Chapter 1: Introduction & Background

1.1 Introduction

According to Drucker, Knowledge is the business and further stated that business is a composition of human organizations that are made or broken by the quality of its people (Drucker, 1996). In a world of extreme resource crunch many of the today’s organizations have mastered the Taylor’s Scientific Management principles, and that had enabled them to stretch the limits of productivity improvements in their organizations in the past, further Porter pointed out that after a decade of impressive gains in operational effectiveness many of the firms have exhausted avenues for more gains, though the legacy of continuous improvement is still on managers’ mind (Porter, 1996). Therefore the scope for further improvement and exploitation with this initiative alone is now fully exhausted in the organizations, and a paradigm shift is required to find new ways and approaches towards getting the best from the human capital.

The scientific community in early 1900 stated that all the information in the world doubled every 30 years by 1970, the number of years was further reduced to 7, and earlier the prognosticators also stated that by the year 2010 all the information in the world would double in 11 hours (Nick, 2001). Therefore, it may be inferred that with the advancement in the technologies the duration may further get shortened substantially, thus managing the massive amount of knowledge inflow will itself create more challenges and opportunities for the organizations and its people.
Today business and technological landscape are changing at a faster pace, and the existing generation of managers has greater challenges to face, and the survival of the organizations itself is at stake (Drucker, 1999), and in the last one-decade innovation has become a great concern for many of the CEOs (Leavy, 2010). Historically people understood innovation to be more of a random process (Christensen, Anthony, & Roth, 2004), rather than a sustainable source for success and that requires to be nurtured by the organizations. Hence this gap, in general, perception by itself creates challenges for the organizations and its people, and that notion needs to be well understood and changed if it wants to harness significant benefits from it.

Not very long ago "innovation" used to mean to organizations like just investing in internal research laboratories, scouting for talented & brilliant people, and they were expected to work on new developments and come up with innovative products, however it is not true anymore since the cost associated with the innovation value chain - idea inception to launching of the products in the market has grown many folds (Chesbrough, 2007). Gary Hamel in his book titled “The Future of Management” has put forward innovation hierarchy into four categories by its ascending level of importance – operational innovation, product/service innovation, strategic innovation, and at the top is management innovation, the higher the level the organization can operate and more it is capable of embedding innovation, and its potential for value creation and competitive advantage increases substantially, further the ability to nurture innovation at the higher levels by the organizations can act as a game-changer and it becomes harder for the competitors to replicate (Hamel & Breen, 2007), this can prove to be a differentiator and an effective business strategy for organizations to adopt.
Today many of the organizations have been able to improve performance have not just relied on the use of tangible assets and resources alone, but are also dependent upon effective use and management of knowledge (Lee & Sukoco, 2007). Knowledge management has tremendous potential to improve organizational performance (Simonin, 1997; Lee & Choi, 2003; Darroch & McNaughton, 2003; Schulz & Jobe, 2001; Tanriverdi, 2005), innovation in organizations are highly attributed to the availability of knowledge, therefore the management of knowledge becomes utmost important to the organizations if they wish to have success in innovations (Shani et al., 2003; Adams and Lamont, 2003; Darroch and McNaughton, 2002; Cardinal et al., 2001; Pyka, 2002), further not only organizations have realized the importance of knowledge management and innovation, but a country like China have ambition of becoming “an innovation-oriented country” by 2020 and a “world’s leading science power” by 2050 which has drawn world’s attention, and the commitment of China’s leaders are visible in seeing their country being transformed into an innovation-oriented society (Wei Xie, & Richard, 2009).

However, China is also faced with the challenge of its traditional philosophy and culture which can sometimes act as an obstacle for it to emerge as an innovation-oriented society. The Chinese tradition of deferring to authority is also not conducive to innovation either (Jakobson, 2007). Hence, it has to find new ways to overcome those challenges. Even today on the global front organizations are facing high degree of competition and if it has to counter such challenges they have no other options but to take the path of innovation, as Skerlavaj and others have put it that a real innovative firm is one that is rooted in a strong culture and encourages innovative behavior (Skerlavaj et al., 2010).
Encouraged by the recent and far-fetched developments across the globe and as evident from the above, further according to Brentani for a highly innovative and successful businesses the strong presence in its environment of an innovation culture is the primary prerequisite (Brentani, 2001), hence a need to gain deeper insights on the underlying relationships between KM, Innovation and culture is envisioned so that organizations and its people can have more latitude to perform to their true potential, and equip them with the renewed synergy of KM, innovation and culture to contribute to the society and enhance their potential to achieve greater economic prosperity.
1.2 Background

Historically the development of civilization and society is as a result of the quest for knowledge and has remained an endeavor in our journey of constant evolution (Wiig, 1997). Tsoukas and Vladimirou have pointed out that “Organizational knowledge is much talked about, but little understood” (Tsoukas & Vladimirou, 2001), and to become a knowledge-based company is not to be seen as a purely accidental phenomena (Edvinsson & Malone, 1997).

The twenty-first century is characterized by the growth and importance attached to knowledge, and its impact on all aspects within an organization (Bose, 2004). Davenport and Beck have advocated that for organizations to succeed in this new era of the knowledge economy, an effective KM strategy backed by a desire to become a knowledge-based organizations are seen as prerequisite conditions (Davenport & Beck, 2002). However the reality is far more different, and as evident from the outcome of one of the McKinsey survey of 40 European, Japanese and American companies reveals that the employee’s understanding of knowledge management is just limited to building an advanced information technology systems (Hauschild, Licht, & Stein, 2001), suggesting that they have still not perceived its importance & true potential that it can offer to the organizations.

