

Sustained Firm's Performance through Knowledge Management & Dynamic Capabilities

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Abstract

Two primary areas that have attracted the attention of the researchers and academicians in competitive strategy area are: one, the significance and role of dynamic capabilities and two, the firm's ability to handle its knowledge resource base. The knowledge based dynamic capabilities are potentially more viable to generate superior performance by a firm rather than employing knowledge process capabilities or dynamic capabilities separately. Thus, the purpose of this paper is to unbundle the dynamic capability concept and to help elucidate the nature of the processes that foster organizational learning and to define its linkage with knowledge management. A conceptual paper, proposes a framework and discusses the possibilities of superior firm's performance by defining dynamic capabilities through knowledge management.

Keywords: *Dynamic capability, Knowledge management, Organisational learning, Sustained firm performance*

Introduction

The approach of dynamic capability has emerged as the touchstone in the domain of strategic management (Nair, 2004). In the current scenario of changing and sporadic business environments, the approach of dynamic capability, in defining the strategy of a business, seeks to explain the reasons behind the discrepancies arising between the success factors of different firms in building competitive edge in dynamic market (Martin, 2000; Teece, 1997). Complementing the dynamic capability, there has been implicit discussion over the knowledge and its management within the organisation for creating differential advantage. Knowledge management has also been treated as the most momentous factor and an essential strategic initiative of sustainable competitive advantage for firms (Grant, 1996).

The theory discussing dynamic capability stresses upon the revitalization of organisational resources by adapting and reconfiguring them into fresh skills, competencies and capabilities (Teece, 1997) and enable firms to spontaneously respond to the new and recessionary situations

(Karimi, J., 2015) whereas at the same time, the concept of knowledge management enables to managers to find solutions to generate, preserve, mediate and utilize firm's explicit and tacit knowledge (Cepeda and Vera, 2005). Owing to the complex, uncertain and ever changing environment as faced by the firms, the significance of developing knowledge competences that ensure the organisational success have been acknowledged by researchers (Sorensen and Stuart, 2000). Resultantly, the knowledge competencies thus acquired, has been acknowledged fairly for leading to competitive edge through building capabilities instead by merely having access to the resources (Agbim, Zever and Oriarewo, 2014).

To a certain extent, these two aspects of dynamic capabilities and knowledge management have recognized each other's significance. While emphasising on the theoretical constructs of dynamic capabilities, researchers have realised that their nature and origin can be correlated to knowledge (Eisenhardt and Martin, 2000). According to David J. Teece, "the firm's ability to sense, seize, integrate, mediate and use knowledge on a regular basis embraces the key to firm's abilities and competitive advantage." On the other hand, the scholars who are primarily concerned with

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knowledge processes have started to examine conceptual relations to dynamic capabilities (Sambamurthy and Subramani, 2005; He and Wong, 2004). It is also being investigated as to how dynamic capabilities can guide knowledge management (Haas and Hansen, 2005; Cepeda and Vera, 2005; Gold Malhotra and Segars, 2001; Sher and Lee, 2004).

The paper tries to comprehend the potential relationship between knowledge management and dynamic capability and also to establish a theoretical link between their collective impacts on the firm's performance. It proposes a framework that unequivocally integrates the two concepts and discusses their potential linkage with firm's performance. The paper is conceptual in nature and shall be helpful in defining a path for a useful research. The research in this direction shall be defining in terms of contributing to the existing literature as well as providing insight to the corporate and business practitioners in defining a structure for improved business performance. The proposed paper is structured in four sections.

The section one is introduction which provides the insight towards the requirement of the discussion. Section two discusses the theoretical contributions with respect to dynamic capabilities and knowledge management and the literature discussing the relationship between the two. Section three provides for a conceptual framework along with detailed discussions and the last fourth section provides for an informative conclusion.

Theoretical background

Dynamic Capability

The term dynamic capability was encapsulated by Teece, Pisano and Shuen (1997) in their classic paper. This concept is generally considered as an extension of the resource based view (RBV). The RBV informs that each firm carries a unique profile of tangible and intangible resource which leads to firms' competence and affects its performance (Barney, 1991; Penrose, 1959;

Amit and Schoemaker, 1993). The RBV basically suggested that the resources and capabilities are the main sources of competitive advantage (Barney, 1991; Wernerfelt, 1984).

Teece, Pisano and Shuen, (1997) propose the concept of dynamic capability which emphasises that in tumultuous and changing environmental dynamism, a firm must possess the ability to sense, seize and reconfigure its resources to ensure its competitive advantage.

