

## THE ROUTE TO SUCCESS IN MODERN ORGANIZATIONS: LINKING INNOVATION AND KNOWLEDGE MANAGEMENT

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### **Abstract**

*The organizations need to innovate comes from increasing competition, client demands and new market areas. Closely linked, with innovation is the knowledge management, which is considered as a potential key competitive advantage, by helping to increase innovation within the organization.*

*Knowledge management and innovation is the key to success that lies behind many of the most recognized and top performing organizations in the world. Knowledge is a strategic, vital resource that ensures the continue development of an organization, creating thereby a real competitive advantage.*

*Innovation management becomes a very important organizational tool is acheaving quality control and organization performance. This paper aim is to create a overview of knowledge and innovation management, and to identify how value can be created, focusing on the role of knowledge management is sustaining and enhancing innovation in modern organizations.*

**Keywords:** *Innovation, Innovation Management, Knowledge management, organization success.*

**JEL classification:** *O31, D83*

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### **1. Introduction**

Changes and global economic growth led to the emergence of mutations in terms of the speed that innovation makes its appearance in

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modern management practices, which led to rapid developments in technology, the emergence of new products and services, et al.. Organizational strategies must include innovative business policies to build and sustain competitive advantage. Innovation becomes increasingly complex and as a result of rapid changes, daily customers needs, and due to strong pressure which competition can exercise over the market. (Cavusgil et al., 2003).

Knowledge management usually refers to methods and tools used to capture, store, to create and capitalizing knowledge, providing easy access to the knowledge and organization accumulated experience.

Capturing and analyzing key performance indicators are processes supported by knowledge management, which require increased transparency in decision making, providing visibility and efficiency in implementation or in solving critical issues the organization may face. Because of this fact there are very many definition of knowledge management, and the aim of this article is to clarify what role knowledge management plays in a knowledge-based society, and how the connection of knowledge and innovation become a key factor to organization's success.

## **2. Innovation in a knowledge-based view**

After the literature review, we realized taht the concept of „innovation” has received numerous definitions. According to some authors (Chen et al., 2004), innovation is about the novel combinations involving both inputs and outputs processes, but envolving also other components of the production system. The power of innovation capital and management competence in today's organizations and the implementation of research and development programs, depend on the power of satisfying customer needs with products or services received from the market.

This process involves both the emergence of new products, as well as the existance of a modern technology, using quality raw materials and the existence of a new market ready to embrace these products.

The innovation process includes activities based on technical knowledge, but also individuals who are essential to the formation and development of the product (Cardinal et al., 2001).

Author Herkema (2003) defines innovation as a process needed for the creation of new knowledge, knowledge development and sustainable business solutions. Innovation is a process in which knowledge is acquired, generated and shared in order to create other knowledge, which can lead to

specialization or improved products or services. The author states also that innovation is the adoption of an idea or behavior that is based on a very well organized process, where innovation can be represented by new products, services or technology. Innovation is also about change, which can be a radical or partial.

Innovation means as well renewal and change, but in today's business world it has come in particular to mean the development of new corporate services, products, processes and structures. The development of knowledge is the basis of innovation, underlines the strong links that exists between knowledge and innovation.

There are three broad categories of innovation identified in the literature:

- Strategic innovative management to assist the organization to face the environment changes and challenges (Pitt, 1998).
- Management and innovative change initiatives (Devenport, 1996)
- Innovation through knowledge creation and application.

