Journal of High Technology Management Research 24 (2013) 18–29

Contents lists available at SciVerse ScienceDirect

Journal of High Technology Management Research

Knowledge sharing barriers in organic growth: A case study from a software company

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ARTICLE INFO

Available online 21 March 2013

Keywords:
High-technology firm
Software company
Organic growth
Knowledge management
Knowledge sharing
Knowledge sharing barriers

ABSTRACT

In a high-technology field such as the software business, there are many companies striving for growth. For small software firms organic growth is a natural way to grow and often the chosen route. Effective knowledge sharing is crucial for an organically growing software company to extract maximum benefit from its existing resources. However, it can be argued that there exist many barriers to effective knowledge sharing in an organic growth context. For companies that have an intention to grow it is important to identify these possible pitfalls lining the growth path. Using an empirical case study, this paper aims to increase the understanding of the biggest potential knowledge sharing barriers that an organically growing software company may face. Management able to recognize such barriers to knowledge sharing could support growth by acting to prevent the barriers from arising and eliminating those already in place.

1. Introduction

Many companies, including many high-technology companies such as software companies, aspire to grow (Goold, 1999; Mouritsen, 1998) and the vast majority of companies would consider growth the way to deliver success, profitability and greater competitiveness (Goold, 1999). Growth generally generates both employment and welfare (Elinkeinoelämän keskusliitto EK, 2006). Therefore, the growth of companies is also commendable from the viewpoint of the national economy.

Organic growth has been regarded as a typical and natural way to grow, especially for high-technology companies such as software companies (Hoch, Roeding, Purkert, Lindner, & Müller, 1999). However, generating organic growth is no easy task. Organic growth requires the managerial ability to steer internal resources and processes efficiently to maintain a successful growth path (Penrose, 1995).

There are studies indicating that knowledge management can support company growth (e.g., Mouritsen, 1998; Salojärvi, Furu, & Sveiby, 2005). Despite the awareness of knowledge management in many companies, relatively few have typically been able to utilize knowledge management related activities to support growth (Salojärvi et al., 2005). One reason for this may be that despite knowledge sharing being identified as a cornerstone of knowledge management, for many companies it has proved problematic and when accomplished, inadequate (Hendriks, 1999). The extant literature notes numerous pitfalls related to knowledge sharing (e.g., Bradfield & Gao, 2007; Cabrera & Cabrera, 2003; Christensen, 2007; Haldin-Herrgard, 2000; Kimble, Grenier, & Goglio-Primard, 2010; Lindsey, 2006; Riege, 2005). For companies with an intention to grow, it would be important to identify these possible knowledge sharing barriers, so that the challenging task of growth generation might be supported as well as possible. Considering this, it is quite surprising that studies on the relationship between knowledge management and company growth are still rather scarce (e.g., Salojärvi et al., 2005). There is a particular lack of studies of knowledge sharing in the specific context of organic growth.

This study aims to fill this void and offers an empirical case study to examine the typical knowledge sharing barriers to the organic growth of a high-technology company, specifically a software company. Armed with the ability to recognize common

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1047-8310/$ – see front matter
http://dx.doi.org/10.1016/j.hitech.2013.02.006

knowledge sharing barriers operating during organic growth, management could efficiently steer their actions and company resources towards preventing such barriers from arising and eliminating barriers already in place. If they could do so, managers could create a context in which knowledge sharing is stimulated and facilitated to support growth (van den Hooff & Huysman, 2009). This study also contributes to the literature on knowledge management by contemplating knowledge sharing barriers in the specific context of organic growth. In addition, the study contributes to the broader growth literature by adding knowledge management, and especially knowledge sharing, aspects to the discussion of the challenges and obstacles to growth.

This paper is structured as follows: the theoretical background starts with an introduction to the research context — the software business and organic growth. As is typical of a case study, the borders between the phenomenon and its context are difficult to define (Morgan, 1997; Vroom & Yetton, 1973). Accordingly, here the study uses the order of the paper to highlight its context-bound nature. The theoretical background section continues with a review of knowledge sharing barriers in the context of the organic growth of a software company. This is followed by a presentation of the research methods and the case organization of the study. The paper ends with a presentation of the results, and there follows a discussion and concluding thoughts.

