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# The impact of tacit knowledge management on organizational performance: Evidence from Malaysia

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## ABSTRACT

This research paper intends to explore and determine if organizations have strategies for tacit knowledge management which is expected to influence their organizational performance both tangibly and intangibly. The tacit knowledge management is derived from the fundamental knowledge creation dimensions namely socialization, externalization, combination and internalization (SECI model). A quantitative empirical research via survey questionnaires was conducted to fulfil the purpose of this research. The feedback from the respondents were statistically analyzed for demographic profile of respondents, goodness of data measured, reliability of the instrument used and hypotheses testing in determining the correlation between organizational performance and tacit knowledge. The outcome of the statistical analysis showed that tacit knowledge management has significant influence on organizational performance. However, among the four dimensions namely socialization, internalization, externalization and combination, only socialization and internalization contribute towards the significant influences of tacit knowledge management on organization performance. This research findings confirm the importance of knowledge creation and management, especially those of tacit knowledge, to both academics and practitioners. This is particularly important for those from top management of any organization, who are seeking to prosper and enhance their organizational performance for a better business function operations and return on investment.

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## 1. Introduction

In current dynamic business environment, the competition is getting stiffer and sustainability become an issue. Organizational performance had been key focus in implementing measures to ensure competitiveness and sustainability. Performance is at the core of all activities in organizations as it determines the organizations' survival (Wang, Bhanugopan, & Lockhart, 2015). In view of this, organizations have to manage money, energy and time effectively and efficiently to optimize the return on investment. This can be achieved through I-TOP model (Muthuveloo, R. & Teoh, A. P., 2013) through its three dimensions comprised of Technology Infinite Possibilities, Outright Environmental Scanning and People (Human Capital Development).

This paper focused on the third dimension of I-TOP model called people (Human Capital Development) in order to optimize the organizational performance. The contribution of people towards organizational performance can be classified into two categories namely hardware and software. Hardware and software indicate the skills and knowledge needed to optimize performance respectively. It examines whether knowledge has significant influence on organization performance and how to retain, share and utilize knowledge to enhance organizational performance. As indicated by Kruger & Johnson (2011), it focuses on formulating strategies for knowledge management especially the tacit knowledge which is recognized as main sources of competitive advantage of firms. Fundamentally, people operates at all related functions in an organization and without them, business is basically a null. Hence, this study emphasizes knowledge management of employees as a key business strategy for organizational performance.

OECD (Organization for Economic Co-operation and Development) (2013) indicated that Malaysia is suffering from the shortage of skilled workers and weak productivity growth due to lack of

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employee creativity and innovation. It has been noted recently that customers tend to shy away from doing business with the organization upon hearing employee turn-over especially those in critical position such as from quality, engineering, program management and design. The fundamentals behind this customer fear is that, if the organization would still have the required knowledge for business continuity and performance despite the turnovers of key employees. This would eventually lead the mentioned key customers being lost to competitors.

Therefore, in order to achieve superior organization performance, organizations need to focus on employee knowledge management. Specifically, tacit knowledge management is crucial in executing day-to-day job functions effectively and efficiently. This in return, will enhance the performance of organizations. However, the link between knowledge management or specifically the tacit knowledge management within the organization and its impact on organizational performance is still vague with limited correlational relationship studies previously (Hsueh, Guo & Kuo, 2016). This research examined the impact of tacit knowledge management on organizational performance. The exploration of the measures and strategies would look into tapping the tacit knowledge following the SECI Model i.e. socialization, externalization, combination, and internalization.

## 2. Literature review

The literature review start with introducing I-TOP model and how it influences organizational performance. Then, it covers the two important variables of the research called organizational performance and tacit knowledge management.