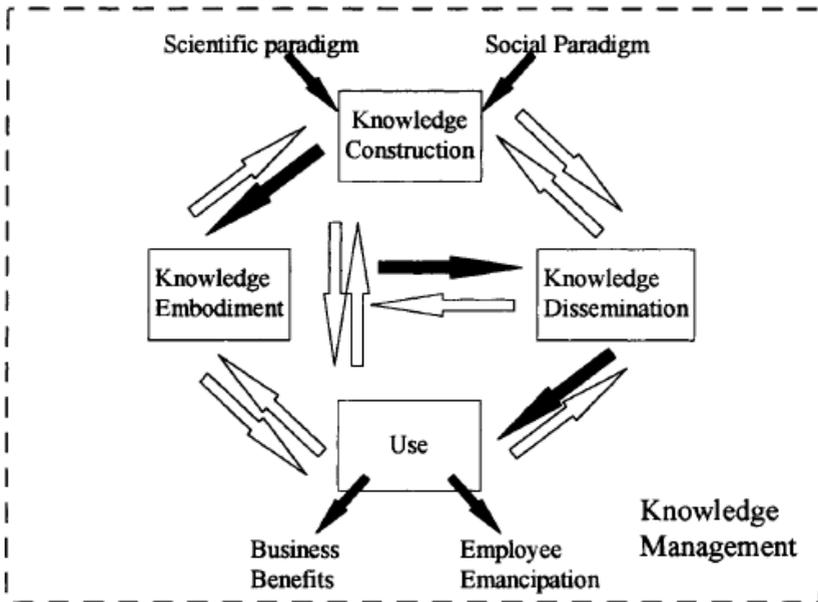
### **3. Drivers of implementing Knowledge Management through Innovation**

The authors Darroch and McNaughton (2002 ) indicates that knowledge management is actually a management function that creates or locates knowledge, manages the flow of knowledge and ensures that knowledge is correctly and efficiently used for the of long-term benefit of individuals and the organization. According to these authors an organization needs to demonstrate its competence in knowledge management, and must ensure that the implemented strategies are innovative, and so they can build and sustain competitive advantage of the company. Knowledge management is closely linked to innovation management, and the organization orientation towards knowledge and to knowledge management is becoming a business philosophy by which every manager should be guided, and will decisively influence the overall strategy of the organization.

Parlby and Taylor (2000 ) believe that the role of knowledge -based management is to support innovation, generating new ideas. The way knowledge is captured and managed depends on the understanding of what knowledge rely is, making it available and usable when, where and by whom it is necessary. Knowledge management allows easy access to the expertise and know-how of an organization when it comes to formal knowledge.

Knowledge management also enables collaboration, knowledge sharing, learning and improving business activity. It is based on a more efficient decision-making and ensure that the value and contribution of intellectual assets and their efficiency and their operation is well understood.

Figure 1: Knowledge Management Model



Source: Demerest, M.(1997), *Understanding knowledge management*. Journal of Long Range Planning 30, No.3.

The first basic driver of implementing knowledge management through innovation is to manage knowledge in today innovation field by creating, building and maintaining a competitive advantage through the use of knowledge and collaborative practices. Some authors, as Cavusgil (2003 ) indicates that building and sustaining an innovation program is becoming increasingly complex process as a result of changing customer needs, rapid technological change and due to extensive competitive pressure.

The second driver of implementing knowledge management through innovation is that knowledge is a resource used to reduce the complexity of the innovation process and knowledge management is seen as a valuable

resource, therefore, of significant importance. Innovation is highly dependent on the amount and how knowledge is accessed and, therefore, the role and importance of knowledge should be recognized and managed appropriately (Adams and Lamont, 2003).

The third driver of application knowledge management for the benefit of the innovation process is, both internal and external integration of knowledge, making it more available and affordable. Integrating knowledge through knowledge management platforms, done with the right tools, will facilitate reflection and encourage dialogue, enabling personal and organizational learning process and innovation.

The first major role that innovation plays in knowledge management is to facilitate the exchange and codification of tacit knowledge. Tacit knowledge sharing is critical to the innovation capacity of organizations (Cavusgil et al., 2003). According to the author, firms with innovation potential are different because they put underline the importance of learning process by practice, which makes it difficult for the competition to buy the needed know-how, such as it is difficult to replicate it. Information provided by tacit knowledge obtained from customers and suppliers is a valuable source for innovation programs in organizations due to lack of such knowledge that can be used as input for innovation. Sharing tacit knowledge as a resource for innovation is particularly important in developing areas where explicit knowledge prevails, such as biotechnology. (Cardinal et al., 2001).