According to Greiner and others, “Everybody discusses knowledge management, but how can it be used and how can we successfully apply it?” (Greiner, Böhmann & Krcmar, 2007). Moreover, this question persists today despite the best efforts put forward by firms, and many of them face the challenges of implementing and keeping alive the KM initiatives and processes as they are unable to sustain it for long due to many reasons like having unrealistic
expectations, one size fits for all applications and requirements, not recognizing the power of knowledge management, excessive technology reliance, no strategic alignment across the organization, and overloaded with information (Bergeron, 2003).

Today one of the fundamental issues that remains to be tackled is that how knowledge can be successfully transformed into innovation and business performance improvement (Schiuma, 2012). However with the developments in the field of innovation, it has emerged that knowledge management has a strong influence on it and plays a primary role in improving organizational competitiveness (Hedlund, 1994), and it was also clearly recognized that knowledge management and innovation are closely related (Nonaka, 2007; Chapman & Magnusson, 2006), but it is also evident from the various other studies that a strong innovation culture of a group significantly and definitely affects the capacity to be innovative and enhances ability to come up successfully with ideas and to develop products in organization (Hurley & Hult, 1998). However, still more needs to be done to understand the importance of culture’s positive role in effectively managing organization knowledge (Davenport et al., 1998; Delong & Fahey, 2000).

The above literature thread suggests that a journey of Knowledge management and innovation culture and its associated positive impact on the organizations can be harnessed, though it is a long drawn and complex process that still requires to be better understood, and requires careful analysis from a practice point of view on how some of the organizations have evolved and succeeded in this endeavor. Thus, the present study is to gain better understanding and insight in this direction.
1.3 Motivation/Need for the Research

The researcher has obtained a Masters qualification in industrial engineering/management and acquired over 20 years of rich industrial and consulting experience at various levels and across different industries/sectors, thus gained insights about people, processes and structure prevailing within the organizations and also witnessed how knowledge plays a vital role in shaping the destiny of the organizations. Also, Industrial Engineering profession is concerned with the design, improvement, and installation of integrated systems of men, materials, and equipment. It draws upon specialized knowledge and skill in the mathematical, physical and social sciences together with the principles and methods of engineering analysis and design to specify predict and evaluate the results to be obtained from such systems (Maynard, 1963), and the researcher feels very much associated and connected with the chosen field of the study.

Further encouraged by the new ways in the emerging economic power countries – learning to do more with less for more people, and looking at some of the success stories made possible by many innovations. Such as a one cent for a one-minute telephone call, a $30 for cataract surgery, $2000 for a car are all possible and the outcome of innovations, they are also lowest in cost globally by any order of the magnitude, and these innovations are now becoming a certainty that were originally prompted by the shortage of capital and technologies (Prahalad & Mashelkar, 2010), and further developments in this direction will fast replace the notion that affluence and abundance are the only drivers of innovation, and many of such innovative solutions will definitely serve the society and the needy people, and enable them to survive and grow.
However in a recent global survey, “Why Culture is Key”, come up with an interesting finding that when the performance of the top 10 innovative companies is compared with respect to top 10 R&D spender companies, it has emerged that EBITDA of the top 10 innovative companies is relatively much higher, the same survey also points to the organizations that have greater alignment with both innovation strategy & culture often enjoys superior financial performance (Barry, John, & Richard, 2011). Further the Most Admired Knowledge Enterprise (MAKE), a prestigious global award for the recognition of firm’s ability to leverage enterprise knowledge to deliver superior performance in the area of innovation, operational effectiveness, and excellence in product and services, nominated in 2011 all of the above referred 10 most innovative companies, and finally 7 out 10 companies got the award in the year 2011 (MAKE, 2011).

The above suggest that the organizations with the linkages between knowledge management and innovation culture have gained superior business performance, thus through the proposed study the researcher aims to gain a better understanding of the underlying mechanisms in a more practical sense so that it may be applied to the other organizations.
1.4 Present work

The researcher wishes to venture into a less explored field of knowledge management and innovation culture and it is evident from the various literature strands that this linkages has a huge potential to enhance business performance, and feels that the studies in this direction may provide a paradigm shift in managing knowledge and innovation initiatives more so from an industry practice perspective, and further the inputs to the study will be drawn from the available research, discussion with industry experts and practicing executives of some of the leading organizations, field visits, administering of survey. Further drawing of the interpretations and conclusions will provide insights and also suggests ways to overcome the challenges that the organizations may be facing. The outcome of the study is also towards providing the answer to some of the gaps in the literature that have been identified and to get more industry insight on the following.

- An understanding of how some of the successful companies have achieved business performance improvements with the linkage of knowledge management and innovation culture.

- Gain an understanding of the various aspects and type of culture that has created a mediating effect on knowledge management and innovation in the practicing organizations and thus making an impact on its business performance.

- Identify the factors that may be affecting the transition to innovation culture thus impacting business performance.

The study is very much relevant in the present context as more and more organizations are finding it difficult to survive by adopting the traditional
practices to manage its resources & people, and not able to fully exploit its knowledge resources. It will also provide a fresh perspective on how organizations can forge linkages between knowledge management and culture that ultimately will have a positive impact on the business performance.