Chapter VII

KM and Strategy

Introduction

Given that knowledge has now emerged as a key resource for organizations, knowledge and its management then naturally have significant strategic implications. In order to understand the connection between knowledge and strategy and thereby the strategic value of KM, we first need to understand some key frameworks and models that facilitate the analysis of organizations and their environments. These include the frameworks of Porter; namely his generic strategies, competitive forces model, and value chain model respectively and McFarlan’s strategic grid. In addition, we show that these frameworks are particularly useful in identifying how KM can facilitate organizations to maximize their competitive advantages. By understanding these key strategy models, it is possible then to fully appreciate how KM can and should be incorporated into an organization’s strategy design.

Generic Strategies

The origins of the word strategy can be traced back to the ancient Greek word “strategós”; however strategy was first embraced in business policy by the development of the SWOT (strengths, weaknesses, opportunities, threats) framework (Maier,
Essentially the goal of strategic management is to find a “fit” between the organization and its environment that maximizes its performance (Hofer, 1975). This describes the market-based view of the firm and was predominantly developed and pushed by the frameworks of Michael Porter. The first of Porter’s famous frameworks is the generic strategies framework.

The use of technology and knowledge must always enable or enhance the businesses objectives and strategies of the organization. This is particularly true for 21st century organizations where many of their key operations and functions are heavily reliant on technology and the demand for information and knowledge is critical. A firm’s relative competitive position (i.e., its ability to perform above or below the industry average is determined by its competitive advantage). Porter (1980) identified three generic strategies that impact a firm’s competitive advantage. These include cost, focus, and differentiation. Furthermore, Porter himself notes that two and only two basic forms of competitive advantage typically exist:

1. Cost leadership and
2. Differentiation.

Firms can use these two forms of competitive advantage to either compete across a broad scope of an industry or to focus on competing in specific niches; thereby, leading to three generic strategies. Porter (ibid) notes that firms should be cautious about pursuing more than one generic strategy; namely cost, differentiation, and focus. We depict the generic strategies in Figure 1. For example, if a cost leadership

Figure 1. The generic strategies
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