Exploring Qualitative Differences in Knowledge Sources: A Study of Hierarchical Effects of Judgmental Confidence and Accuracy Performance

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ABSTRACT

Focusing on knowledge management (KM) and strategic decision making in service businesses through the constructs of strategic capital and knowledge sharing, the study investigates qualitative differences in domain-specific knowledge of frontline employees and executives. The study draws on cognitive theory and investigates the extent to which the knowledge of these subject groups is correct with respect to incorporating intuitive judgments by various employee groups into forecasting and following strategic decision making. The authors carried out this investigation through an explanatory study of the subject groups' confidence and accuracy (CA) performance in a constructed knowledge-based forecasting setting. The groups' intuitive judgmental performances were examined when predicting uncertain business and industry-related outcomes. The authors surveyed 39 executives and 38 frontline employees in 12 hotels. The analysis is based on a between-participants design. The results from this setting do not fully confirm findings in earlier CA studies. Their results indicate that there are no significant differences in the accuracy of executives (as experts) and frontline employees (as novices). Although executives demonstrate overconfidence in their judgments and frontline employees demonstrate underconfidence, in line with earlier CA theory of experts and novices, the differences we find are not significant. Similarly, the CA calibration performance difference between the two groups is not significant. They suggest, among other reasons, that our findings differ from earlier CA studies because of organizational politics and culture by power distance, social capital, misuse of knowledge and the size of the business.

Keywords: Accuracy, Confidence, Intuition, Judgments, Knowledge Management, Knowledge Sharing, Knowledge Sources, Strategic Capital

INTRODUCTION

The literature of knowledge management has presented theories and empirical evidences on how knowledge is created, stored, retrieved, shared, and how it may be taken into practice. However, two dimensions have scarcely been addressed; namely how political, cultural, structural and ecological issues can restrain and promote various kind of knowledge (cf.
Lawrence, Mauws, Dyck, & Kleysen, 2005), and the issue of qualitative differences in knowledge sources in terms of accuracy, i.e. how correct is the knowledge by various sources in an organization.

Focusing on the latter two dimensions, the emphasis in this study is on how knowledge assets may advance good strategic decision making by top management. In an increasingly uncertain and complex competitive business environment, the need for good strategic decisions is becoming increasingly important for service businesses. This can be seen as a result of major forces driving changes such as continual changes in customer expectations, continuous innovation and the growing internationalization of companies. Subsequently, accurate business forecasts to assist managerial strategic decision making is becoming progressively both more difficult and more important.

Scholars have pointed out the limitations of using solely statistical historical data as the ground for strategic decision making (Ghalia & Wang, 2000; Hogarth & Makridakis, 1981; Lawrence, Edmundson, & O’Connor, 1986; Lawrence, Goodwin, O’Connor, & Önkal, 2006; Wright & Ayton, 1987), and the role of intuition has been pointed out as crucial in forecasting and following strategic decisions (Ghalia & Wang, 2000; Bennett, 1998; Lawrence et al., 2006). The important role of intuition in knowledge management is demonstrated in the Japanese approach to knowledge management (Nonaka & Takeuchi, 1995). In this line of thought, an organization’s success is largely dependent on its social capital, which is shaped by the opinions and insights of the organization’s employees through their everyday socialization (Smith, 2005). Nonaka and Takeuchi (1995) proposed that this socialization process is founded on the sharing of both tacit and explicit knowledge and that it is the starting point for new organizational knowledge creation. While explicit knowledge is founded on identifiable facts and is inherently independent of the individual, tacit knowledge is the rich and untapped knowledge that resides in individuals, which cannot be easily externalized as it is shaped by facts, cognitions, feelings and emotions. Building on Nosek’s (2004) definitions of categories of organizational knowledge, Smith (2005) defines the tacit and explicit knowledge as the organization’s strategic capital, which is shaped by employees’ knowledge of changeable and unchangeable facts, opinions and insights through their everyday interactions. Such knowledge and impressions may be used as input in forecasting and strategic decision-making processes by top management in their usage of employees’ judgmental and intuitive predictions and is likely to be crucial for the organization’s capability to execute strategies successfully in dynamic environments.

Traditionally, executives are considered to be knowledge experts in strategic processes compared with subordinates because of their continuous access to, and handling of, strategic information (Lord & Maher, 1991, 1993). In service businesses, however, the role of frontline employees may be particularly important to strategic decision matters because of their continuous interaction and knowledge sharing with customers, managers, colleagues, employees from other competing businesses within the particular service industry and other interest groups. It is therefore reasonable to expect that important strategic information will be created at particularly two different hierarchical levels in the organization: top management level and at the operational level. However, this information is arguably qualitatively different from the other because it arrives from different knowledge sources resulting from different organizational roles and expectations (Walsh & Ungson, 1991), and will probably also, due to differences in hierarchical status, have a systematic different influence on the organization.

As a parallel to the knowledge management’s emphasis on the importance of intuition for strategic decision making, research in metacognition and metamemory in relation to judgmental performance has flourished (e.g., Metcalfe & Shimamura, 1994; Metcalfe, 2000). The study of metamemory processes includes understanding the future judgmental performance of experts versus nonexperts resulting from the confidence with which they
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