Chapter 3
Knowledge Organizations and Dynamic Organizational Capabilities

ABSTRACT

In this chapter, the authors first define a knowledge organization in the context of the knowledge-based view of the firm described in chapter 1. As business intelligence has emerged as a key pillar of highly competitive knowledge organizations, its use as a foundation for knowledge creation and application in service business is then discussed. This is followed by a discussion of the evolutionary growth model of knowledge organization, highlighting that superior innovative capabilities are closely linked to learning organization, the most mature level of knowledge organization. The second part of this chapter then describes the interrelationships between knowledge and core capabilities or competencies. Finally, the authors review example characteristics of knowledge intensive business services to prepare the groundwork for chapter 4, which will treat the basic service principles and theories in detail.

INTRODUCTION

Services are knowledge intensive and service innovation is knowledge driven. Service value is dependent on the service provider's unique capabilities to solve the customer's problem. Organizational capabilities and core competencies of a service firm are built on organizational knowledge and knowledge workers (Choi & Jong, 2010).

In a resource perspective, where resources enable service innovation, knowledge and capabilities represent strategic resources that are integrated and configured by the service firm into its unique core competencies and organizational capabilities to achieve sustainable competitive advantage. Modes of innovation may vary (Corrocher, et al., 2009), but knowledge-intensive business services require knowledge production directed at service innovation (Hipp, 1999).

Gallouj and Savona (2009) found that innovation in services very often includes creating applications of information technology, which is the focus of this book.

In this chapter, the authors first define a knowledge organization in the context of the knowledge-based view of the firm described in chapter 1. As business intelligence has emerged as a key pillar of highly competitive knowledge organizations, its use as a foundation for knowledge creation and application in service business is then discussed.

DOI: 10.4018/978-1-4666-2512-9.ch003

This is followed by a discussion of the evolutionary growth model of knowledge organization, highlighting that superior innovative capabilities are closely linked to learning organization, the most mature level of knowledge organization.

The second part of this chapter then describes the interrelationships between knowledge and core capabilities or competencies, leading to a discussion on entrepreneurial capabilities and their theoretical foundation called dynamic capabilities (O'Reilly & Tushman, 2008). The well-known IBM case example of dynamic capabilities in action (Harreld, O'Reilly, & Tushman, 2007) is briefly summarized to demonstrate the critical links of knowledge, dynamic capabilities, innovation, and organizational renewal. Finally, the authors review example characteristics of knowledge intensive business services to prepare the groundwork for chapter 4, which will treat the basic service principles and theories in detail.

KNOWLEDGE ORGANIZATION DEFINED

Knowledge organization has emerged as the dominant structure of both public and private organizations in the transition from an industrial to a knowledge society (Lassen, et al., 2006). Knowledge organization in the management sciences is concerned with structures within which knowledge workers solve knowledge problems (Bennet, 2005a, 2005b; Bergström, et al., 2009; Lassen, et al., 2006; Smith, 2003; Uretsky, 2001).

There are many definitions of knowledge. Nonaka et al. (2000) describe it as justified true belief. Definitions of organizational knowledge range from a complex, accumulated expertise that resides in individuals and is partly or largely inexpressible to a much more structured and explicit content. There are also several classifications of knowledge, e.g. far, explicit, embodied, encoded, embedded, event, procedural, and common. Knowledge has long been recognized as a valuable resource for the organizational growth and sustained competitive advantage, especially for organizations competing in uncertain environments. Recently, some researchers have argued that knowledge is an organization's most valuable resource because it represents intangible assets, operational routines, and creative processes that are hard to imitate (Wasko & Faraj, 2005). However, the effective management of knowledge is fundamental to the organization's ability to create and sustain competitive advantage.

Knowledge management research has described organizational knowledge flows in terms of the knowledge circulation process, consisting of five components: knowledge creation, accumulation, sharing, utilization, and internalization. Of these five parts, the knowledge sharing process is what this book focuses on. Knowledge sharing within and between organizations is not a one-way activity, but a process of trial and error, feedback, and mutual adjustment of both the source and the recipient of knowledge. This mutuality in the knowledge sharing suggests that the process can be constructed as a sequence of collective actions in which the source and the recipient are involved. There are many different knowledge-sharing mechanisms: it can be informal and personal as well as formal and impersonal. Informal mechanisms include talk, unscheduled meetings, electronic bulletin boards, and discussion databases. More formal knowledge sharing channels include video conferencing, training sessions, organizational intranets, and databases.

Bennet and Bennet (2005a) define knowledge organizations as complex adaptive systems composed of a large number of self-organizing components that seek to maximize their own goals but operate according to rules in the context of relationships with other components. In an intelligent complex adaptive system, the agents are people. The systems (organizations) are frequently composed of hierarchical levels of self-organizing agents (or knowledge workers), which can take the forms of teams, divisions or other structures that have common bonds. Thus while the components (knowledge workers) are self-organizing, they are