### 2.1. I-Top model

I-TOP is a fluid model that helps managers work towards optimizing the Return on Investment (ROI) in order for them to be the ROI champion in their respective organizations or business community (Muthuveloo & Teoh, 2013). This can be achieved through Technology Infinite Possibilities, Outright Environmental Scanning and People (Human Capital Development). The model propagates the message of BOSS via I-TOP, which means that the organization can only be the leader/at the top, by optimizing Return on Investment. In other words, one (I) only can be top or successful if one (I) could optimize the ROI. This is an adaptable model which utilizes Technology Infinite Possibilities (e.g. blue ocean strategy and disruptive innovation), Outright Environmental Scanning (e.g. global scenario planning and organizational type/structure) and People (Human Capital Development). The I-TOP model shields the organization from business environment volatility by injecting strategic agility into the corporate strategy, leads to growth and sustainability by meeting the Human Needs via Business Needs. Organizations that utilize I-TOP model would be able to form an organization that has worldwide efficiency that is critical for optimizing the ROI that is crucial for business sustainability.

### 2.2. Organizational performance

Fundamentally, for continuous organizational survival in the current competitive business environment, the performance of the organization cannot be overlooked in formulating corporate strategies. The organizational performance includes both financial and non-financial performances; which the former refers to tangible or the monetary benefits such as the return of investment, revenue, and profit margins, while the latter refers to the customer satisfaction, growth and other intangible benefits. Wang et al. (2015) discussed that performance is at the core of all activities in

organization as it determines the organizations' survival as organizational performance is a reflection of the way an organization exploits its tangible and intangible resources to achieve its goals.

In order to achieve a highly performing organization with strong financial results, satisfied customers and high employee morale, an organization should focus on strategies to achieve sustained growth and financial performance; ability to adapt quickly to changes; and spends much effort on developing its workforce (Waal, 2007). Strategic performance capabilities which offer path towards competitive advantage, can be classified into three value disciplines namely product leadership focusing on product-based competition and service innovation; customer intimacy mainly satisfying customers and retaining them; and finally the operational excellence targeting in improving the efficiency of internal operations (Zack, McKeen, & Singh, 2009).

Enhancing organizational performance should be the key focus of every manager in every enterprise and need to establish a comprehensive measurement index that provides managers and staff with clear directions and goals set by the organization (Tseng & Lee, 2014). The ability to achieve these organizational goals, the firm should have the "wisdom" of continuous creation of new knowledge transfer and interpreting of this knowledge within existing knowledge contexts of other parts of the organization (Rhodes, Hung, Lok, Lien, & Wu, 2008). This fundamentally support the main aim of this research in knowledge creation or rather specifically tacit knowledge management, for organizational performance and success. One of the key performance indexes in the strategies would be the employees' capability and competencies (Wang et al., 2015), which is referred to knowledge that is referred as tacit knowledge management in this research.

### 2.3. Tacit knowledge management

Tacit knowledge can be regarded as the key resource for companies, which plays a significant role on the shop floor, where workers develop and use this tacit knowledge in daily duties and activities; these duties are fundamental aspects of efficient manufacturing operations (Nakano, Muniz, & Batista, 2013). From the Resource-Based View theory, mainly by Barney (1991); Drucker (2000, pp. 11–12); Grant (1996) and Penrose (1959), knowledge is recognized as the one and only distinct resource and the key differentiator and crucial for any organization to maintain its' competitive advantage (Suppiah & Sandhu, 2011). These citations explain the need to understand and focus on the importance of knowledge management, especially tacit knowledge for enhanced organizational performance. Harlow (2008), further quoted that the late Peter Drucker saying that knowledge had become the key for economic resource and dominant; perhaps the only source of competitive advantage. Knowledge basically plays a vital role for efficiency and effectiveness in organizational operations; yet the most suitable method for this knowledge management remains as a tough question to address, especially with the challenging task to retain related knowledge especially that of tacit knowledge.

Harlow (2008) defined knowledge management as the formal process of determining what internally held information could be used to benefit a company and ensuring that this information is easily made available to those who need it; in other words, the effective use of systems to collect, use and reuse the knowledge within the firm. In addition, he indicated that tacit knowledge as internal in nature and relatively hard to code and extract, not only does tacit knowledge need to be discovered, extracted and captured; it also has to be creatively disseminated so that this shared knowledge can be efficiently used to extend the knowledge management base.

In a related literature, Peet (2012) referred tacit knowledge as

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