



## **POTENTIAL ROLE OF KNOWLEDGE MANAGEMENT IN STRATEGIC HUMAN CAPITAL INVESTMENT**

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### **ABSTRACT**

Out of all the resources available to a firm, human resources represent the most valuable, powerful and influential assets that contribute to productivity and performance of the firm. It is the skill, knowledge, experiences and competencies of individuals that make human resources the most influential assets. However, the effectiveness heavily depends on the way the human resources are managed. One significant strategy to positively impact individual's competencies is knowledge management. Knowledge management comprises of creating new knowledge, transferring or sharing the knowledge and disseminating it for the organisational benefits. People in firms do possess knowledge, and this can be further developed and improved through strategic education, training and development programs. It is undoubtedly an important investment to human capital that would contribute to returns of profitability and productivity of the organisation.

### **INTRODUCTION**

Knowledge management, which is relatively a young academic discipline with well established theoretical underpinning (Gottschalk, 2007) has grown to become one of the top investment priorities of many business organisations. The fundamental objective of knowledge management is the creation of an organisational knowledge base in a way that the knowledge of the members can be better utilized for the overall benefits of the business



(Maier & Hadrich, 2011). Managing 'knowledge' resources is largely associated with the intellectual capital of a firm. Knowledge management can be considered as a strategic initiative that contributes to human capital investments. This piece of research work investigates theoretical frameworks to examine how various techniques and methods of knowledge management contribute to human capital investments.

## **KNOWLEDGE MANAGEMENT**

In the contemporary business contexts where markets, products, competition, technology, laws and consumers are rapidly changing, effective practice of Knowledge Management (KM) has become a major source of competitive advantage (Aramburu, Saenz and Rivera, 2006). Nonaka and Takeuchi (1995), both are widely renowned as KM gurus, argued that Japanese companies remained as enigma for most Western business experts and they gave a new explanation of what made Japanese companies highly successful. Japanese companies were not terribly entrepreneurial or highly efficient to have shown better lessons to others, but they have been very successful to have shown ever-embracing lessons of 'knowledge management' (Groff, & Jones, 2012).

Knowledge Management (KM) is a systematic process of enhancing business performance by implementing techniques, systems, structures and culture with a view to improve the creation, sharing or exchanging and utilizing of knowledge (Noe, 2002). Based on this explanation, the three major components of KM are creating the knowledge, sharing it and using the created or shared knowledge for organisational purposes. Some literatures have considered more components such as knowledge identification, knowledge collection, knowledge organizing, knowledge dissemination, knowledge evaluation and knowledge adoption or implementation (Mehrabani and Shajari, 2012). Forster (2005) described that knowledge management is a generic term that includes certain process by which employees' experience, knowledge, skills etc are gathered, shared and utilized and then converted to a system of collective organisational resources that form as intellectual capital base.



Nonaka and Takeuchi perceived knowledge as a profound instrument that has effectually increased organisation's capability to implement right action from the evidences of Japanese companies. Knowledge has been categorized in to two; tacit and explicit knowledge. Tacit knowledge is one that is embedded in a person through the forms of experience, knowledge, skill, talent, wisdom etc and this can be attained from imitation and practice. Explicit knowledge is information stored in documents or database (Lee, Leong, Hew and Ooi, 2013).

As Awad and Ghaziri (2007) noted, knowledge management is a newly emerging interdisciplinary management and business model that focuses on knowledge among the employees within an organisation. Knowledge management is important in HRM as well as it is rooted in economics, science and human psychology. Knowledge management helps a business achieve high performing standard at organisational level and thus to obtain competitive edge (Groff & Jones, 2012).

Knowledge Management is a tool that bridges the gap between organisational change, innovation, learning and processes. It is a generic term that encompasses the processes by which employees' experiences, skills, expertise, knowledge and abilities are gathered, shared and utilized and these are eventually converted to collective organisational learning process (Groff & Jones, 2012). Human intellectual capital, creativity, innovation and information are the basic sources of competitive advantage and these can be synthesized and utilized for the business success only if knowledge management can be effectively implemented and practiced in the business.

## **Knowledge Management Models**

### **Tacit and Explicit Knowledge**

Knowledge management can be viewed from a variety of aspects and ways. One typology is to classify it by differentiating tacit and explicit knowledge. Pure data always have little effect for a manager where as structured data are more useful and effective measures to analyze and find solutions for the problem.

Based on this classification, knowledge management is a process of obtaining and making use of expertise in the business throughout papers, documents and databases as described as explicit knowledge or sharing and making use of knowledge throughout the



minds of people described as tacit knowledge. Tacit knowledge refers to the individual knowledge based on the experiences, perceptions and values that he holds whereas explicit knowledge refers to that knowledge which is collected, stored and managed in manuals, documents, papers and formulas described in formal languages (Noe, 2002).

