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**Thought Paper:**

## **Knowledge Creation as the 21<sup>st</sup> Century Competitive Advantage**

Regardless of the industry within which one works, innovation is the key to sustained success. Drucker (1954) believed that one of the tasks of business enterprise and a major factor in its survival and prosperity is “the constant improvement of our ability to *do* by applying to it our increased *knowledge*” (p. 56). Knowledge is essential for stimulating innovation; therefore, organizational success depends upon how an organization consistently creates, acquires and applies knowledge.

Knowledge is different from information although these terms are commonly confused. “Knowledge refers to information that enables action and decisions...Knowledge is information that facilitates action” (Becerra-Fernandez, Gonzalez and Sabherwal, 2004, p. 13). According to Nonaka and Nishiguchi (2001), “Traditional management models focus on how to control the information flow and information processing within the organization [which] fails to capture the essence of organization as a knowledge-creating entity” (p. 13). Such a model, which is still prevalent in the majority of American businesses, will not work in the constantly changing, technologically dependent environment of the 21<sup>st</sup> Century. A different approach is necessary to propel the innovation that will ensure future success.

Western culture perceives knowledge with a static, nonhuman perspective when, in fact, there are “relative, dynamic and humanistic dimensions of knowledge” that arise from the specific contexts, relations and situations from which knowledge evolves (Nonaka and Nishiguchi, 2001, p.14). Many leaders have not taken sufficient time to understand the *nature of knowledge* within their own organizations, including the difference between explicit and tacit knowledge and how each is used to company advantage. Recognizing this difference is critical in an organization’s ability to transform knowledge into innovations that will establish a competitive advantage.

Explicit and tacit knowledge are complimentary and both are “crucial to knowledge creation” (Nonaka and Nishiguchi, 2001, p. 14). For knowledge to be useful for innovation, it must be transformed from a tacit state - within the person or organization - into an explicit state - where it can be shared among many people or organizations. This transformation occurs through the four processes of SECI: *Socialization*, *Externalization*, *Combination* and *Internalization*. *Socialization* is a joint activity where tacit knowledge is shared with others, such as in meetings, eating together, living in the same environment, or simply spending time together; *socialization* captures knowledge through physical proximity. Tacit knowledge gained through socialization is articulated into explicit knowledge through *externalization*, where knowledge is “crystallized”, can be shared, and serves as the “basis for new knowledge.”

Dialogue is a primary method for *externalization*. Through dialogue existing knowledge is reconfigured in various ways, such as sorting, adding or categorizing, resulting in new knowledge through *combination*. This new knowledge may require an examination of old concepts such that new concepts are created; in the organizational context this would mostly likely require and result in development of new plans, products or services. During the *combination* process several sub-processes occur through which explicit knowledge is made more usable. *Internalization* results when new explicit knowledge is embodied into tacit

knowledge in order to “broaden, extend, and reframe organizational member’s tacit knowledge” (Nonaka and Nishiguchi, p. 14-17). Although the SECI transformation process has been simplified for the purpose of this paper, this concept is exceptionally powerful in understanding the continuous process of knowledge creation as well as in pointing toward the purpose of knowledge, particularly in the realm of business innovation and effective execution.

The complexity of the modern organization, the breadth of tasks to be accomplished, and the pace with which the external environment is changing demand the use of different knowledge throughout and within the organization. From a leadership perspective the purpose of knowledge, in its simplest form, is to get things done (Bass, 1990, p. 65). Heifitz (1994) states, “Leadership is oriented by the task of doing adaptive work...Tackling tough problems – problems that often require an evolution of values – is the end of leadership: getting that work done is its essence” (p. 26). Tackling tough problems effectively requires innovation, whether in the form of an adaptation of an existing product or service or in the creation of something new. Knowledge lies within the core of innovation, which is “the effort to create purposeful, focused change in an enterprise’s economic or social potential” (Drucker, 1985, p. 67).

Taken as a whole, the stated purposes of knowledge - getting things done and stimulating innovation – contribute to an overarching organizational purpose for knowledge. Through knowledge organizations can maximize true beliefs while reducing false beliefs, such that the margin for error is reduced as low as possible, yielding greater success in business decision-making that can achieve a competitive advantage in the process. To learn more about knowledge creation and knowledge management, particularly the role of leaders at all levels of the organization in these processes, contact GuideStar, Inc. at (630) 301-9646 or (312) 371-1095.

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