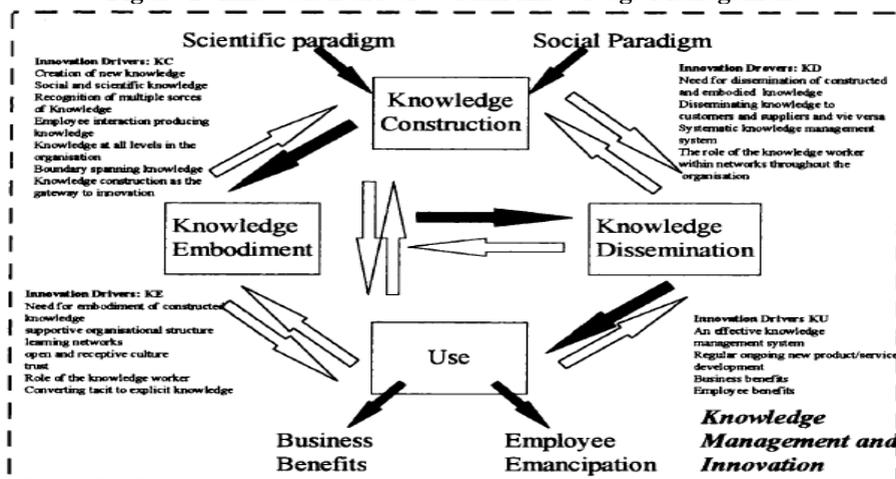
The second major role of knowledge management played in the innovation process is linked to explicit knowledge. Although explicit knowledge does not play a dominant role compared to tacit knowledge when it comes to the innovation process, because explicit knowledge is more easy to access to competitors, explicit knowledge also represents an important tool for creating innovation.

Innovation is a process which refers to recombine the existing knowledge in new interesting ways. Knowledge management can play an important role in creating explicit knowledge for the innovation process. Knowledge management provides the tools, processes and platforms to ensure the accessibility of knowledge, for example, by structuring the knowledge base.

Another important role that knowledge management plays in the innovation process is to manage various activities in the life cycle of

knowledge, which consists of phases of creation, collection and sharing knowledge. Knowledge management plays an important role in ensuring the integration of knowledge in the organization by providing structure and organizational context that enables the exchange of knowledge.

Figure 2: Innovation drivers within Knowledge Management

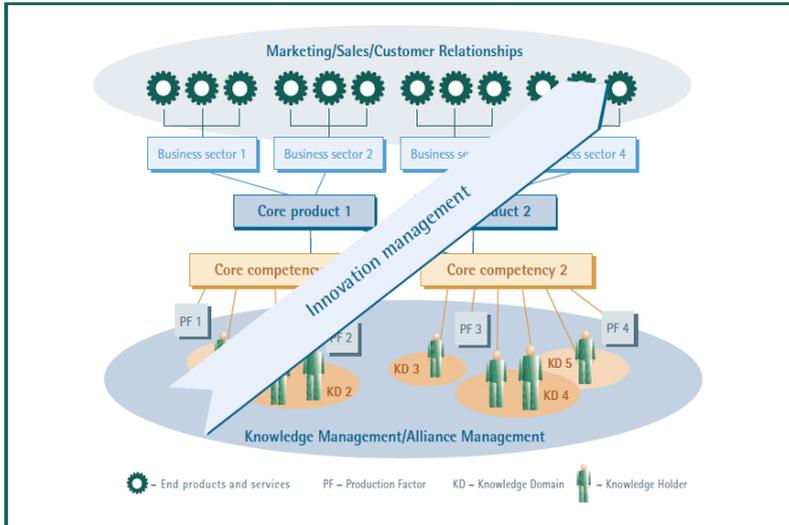


Source: Demerest, M., (1997)

The core competence of a company can be divided into several levels. Activities at a certain level or field of knowledge can lead to the continued development of other areas of basic knowledge. Generally, this involves a variety of carriers of knowledge and may include also areas of external knowledge and expertise from partners (Figure 3).

