Chapter 10
Linking Business Strategy and Knowledge Management Capabilities for Organizational Effectiveness

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ABSTRACT
The effective management of knowledge resources is a key imperative for firms that want to leverage their knowledge assets for competitive advantage and improved performance. However, most firms do not attain the required performance levels even when programs are in place for managing knowledge resources. Research suggests this shortcoming can be addressed by linking knowledge management to business strategy. This study examines a model that links business strategy to knowledge management capabilities and organizational effectiveness. Using data collected from 189 managers, the results suggest that business strategy is a key driver of knowledge capabilities, and that both business strategy and knowledge capabilities impact organizational effectiveness. Additionally, the authors’ findings indicate that knowledge infrastructure capability is a key imperative for effective knowledge process capability. Managerial implications, limitations and opportunities for future research are also discussed.

INTRODUCTION
It is well-recognized that effective knowledge management leads to improvements in business performance. Knowledge management has therefore assumed a great sense of importance and urgency as firms come to recognize the potential for competitive advantage that the firms’ knowledge assets possess. Despite the value that knowledge management projects are expected to accrue to businesses, as many as 84% of knowledge management projects do not have a significant effect on the organizations that invest in these
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initiatives (Lucier & Torsilieri, 1997). Even if the projects are well-resourced and appear to have the support of top management, researchers suggest that many are still predisposed to failure (Storey & Barnett, 2000).

Notwithstanding these negative prospects, executives still believe that knowledge management systems are a key source of competitive advantage and business success (Bohn, 1994; Broadbent, 1998; Clarke, 2001; Felton, 2002; Grover & Davenport, 2001; Lucier & Torsilieri, 1997). This is further substantiated by Gold, Malhotra and Segars (2001) in a survey of senior executives which found that having appropriate knowledge infrastructure and process capabilities within the firm improves organizational effectiveness.

Researchers also argue that additional improvements in firm performance can be attained by linking knowledge management initiatives to the firm’s business strategy (Clarke, 2001; Maier & Remus, 2002; Zack, 1999). Indeed, Clarke (2001) argues that knowledge programs are unlikely to succeed unless they are closely linked to the business strategy. Thus, it can be argued that business strategy is not only a key factor impacting firm performance; it is also indispensable when it comes to maximizing the return on technology investments. Although researchers have discussed the importance of linking business strategy to knowledge management (Clarke, 2001; Maier & Remus, 2002), there has been little research examining the link between business strategy and knowledge management (Maier & Remus, 2002). For example, while many studies have shown that knowledge management capabilities significantly impact firm performance (Gold et al., 2001), the role of business strategy vis-à-vis a firm’s knowledge management capabilities has not been evaluated.

Drawing on prior research that suggests knowledge management should be linked to business strategy (Clarke, 2001; Lang, 2001; Maier & Remus, 2002; Zack, 1999), and that knowledge infrastructure capability and knowledge process capability are additive and collectively determine the knowledge management construct (Grant, 1996; Gold et al., 2001; Kelly & Amburgey, 1991; Law, Wong, & Mobley, 1998), this study examines the role of business strategy as this relates to knowledge management and organizational effectiveness. More specifically, this study addresses a gap in the literature by investigating a modified version of the Gold et al. (2001) model of knowledge management capabilities, that incorporates business strategy as an antecedent of knowledge management capabilities and organizational effectiveness.

The knowledge management capabilities framework (Gold et al., 2001) offers a useful context to examine the role of business strategy. The Gold et al. (2001) model brings together two widely recognized dimensions of knowledge management in organizations – the process perspective which focuses on a set of activities (or knowledge management process capabilities) related to knowledge acquisition, knowledge conversion, knowledge application and knowledge protection; and the infrastructure perspective which focuses technology, organizational structure, organizational culture. Researchers in both streams suggest these activities and structures as necessary preconditions for effective knowledge management capabilities (Alavi & Leidner, 2001; Davenport, Delong, & Beers, 1998), and these are in turn posited as key antecedents of organizational effectiveness (Gold et al., 2001; Stein & Zwass, 1995).

A review of the prior research also shows that few have examined the relationship between knowledge capabilities, more specifically knowledge infrastructure and knowledge process capabilities, and at best, the results have been mixed. For example, while some suggest that knowledge infrastructure underpins knowledge process (Lee & Choi, 2003) others suggest that knowledge process is an antecedent of knowledge infrastructure (Paisittanand, Digman, & Lee, 2007). Hence, the relative roles of knowledge infrastructure