2. Theoretical background

2.1. The software business and organic growth

The software business is a rather young industry where continuous and rapid change is common. It is a high-technology industry and highly knowledge-intensive, as the software development and production process and also the results of the process, software and programs, are knowledge-intensive and often abstract (Hoch et al., 1999). In software companies independent, competent and creative people with a high level of professional knowledge (Bettencourt, Ostrom, Brown, & Roundtree, 2002; Løwendahl, 2005; Miles, 2005) shape the business. The roles of knowledge and innovativeness are especially critical to staying competitive (Hoch et al., 1999) and creating the potential to grow (Dayasindhu, 2002). Software companies are also typically small or medium-sized (Fayad, Laitinen, & Ward, 2000).

Software businesses play an important part in the modern economy and largely drive and support the modern economy. The growth rate of the field is one factor that reflects the significance of the business to the present day economy. (Hoch et al., 1999) The software industry is still one of the fastest growing industry branches and many software companies demonstrate a continuous aspiration for growth. For many years, rapid job growth has also been a typical feature of the software business. Job growth in the software business has clearly exceeded the average growth rate of jobs in other business areas (Lacey & Wright, 2009).

Nevertheless, many small software firms never find the path of growth, but instead exist and in some cases even fold as small firms (Miettinen, Mazhelis, & Luoma, 2010; Storey, 1994). However, organic growth is a natural and conscious choice of method for many companies (e.g. Hirvikorpi & Swanljung, 2008) including for software companies.

Organic growth can be defined as growth that is achieved without buying any existing business beyond the company (Storbacka, 2005). It involves the natural growth of sales and personnel occasioned by the increase of sales of services or products (Hirvikorpi & Swanljung, 2008). Organic growth is generated inside the company by utilizing unused productive services, resources, and special knowledge in the company (Penrose, 1995). There is always some resource slack in companies, which offers an opportunity to grow organically by exploiting new market opportunities (Lockett, Wiklund, Davidsson, & Girma, 2011). A firm growing organically will typically also recruit new personnel (Järvenpää & Länsiluoto, 2008) either to expand its knowledge base or to obtain more human resources to do the work.

Growing organically is often considered a wise way to grow, because it will most probably generate a smoother growth pattern over time than is available to firms that have grown mainly through acquisitions (Penrose, 1995). While organic growth is often considered the most controlled way to grow, it is also usually the slowest (Collins & Porras, 2005). Organic growth is often a recommended growth strategy for smaller and newer firms (Delmar, Davidsson, & Gartner, 2003; McKelvie, Wiklund, & Davidsson, 2006; Penrose, 1995), which generally includes software companies (Fayad et al., 2000). Smaller companies are often marked by relatively non-hierarchical and uncomplicated structures (Lin, 1998; Simon, 1996). As the growth is typically smooth and controlled, there is no need for the sudden and dramatic changes often observed when growth comes about through acquisitions (Collins & Porras, 2005; Penrose, 1995). However, if growth is rapid there may be a need to redesign and accommodate existing structures (Lin, 1998).

Naturally, there are both positive and negative sides to organic growth. One positive issue is that existing knowledge is typically widely and deeply understood inside the organization (Karim & Mitchell, 2004), making it available to be utilized during growth. As a firm grows organically it will also probably increase its headcount (Järvenpää & Länsiluoto, 2008) and in that way also accumulate more knowledge resources, which in principle increases potential new knowledge combinations. However, those new combinations have to fit the requirements of the business before they can generate growth. Organic growth generally leads to the recruitment of staff with similar competences to existing personnel, that is what is often required. (Lockett et al., 2011) However, this may not be the best possible course of action in terms of creating new opportunities. The development of too similar resources may hinder the development of new unique resources (Lockett et al., 2011; Penrose, 1995). Thus, a company wanting to continue its growth will need to seek complementary and new resources not merely similar ones, even though finding growth opportunities from new directions is likely to be difficult and costly (Lockett et al., 2011).

Organic growth also depends strongly on the ability of managers to see the potential for growth. In any period of growth, managers will be required to spot such potential while focusing on operational tasks and employing recruitment and delegation