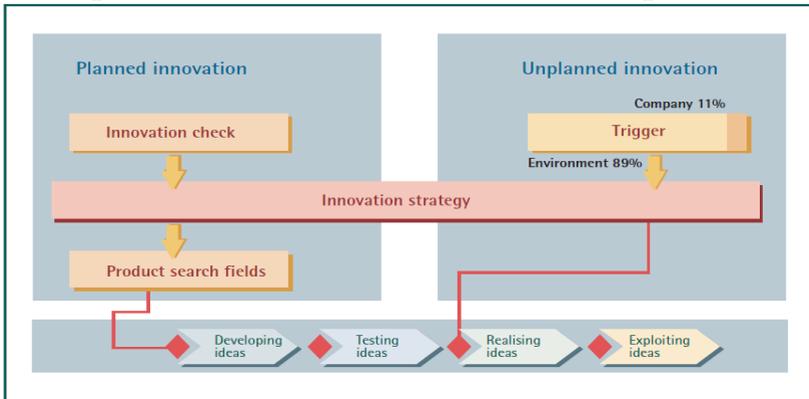
Effective management of innovation guides the development and exploration of knowledge to achieve results. Therefore, the market acts as an external evaluator of innovation and knowledge management. An internal evaluation can be done by developing core competencies of the company. Innovation can come from two different sources in an organization: Innovation unplanned, that occurs directly from everyday business activities which is often the result of a new project or client, and Planned Innovation on the other hand, using available knowledge resources both within the company and the development of new value creation projects.

**Figure 3: Innovation Management**



Source: Sammer, M., (2003), pp. 24

**Figure 4: Different activities of innovation in an organization**



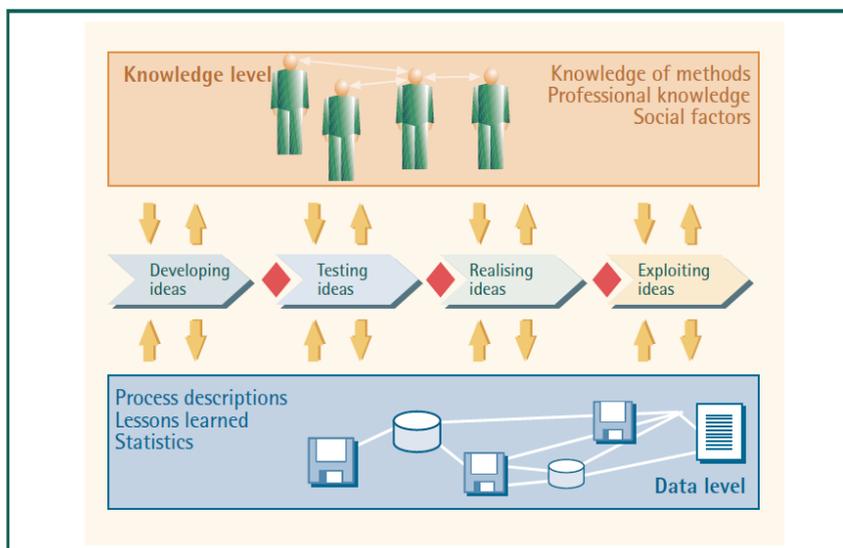
Source: Sammer, M., (2003), pp. 25

In practice, it has been proved that to be effective an organization it means to share the innovation process in several phases:

- Development of ideas
- Testing ideas
- Exploiting ideas

The development phase focuses on the methods of creativity such as brainstorming method to identify and unlock creative potential. Most promising ideas are then filtered in the testing phase. Promising ideas that have passed the testing phase are then developed further realization phase. In the operational phase, new products must be rapidly converted to profits. Thus, the way that knowledge is managed can create the basis for effective and efficient innovation management.

**Figure 5: Knowledge phases in innovation process**



Source: Sammer, M., (2003), pp. 25

#### 4. Conclusions

Based on the literature research made for this article, it is clear that knowledge management plays an important role in creating innovation. Applying for innovation and knowledge management it changes the landscape in which the organization is living and growing.

Reviu literature has shown a clear link between knowledge management and innovation. This link provides organizations and those working in them, an opportunity to improve both business policy and job satisfaction through a high degree of innovation in products, services and working methods. The benefit of knowledge management leading to

innovation was found to be increased by developing new products and services supported by an innovative culture and effective knowledge management.

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