the belief that knowledge management capabilities (KMC) play a vital role in organizational success (Davenport & Prusak, 1998; Cepeda and Vera, 2007; Eppler and Burkhard, 2007; Marques and Simon, 2006; Park and Kim, 2006; Cortes et al., 2007). Developing and maintaining KM is vital to firm long-term survival and success. KM can gradually transform individual knowledge into group and organizational knowledge, in turn, improving the stock and flow of firm knowledge. Consequently, firms invest in KM particularly to accumulate business management experience and develop a sustainable competitive advantage (Chang and Lee, 2008; Mills and Smith, 2011; Lin, 2015). As such, one of the main reasons organizations invest in knowledge management is to build a knowledge capability that facilitates the effective management and flow of information and knowledge within the organization. Different resources make up the knowledge capability of an organization. These include technology infrastructure, organizational structure and organizational culture which are linked to an organization's knowledge infrastructure capability; and knowledge acquisition, knowledge conversion, knowledge application and knowledge protection which are linked to the organization's knowledge process capability (Gold et al., 2001). Taken together, these resources determine the knowledge management capability of an organization, which in turn has been linked to various measures of organizational performance (Choi and Lee, 2003; Davenport and Prusak, 1998; Gold et al., 2001; Lee and Sukoco, 2007; Nonaka, 1994; Zack et al., 2009).

The central objective of this study is to propose the decomposed model to examine the influence of ten dimensions of knowledge management resources, namely, structure, technology, culture, incentives, people, knowledge management strategies, acquisition, conversion, application and protection, on balanced scorecard outcomes. Then this study tested the decomposed model and hypothesized relationships using survey data from 203 İstanbul Stock market organizations. The composite model was also evaluated and the results compared with the findings from the decomposed model. The data analysis was performed by structural equation modeling (SEM) approach. The results may help academics and managers design and sustain KM implementation throughout the organization to achieve higher effectiveness, efficiency and profitability.

BACKGROUND

Implementing knowledge management capability (KMC) effectively is becoming an important strategic issue for organizational success (Jasimuddin & Zhang 2008; Mills and Smith 2011). Therefore, this study defined KMC as the capability to apply existing knowledge, as well as to continuously acquire, convert, apply, and protect knowledge in order to create new knowledge (Bose, 2003; Gold et al., 2001). These processes and practices are initiated by the organization in order to develop and exploit knowledge in the organization. A firm's KM capability may be defined as "the firm's ability to create, transfer, integrate, and leverage" knowledge (Tanriverdi, 2005: 314). A competence view of KM suggests that KM capabilities are integral to organizational capabilities that enable competitive advantage for the organization (Cohen and Levinthal, 1990; Gold et al., 2001; Tanriverdi, 2005). Gray (2001) examined empirically that the mutual relationships between knowledge management practice ways proposed in organization to support creation, storage, and transfer of knowledge can raise organizational performance. Specifi-

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