

AIM WA Summary Findings
Knowledge Assimilation and Application Survey
**Uncovering the managerial practices that enhance the
application of individuals learning**

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OVERVIEW

This report presents the major findings from the Knowledge Survey 2008, completed during July and August of 2008. Section one introduces the research problem and objectives before the key findings are presented in section two. Section three presents the implications of this study for AIM members, their organisations and the wider business community.

SECTION 1: INTRODUCTION

This section outlines the purpose and motivation for this research project, before presenting the research objectives and methods.

1.1 The Research Problem

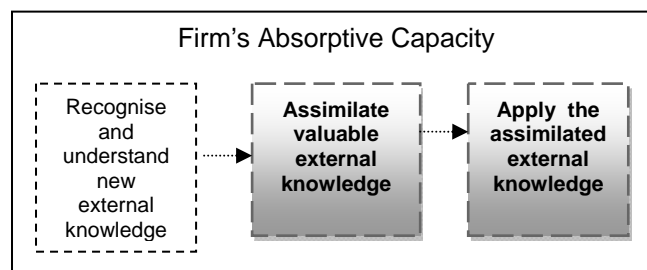
“knowledge is our most powerful engine of production” (Marshall 1965)

“Today’s business world places a premium upon knowledge as a source of competitive advantage” (Starkey & Madan 2001, p3). The emergence of a knowledge economy emphasised the importance of intelligence and knowledge, labelling them the chief sources of production and wealth.

An organisation’s ability to absorb and utilise external knowledge is critical for innovation and success. This ability is known as absorptive capacity. Absorptive capacity is defined by Cohen and Levinthal (1990) in their seminal paper on the concept as an organisation’s *“ability to recognize the value of new information, assimilate it, and apply it to commercial ends”* (Cohen & Levinthal 1990, p128). Despite its critical importance to organisational success, managers have been given limited guidance as to how to enhance this organisational capability. This research investigates two recently proposed organisational drivers of absorptive capacity. It is hoped that this study will uncover firm-level practices that will lead to effective knowledge utilisation.

Within a knowledge economy, *“there is little payoff to penny pinching, and high payoff to rapidly sensing and seizing opportunities”* (Teece 1998, p59). Absorptive capacity allows firms the responsiveness and innovative capabilities to sense and seize opportunities arising outside the firm.

Absorptive capacity is comprised of three distinct processes: (1) recognition and understanding, (2) assimilation, and (3) application of external knowledge (Lane, Koka & Pathak 2006).



This research seeks to examine the internal drivers of absorptive capacity, therefore uncovering the managerial processes that will enhance absorptive capacity. Lane, Koka and Pathak (2006) suggest two internal drivers that have been examined in this research project – firm strategy and firms’ social integration mechanisms. As illustrated in the diagram above, the research focus is on the assimilation and application of new knowledge after it has been recognised and understood.

1.1.1 Firms' Strategy

To distinguish firms' strategy, this research adopts James March's (1991) theory that an organisation divides attention and resources between two broad kinds of activities: exploration of new possibilities and exploitation of old certainties (March 1991, p71). Basically, this distinguishes those "structures designed for efficiency and those designed for innovation" (He & Wong 2004, p482).

This study seeks to investigate the relative impact of explorative and exploitative strategies on a firm's ability to apply learning's following attendance at an AIM program.

1.1.2 Firms' Social Integration Mechanisms

It is well recognised that a major economic problem is the utilisation of knowledge which is not given to any one in its totality (Hayek 1945, p30). Hayek (1945) suggests that the solution to this economic problem is produced by the interactions of people, each of whom possess only partial knowledge.

Firms' social integration mechanisms, those routines and processes that allow people to interact and share, are expected to play a critical role in developing a firm's ability to utilise the knowledge of its employees.