The emphasis of Teece, Pisano and Shuen (1997) is mostly on the factors that impact and lead to sustainable competitive advantage in the conditions of turbulent environments. Dynamic capabilities are the firm's ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments and stress on the significance of a firm's existing asset position, path dependencies and the organisational routines which lead to organisational learning and enable the firms to perform tasks better and quicker (Teece, 1997).

Dynamic capabilities have undoubtedly been important in attaining competitive advantage from quite some time. However, its significance has escalated because in the current era of globalisation, the global economy has become more open to the sources of invention and innovation, both geographically and organisationally.

(Teece, 2000). Ref. to the Fig1, sensing refers to an organisation's capacity to sense and shape forthcoming opportunities and threats; seizing implies the capacity of a firm to seize the desired opportunities as and when they arise & reconfiguring is the

firm's capacity to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring its assets, both tangible and intangible, including difficult-to-replicate capabilities required to adapt to changing customer and technological opportunities.

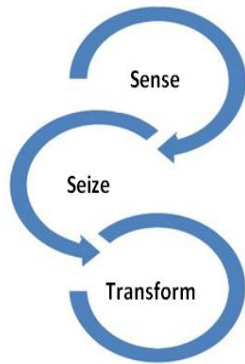


Fig 1 Teece's Dynamic Capability Model: Based upon "Explicating Dynamic Capabilities: The nature and micro-foundations of sustainable enterprise performance," by Teece, (2007)

Further, the dynamic capabilities of the firm are defined by managing the organisational learning by capturing creating and absorbing the knowledge and using its for improving the performance. In the current business scenario where the rate of change of business environment is high and the organisations are exploring the new ideas for addressing the dynamic situations, the challenge is to capture, create, align, integrate and reconfigure knowledge in a systemic manner. Hence an exhaustive literature support is explored for defining the knowledge management and its possible relation with dynamic capability.

Knowledge Management

The paper explores knowledge management as a significant interdisciplinary business practice which has attracted eyeballs owing to the increasing consciousness about the significance of knowledge for firm's survival and longevity. Continued existence of the firm entirely depends on the firms' ability to adapt and adjust to the changing market dynamism (Elias M Awad, 2007). Knowledge management focuses on knowledge within the context of the organisation, thereby contributing to learning and innovation. It is primarily concerned with identifying and enhancing an organisation's knowledge to enable the organisations to compete in the dynamic environment (Alavi and Leidner, 2001). Knowledge management literature has an exigency side that specifically focuses

upon firm's internal characteristics including knowledge forms and the type of activities affecting the suitability of the knowledge management initiative (Spender, 1996; Sabherwal, and Becerra-Fernandez, 2001).

The knowledge management unequivocally discusses as to whether knowledge is an asset (possession) or if it is nested in tradition by emphasizing on the difference between knowing and knowledge (Orlikowski, 2002). Henceforth, knowledge can be understood both as an essence that individuals, groups and firms 'have' (an intangible asset) and also as something that is 'done' (as practice) by individuals, groups and firms.

Mutually both such types of knowledge have an impact on firms' performance, depending on the types of knowledge and the errands that are involved. Hence, knowledge management initiatives should be carefully and consciously disseminated and applied with the processes of seizing, mediating, sharing and using knowledge to generate expertise.

Knowledge management provides for enabling the introduction of new products. New products originate from new ideas that embody knowledge (Dougherty, 2004; Iansiti and Clark, 1994). Many studies highlight knowledge related processes that lead to continuous innovation which requires the corresponding presence of three basic processes at the firm level. In terms of managing for consistent innovation a minor framework is proposed of aligning knowledge management system for continuous innovation. The knowledge management consists of knowledge creation, absorption and integration.

Many studies suggest the knowledge related processes lead to continued innovation. Knowledge creation, absorption and integration are the driving force behind the creation of new products that revitalize the company through continued innovation (Verona, 2003; Dougherty, 1992; Henderson, 1994). Simultaneous presence of these three fundamental processes namely knowledge creation, absorption and integration

channelizes the firms towards continued innovation.

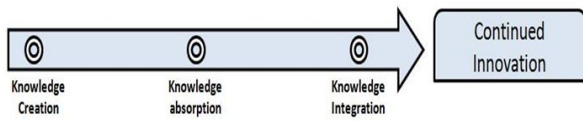


Fig: 2 Proposed by authors

- Knowledge creation involves adding to the existing stocks of knowledge and .is defines as the firm’s ability to learn, assimilate and utilize information captured in-house or from outside the firm.
- Knowledge absorption involves filtering the extracted information and choosing the relevant information which may prove to be worthwhile for the organisation.
- Knowledge integration means incorporating the newly acquired knowledge into its processes to create value for the firm.

