

Chapter 2

Knowledge and Innovation Management: Creating Value

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ABSTRACT

This qualitative research examined the relationship between knowledge management (KM) and systematic innovation capability in 16 Australian manufacturing and service organizations that exhibited both successful innovation and robust KM practices. A review of the literature indicated a number of areas where KM enhances and supports innovation capability. Using a multiple crosscase analysis methodology and applying a framework of systematic innovation capability, in-depth interviews were conducted with managers of the case study organizations. The analysis of the data revealed the main contributions of KM to systematic and sustained forms of innovation. Finally, a model of knowledge and innovation capability was developed to guide the development of knowledge and innovation management as a dynamic capability to support value capture, value creation, and value delivery from innovation.

INTRODUCTION

Competitive advantage in today's advanced economies is driven by innovation and the ability to manage ever-increasing forms of knowledge on a sustained basis. Knowledge intensive industries compete primarily on their capacity to innovate and thrive on cutting-edge knowledge, which drives both research and innovation. Indeed, knowledge intensive organizations (KIOs) constantly seek to reinforce sustainable links between forms of knowledge and modes of innovation. In such a dynamic environment, the proactive management of knowledge assets is essential to achieving both innovation capability and innovation performance (Kim, Lee, Chun & Benbasat, 2014; Taherparvar, Esmaeilpour & Dostar, 2014; Kuusisto & Meyer, 2003; Miles, 2007). Since KIOs play a significant role in value creation through innovation

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(Ye, Jha & Desouza, 2015; Muller & Doloreux, 2009; Van der Aa & Elfring, 2002), the ways in which organizations approach knowledge management (KM) influences innovation and becomes a source of competitive advantage (Freeze & Kulkarni, 2008). As such, KM emerges as an essential management and organizational capability in the drive to create value through knowledge.

Arguably, as a neutral construct, knowledge achieves consequence through human action. In this context, the human values and assumptions underpinning the learning process reveal the considerable power of not only knowledge but also the processes associated with its management (Alavi, Kayworth & Leidner, 2006; Ibrahim & Reid, 2009; Nonaka and Takeuchi, 1995). Currently, many people consider knowledge as the determining factor in economic growth (Oyelaran-Oyeyinka & Sampath, 2009). For example, Storey and Barnett (2003: 146) describe knowledge as the “key competitive sustained resource” and an organization’s most important asset. Knowledge is also a primary factor of production on which competitive advantage rests (Beijers, 1995; Halawi, Aronson & McCarthy, 2005). As Davenport and Prusak (1998: 161) note, the successful management of knowledge requires a particular “combination of human, technical and economic skills”, highlighting that it is neither a haphazard nor an unmanaged process. With this growing awareness of the need to manage an organization’s knowledge effectively and engender a particular arrangement of people, technology and skills, KM emerged as a distinct field of study.

Since knowledge and innovation are inextricably linked, a growing body of literature focuses on the ways in which KM can enhance and support the innovation process (Jensen, Johnson, Lorenz & Lundvall, 2007; Du Plessis, 2007; Goh, 2005). However, there are challenges associated with organizational efforts to develop innovation as a core competency (Kandampully, 2002) because of the complexity of the innovation process, the diversity of knowledge assets and a broad range of approaches to KM (Malhotra & Morris, 2009; Freeze & Kulkarni, 2008). Moreover, different markets place different values on knowledge assets (Gibbons et al, 1994). This complexity combined with the interdependence that characterizes global competition compels organizations to acquire, develop and consume knowledge assets in order to achieve competitive advantage (Badaracco, 1991; Murray, 2002). Although the management of knowledge should be prioritized to the same degree as the management of an organization’s human, financial and physical resources, this is not always the case. Many senior managers fail to appreciate fully the value of KM as not only a discrete management function but also a unique skill (Stewart, 1997). Indeed, KM has been found to be a significant catalyst in organizational value creation (Kianto & Ritala, 2014; Krentz, Basmer, Buxbaum-Conradi, Redlich & Wulfsberg, 2014; Weaven, Grace, Dant & Brown, 2014).

This exploratory study seeks to examine the ways in which KM is manifested across a range of organizations in both the manufacturing and service sectors, with a view to determining more clearly the relationship between KM and innovation. A further objective of this study is to investigate the extent to which KM can contribute to systematic and sustained forms of innovation within organizations. Moreover, the study seeks to determine the ways in which effective knowledge and innovation management can contribute to value capture and value creation in organizations. While literature in the field has been dominated in the past by a focus on the role of innovation in the manufacturing sector, there is a growing interest in service sector innovation (Kindstrom, Kowalkowski & Sandberg, 2013; Gallouj & Djellal, 2010; Gonzales, 2016). As such, this research investigates the relationship between KM and innovation across both the manufacturing and service sectors and explores the likelihood that intangible assets contribute to innovation in different ways depending on the setting (Hendry et al, 2008).

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