Codification and tacitness as knowledge management strategies
An empirical exploration

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Abstract

This paper develops four categories of knowledge management strategies used by multinational corporations (MNCs). Codification strategies involve the transformation of tacit knowledge into explicit knowledge in order to facilitate flows of organizational knowledge. Tacitness strategies keep organizational knowledge tacit in order to prevent flows of knowledge to competitors. Focused knowledge management strategies regulate knowledge flows by controlling the degree to which knowledge is encoded in forms that match the information intensity and ambiguity of their knowledge. Unfocused knowledge management strategies attempt to regulate knowledge flows by controlling the overall level of codification of knowledge without special consideration of the capabilities of specific forms of codification. Empirical analyses of the effects of these strategies on subunit performance in a sample of US and Danish subsidiaries suggest that the focused strategies are superior to the other strategies. Our results also indicate that different kinds of organizational knowledge require matching forms of codification in order to increase performance. The results give rise to a nested contingency model of knowledge management. © 2001 Elsevier Science Inc. All rights reserved.

Keywords: Organizational knowledge; Knowledge management; Tacit knowledge; Explicit knowledge; Codification strategy; Tacitness strategy; Focused knowledge management strategies, knowledge flows, multinational companies, subunit performance, media theory, contingency theory, competitive advantage, immobile knowledge

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1. Introduction

The management of knowledge is increasingly considered as a main source of competitive advantage for corporations (Grant, 1996; Hedlund & Nonaka, 1993; Prahalad & Hamel, 1990; Prusak, 1996; Roth, 1996; Spender & Grant, 1996; Winter, 1987). It is argued that companies enjoy a competitive advantage if they know how to expand, disseminate, and exploit organizational knowledge internally (Bierly & Chakrabarti, 1996; Szulanski, 1996), if they know how to protect their knowledge from expropriation and imitation by competitors (Liebeskind, 1996), if they know how to effectively share with, transfer to, and receive knowledge from business partners (Appleyard, 1996; Mowery, Oxley, & Silverman, 1996), and if they are able to effectively source knowledge from distant locations (Almeida, 1996).

Although research in this field is still expanding, it appears that first attempts are being made to identify strategies, which help organizations to better manage their knowledge. Some researchers have emphasized organizational learning as a source of competitive advantage (Bierly & Chakrabarti, 1996; Inkpen, 1995; Rahim, 1995; Spender, 1994; Stata, 1989). Others have explored strategic implications of learning barriers (Levinthal & March, 1993; Nordhaug, 1994; Szulanski, 1996). Again, others have emphasized knowledge creation (e.g., Nonaka & Takeuchi, 1995), and still others have emphasized replication and transfer of knowledge (e.g., Zander & Kogut, 1995).

In this paper, we explore knowledge management strategies, which are used to derive competitive advantage from the control and coordination of organizational knowledge flows. Knowledge flows are strategically important to organizations for several reasons. First, knowledge flows transmit localized know-how, which is generated in one subunit to other locations in the organization. Second, knowledge flows facilitate the coordination of work flows linking multiple, geographically dispersed subunits. Third, knowledge flows can enable organizations to capitalize on business opportunities requiring the collaboration of several subunits. Knowledge flows are also crucial to the orchestrated execution of unified strategic responses to moves by competitors, customers, and suppliers. Finally, knowledge flows enable the recognition and exploitation of economies of scale and scope.

The management of knowledge flows is especially important for multinational companies (MNCs) because they operate in geographically and culturally diverse environments. Differences between local markets require adaptation of products and operations to local conditions. Host country governments make incompatible demands on different parts of the company. Multipoint competition requires development of MNC-wide unified responses. Increasing global competition requires the exploitation of economies of scale on a global scale. To manage such contingencies, MNCs can derive great competitive advantage by managing knowledge flows between their subunits.

An important means to effective management of knowledge flows is the codification of organizational knowledge. When organizations codify their knowledge, they package it into formats that facilitate knowledge transfer. Codification can be accomplished in a number of ways, such as encoding of organizational knowledge in formulas, codes, expert systems, “spec sheets,” or budget information; expressing knowledge in natural language formats, such as reports, memos, or policies; embedding knowledge in physical objects, such as
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