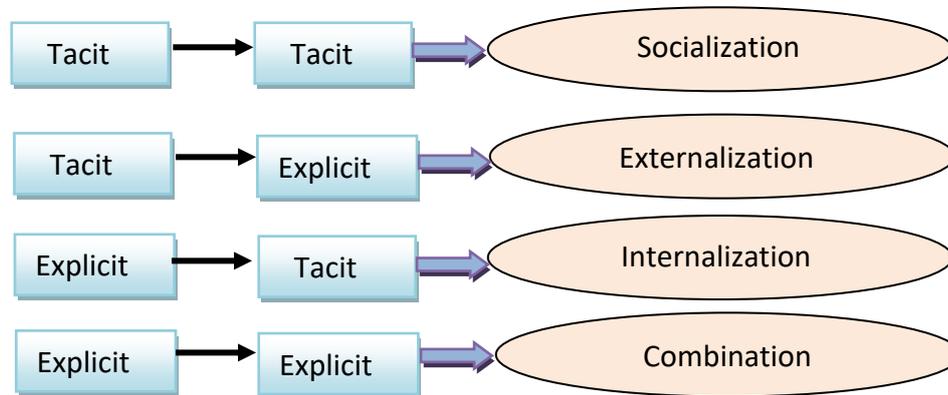
Knowledge management is not only related with effective management of data and information available in the organisation, but also related with collection of the data and converting it in to information and then making it useful for the employees in the organisation. Nonaka and Takeuchi (2007) believed that Japanese companies have focused on knowledge management and thus they pursued a policy of continuous innovation. According to them organisational knowledge is the ability of an organisation to create new knowledge, disseminate it throughout the company, and embody the same in to innovative products and services. According to them, explicit knowledge like rules of formulas and tacit knowledge like knowledge of more experienced people are the two basic categories comprised in the knowledge management framework. The Japanese companies argued that their success is driven by their ability to turn tacit knowledge in to explicit knowledge that is shared in the organisation.

The difference between tacit and explicit knowledge is a critical one. Tacit knowledge is intuitive and unarticulated and it cannot be verbalized as well. Tacit knowledge is transformed in to habit and it is made traditional. But, explicit knowledge is transmittable in formal and it may include facts and symbols (Inkpen and Ramaswamy, 2006). Explicit knowledge can be articulated. For example, documents describing how to connect with hardware parts of a computer or a document that describes how to use email system in the organisation. According to Nonaka and Takeuchi (2007), the interactive process of knowledge between tacit and explicit types of knowledge conversion lies in the underlying principles of knowledge creation. They found that there are possible modes of knowledge conversion. They are: 1) from tacit to tacit that is called socialization, 2) from tacit to explicit which is called externalization, 3) from explicit to tacit which is internalization and 4) from explicit to explicit which is known as combination (Magalhaes, 2004, p. 79).

Nonaka and Takeuchi (1995) illustrated Home Bakery's development story to present the above four modes of knowledge conversion. In this illustration, they have outlined that



tacit knowledge is mobilized in the pursuit of creative innovation. They also illustrated enabling conditions and five phases of knowledge creation, sharing of tacit knowledge, creating concepts, justification and building archetypes and cross-leveling of knowledge.



Source: Nonaka and Takeuchi, 1995

### Retaining talented workforce as a KM tool

From the above illustration, it is clear that experience, skills and wisdom are more likely to play vital roles in knowledge management. There has been a growing concern that younger employees who come as fresher to the field of employment may not possess the same skills and experiences that older workers possess. Older employees have worked long and experienced much in their life and thus they developed their skills. Even though keeping and retaining them may increase the expenses like health and insurance, they still are more valuable intellectual assets because their skills, knowledge and experience can bring better outcome if it is well managed in a way that there is flow of information in the organisation and free sharing of knowledge as well.

According to Shultz and Adams (2007), older employees are rated lower on the basis of learning things quickly, flexibility and energy for creative thinking and working, but still, they are higher rated than youngsters on academic skill levels, attendance, ability to get adjusted with co-workers, work ethics and knowledge they have. How retaining older employees can work out as a knowledge management tool and thus to enhance competitive advantages have been emphasized by Hosie and Sevastos (2006). According to them, older workers are most likely to be used as competitive strategy among companies. A study conducted by McIntosh (2010) showed that 97% of the workers among the surveyed



responded that older workforce are more reliable, accountable and thorough in doing works assigned to them than others in the organisation.

### **People, Process and Technology for Knowledge Management**

Knowledge management also has been classified according to two different elements that are technology and people. Some time, the emphasis in knowledge management is on technology or on people. When technology is concerned, human resource managers, and HR practitioners have a technology background and they put technology as the central and integral part of the knowledge management process. In such system, artificial intelligence and reengineering are of greater significance. When people are emphasized in knowledge management, human resource managers are more likely to have a better background in the business processes, organisational behavior and management activities and therefore they will be actively involving in assessing, improving and managing the skills and behavior of individuals (Lehaney, 2004). In this classification, abilities and skills of managers are involved.