1.2 Research Objectives

The underlying focus of this project is to ascertain how organisations can enhance the sharing and exploitation of new knowledge? A lack of empirical research on the internal drivers of such abilities and scarce managerial guidance in the area has led to the development of the following objectives:

1. To determine how firms' innovation strategy influences the assimilation of new external knowledge and the application of this assimilated new knowledge within the firm
2. To determine how firms' social integration mechanisms influence the assimilation of new external knowledge and the application of this assimilated new external knowledge
3. To provide insight into the management of absorptive capacity and develop normative recommendations for managers to enhance absorptive capacity

1.3 Research Methods

The research utilised both qualitative and quantitative research techniques. Qualitative methods involved in-depth interviews with experienced professionals from a variety of industries, ranging from management consultants to optometrists. These interviews provided data that assisted the development of the main data collection method, an online survey.

The quantitative and primary method of data collection was an online survey. Data was collected from a sample exceeding 420 recent attendees of an AIM program. Refer to appendix A for demographic statistics. Data was then analysed using SPSS 16.0, a statistical software program. Simple and multiple regression analysis were used to determine which managerial practices have a significant effect on an organisation's ability to assimilate and apply the knowledge of its employees. This analysis highlighted whether the proposed drivers of absorptive capacity do in fact increase assimilation and application of new knowledge and the relative importance of each driver.

The following section outlines the major findings.

1.4 Hypotheses and Findings

1.4.1 Firms' Strategy

It is hypothesised that organisation's dominant in exploration, the pursuit of things that might come to be known, are more likely to utilise new knowledge than those that engage more prominently in exploitation, the use and development of things already known (Levinthal & March 1993). Hypotheses one (H1) and two (H2) test this assumption.

H1: Explorative innovation strategy is a stronger driver of assimilation than exploitative innovation strategy Analysis demonstrated that an explorative strategy has a greater impact on assimilation levels, thereby confirming hypothesis one. Overall, firm strategy has significant association with assimilation, explaining 16% of the variance in assimilation.

This suggests that those firms dominant in explorative activities such as search, innovation, and risk taking, are likely to exhibit higher levels of assimilation following attendance at an AIM course or acquisition of alternate external knowledge.

H2: Explorative innovation strategy is a stronger driver of application than exploitative innovation strategy Hypothesis two was similarly accepted with an explorative strategy having greater impact on application levels. This finding suggests that firms dominant in exploratory activities are more likely to utilise the assimilated knowledge for enhanced firm performance.

1.4.2 Social Integration Mechanisms

From our literature review on social integration mechanisms it is hypothesised that they will enhance both the assimilation and application of new knowledge. Hypothesis three (H3) and four (H4) test this theory.

H3: Social integration mechanisms enhance the assimilation of new external knowledge Analysis highlighted social integration mechanisms as the most significant driver of assimilation. Interestingly, formal mechanisms were highlighted as a significant driver whilst informal mechanisms were less important.

This findings suggests that managers can enhance assimilation of external knowledge by formalising the social integration mechanisms in their workplace. In other words, giving employees regular face to face opportunities for sharing and collaborating will lead to enhanced knowledge sharing and integration of individual's new knowledge into the organisations knowledge base.

H4: Social integration mechanisms enhance the application of assimilated new external knowledge Social integration mechanisms have a significant association with organisation levels of application. Social integration mechanisms account for 30.9% of variance in application levels. This was the strongest association that our analysis found therefore suggesting that the most powerful action that managers can take to enhance the application of recently assimilated knowledge is to once again formalise and increase the extent of social integration mechanisms.

SECTION 2: KEY TAKEOUTS

2.1 Implications for Participants and their Organisation

The problem of utilising the learning of individual employees is an issue that this research has tried to address. Following attendance at an AIM program it is the employee's workplace that must create an environment that promotes sharing and application of that learning.

The implications of this research are that managers should actively focus on increasing the use of social integration mechanisms in the workplace. Managers have empirical evidence to justify the investment of time and resources into mechanisms and physical facilities that enhance team work and regular interaction. These mechanisms create the shared meaning and trust that leads to the assimilation and application of individual's knowledge. Secondly, investment in exploratory activities is proved to be beneficial for utilising knowledge. However, this investment should not be to the exclusion of investment in exploitative activities which are critical for the eventual application of external knowledge.

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