The knowledge automation environment is a process of filtering ideas and transforming them into valid knowledge, having the ability to guide decision making. The unifying concept of learning is the specific mechanism that held companies determine the kind of knowledge required for decision making.

Towards an Integrative Framework

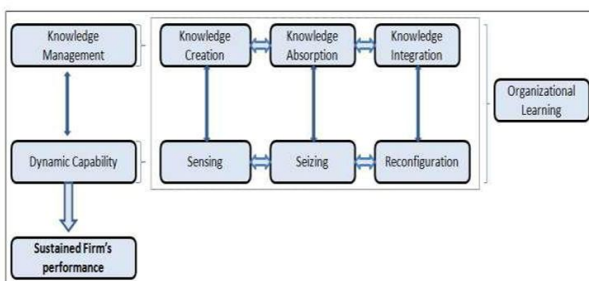


Figure 3: Proposed framework by authors

The literature on dynamic capability highlights the key roles of both knowledge resources and learning mechanisms. In order to obtain competitive advantage, knowledge can act as a critical strategic resource (Grant,

1996). However, it is often indicated in the past researches that knowledge resources lead to the development of dynamic capabilities (Griffith et al., 2001), and that learning incorporates using such knowledge resources (Heijden, 2004). Learning mechanisms boost dynamic capabilities and offer an insight into the foundation of the concept of dynamic capabilities (Zott, 2003; Zollo and Winter, 2002). The above discussion indicates that dynamic capabilities, knowledge resources and learning mechanisms are interconnected to each other. However, there seems to be a gap in empirical research analyzing the interrelationships between these three concepts.

In an attempt to narrow this gap, it must be investigated as to how dynamic capabilities are influenced by the knowledge resources and learning mechanisms. Knowledge resources might not be effectively transformed into dynamic capabilities without an effective learning mechanism. The learning mechanisms provide an insight into the process perspective of dynamic capabilities. The present research contributes to the existing knowledge by proposing a framework that integrates the dynamic capability view, knowledge management and the organizational learning theory all leading to sustained firms performance.

Discussion

In this section, the paper attempts to delineate the interrelationship between knowledge management and organisational learning in a dynamic capacity structure prompting sustained firm’s performance, which is characterized as the organisation's success or failure in accomplishing its objectives by sensing, seizing and reconfiguring the knowledge resources. The framework is clarified in stages beginning with the more obvious relationship between knowledge management and dynamic capability leading to organisational learning, trailed by clarifying the interrelationship between all the factors and finishing up with

an exchange of their potential connects to increase sustained firm's performance.

The above conceptual framework suggests that the three aspects namely, knowledge management, dynamic capabilities and sustained firm's performance are interrelated to each other in such a way that one positively impacts the other. The framework proposes that organisational learning is facilitated by knowledge management by the creation, absorption, integration and adaptation of the knowledge resources by sensing, seizing and reconfiguring according to the changed dynamics. Organisational learning mainly focuses on the exploration of new knowledge resources and incorporating employees experience into the organisations (Tsai, 2012). It underlines on the consistent generation of new learning to add to the current stocks.

Learning organisation is essentially focused around the definition, stockpiling, transmitting, dispersion and coordination of existing knowledge resources within the organisation, thereby developing and exploiting core competencies channelizing towards sustained firm's performance. An unavoidable segment of both is the sharing of contemplations to make and become new learning, updated by incredible organisational structures and situations, reinforced by practical knowledge management frameworks. Effective knowledge organisations create such circumstances that connect knowledge management with dynamic capability.

Also, the concept of dynamic capabilities provides a much needed theoretical base which enables us to understand the process of competition in the global era (Krzakiewicz, 2013). The dynamic notion of knowledge, the related issues of its management and creation particularly revolve around organisational learning and knowledge management. The primary purpose of organisational learning is the consistent generation of new knowledge, and also the more proficient and compelling

administration of the resulting organisational assets.

Conclusion

The paper explores the relationship between the knowledge management and dynamic capabilities in sustaining the performance of the firm. Based upon the literature and study of sample cases, the paper is able to signify that the three components of dynamic capability of the firm i.e. sensing, seizing and reconfiguration are enabled and strengthened and fostered with knowledge creation, knowledge absorption and knowledge integration respectively. The integration with knowledge management and system for dynamic capability in the organisation provides for the organisational learning. The paper concludes that knowledge management enabled dynamic capabilities underpins detailed operational/functional competencies which can constitute organisational learning, and provide for sustained performance of the firms. The paper would provide for the linkages for knowledge management and dynamic capabilities and shall also be able to help practitioners for exploring new system for defining their dynamic capabilities.

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