### **Knowledge management and human capital investment**

To illustrate how these two variables are correlated, it is critically important to comprehend what is human capital and human capital investment. 'Human resources' and 'human capital' are considered entirely different. Human resources represent the manpower available in a firm, whereas human capital represents 'the knowledge, skills, talents and competencies that are embodied in individuals to facilitate the creation of social, personal and organisational well being' (Leeuwen, 2007).

More specifically, human resource management is about managing all people-related activities in an organisation including employee recruitment, selection, retaining, education and training, employee records, payroll, benefits design, labour relations, government relations, labor law and so on. But, human capital management is a subset of HRM. Human capital management is a system for enabling the business to meet both its short and long term goals by improving the performance of human resources. Their performance is enhanced and developed by empowering knowledge, providing education



and training, facilitating organisational learning, effectively managing team-works and so on (Hall, 2008).

Human capital approach asserts that people bring intangible, tacit knowledge rather than the more explicit, and it contributes greater value to the organisation. Intellectual capital and human capital are often used interchangeably. However, some literatures considered intellectual capital as a broad one, encompassing internal dimensions such as patents, concepts, trademarks and so on. However, human capital corresponds to one of the internal dimensions of intellectual capital. It merely consists of education, competencies, values, beliefs, attitudes and experiences possessed by individuals in a firm (Garavan, Morley, Gunnigle and Collins, 2001). Human is defined as a capability, knowledge, skill, experience and networking with the ability to achieve results and potential for growth, individual motivation in the form of aspirations, ambition, drives, work motivations and productivity (Garavan, et al, 2001).

Based on the above mentioned definitions of human capital, it is clear that 'knowledge' is an important element of human capital. According to this perspective, it can be further illustrated that knowledge management deals with managing of human capital that are embodied in individuals in forms of knowledge, skills, competences and experiences.

In finance and accounting, investment is never considered as a cost, since it is meant to contribute some returns in forms of profitability, brand image, improved financial performance etc. In today's competitive business contexts, investing in education, training and development of human resources has become an increasingly important component of strategic human resource management. In some occasions and in some companies, the investments in these strategic HR activities are huge. It is also important to analyze how these investments impact the overall financial and organisational performance in terms of profitability and productivity.

According to the researches of Nonaka and Takeuchi in 1995, knowledge creation and knowledge sharing have played significant roles in the success of Japanese companies. Superior performance and competitive advantages have been derived from the process of knowledge-creation. It is the capability of a firm to create new knowledge and to disseminate it through the entire organisation. Knowledge assets are the inputs as well as



outputs of the knowledge creation process. People's knowledge are processed to create new knowledge in forms of ideas, visions, strategies and so on. This process enables people to acquire more and newer knowledge which in turn help them perform better in the organisation (Holden and Glisby, 2010).

## Recommendations

The knowledge management frameworks discussed in this paper shed lights to certain strategic techniques for enhancing increased returns on human capital investment. The knowledge classification in to tacit and explicit and the knowledge-transfer between these two modes take any one of the four following organisational contexts. They are socialization, externalization, internalization and combination. **Socialization** is the knowledge-transfer from tacit to tacit, whereas **externalization** is the transfer from tacit to explicit. **Internalization** is the knowledge transfer from explicit to tacit and **combination** is the transfer from explicit to explicit. The HR management is recommended to evaluate these opportunities and to adopt the best appropriate methods among these for better applying the knowledge-transfer process. It is important to find out how each one among these modes would help the company enhance the 'knowledge' asset base among the people.

For example, to increase the potential of socialization, the HR management may facilitate team-works, collaborative activities and so on, as people would interact and their knowledge will be transferred between individuals. For externalization, the management team may support employees' use of social networks, internet and other resources. For internalization, seminars, trainings, teamwork etc will be helpful.

This paper recommends that more talented and highly skilled workforce need to be retained in the organisation so that improved returns can be expected. It may be rather expensive to retain more talented and skilled workforce, however this can be considered as an investment in human capital that would certainly yield greater returns of both profitability and performance.



## CONCLUSION

This piece of research work examined the theoretical frameworks of knowledge management to assist the view that knowledge management is a strategic human capital investment that would enhance greater returns. This paper evaluated three basic frameworks of knowledge management, the knowledge-transfer framework developed by Nonaka and Takeuchi, retaining talented workforce as a tool for KM and the significance of technology, process and people for the KM process. KM is considered as human capital investment. Human capital is the sum total of knowledge, skills, talents, competencies and experiences that are possessed by individuals, and these are used for the overall benefits of the organisation. This paper suggested human resource management to implement knowledge transfer techniques and to retain more talented workforce as useful measures for improving the returns on human capital investment.

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