Knowledge and competitive advantage: What CEOs say and what firms do

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The majority of the "knowledge management initiatives" deployed by firms are not well-geared toward harnessing firm-specific knowledge.

Knowledge can be a source of competitive advantage: what firms know is sometimes more valuable than what they have. In their paper, "Firm-Specific Knowledge and Competitive Advantage: Evidence and KM Practices," IESE's Rafael Andreu, Joan Baiget and Agustí Canals set out to determine how organizations use their knowledge to achieve their goals and gain competitive advantage. They discuss the potential value of knowledge and the benefits that firm-specific knowledge, in particular, can have for competitive advantage, and then measure this against firms' actual practices.

General-purpose versus firm-specific knowledge

It is convenient to distinguish between two main types of knowledge from which businesses can benefit.

General-purpose knowledge allows a firm "to 'do' something that, though also done by competitors, is demanded and valued in the market." As a consequence, "its market value is approximately equal to its value within a firm." General-purpose knowledge can be obtained easily and tends to be technical in nature.

In contrast, *firm-specific knowledge* encompasses "the firm's particular modes of functioning, its particular organizational context, and often acts as a sort of 'organizational glue' that is

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useful for combining different pieces of knowledge into a coordinated set that makes sense in a particular competitive context." This kind of knowledge is idiosyncratic and unique, it cannot be easily obtained from outsiders, and it is usually difficult to imitate.

So which is more valuable?

All businesses need general-purpose knowledge: an automobile manufacturer, for example, needs standard air-bag technology.

Firm-specific knowledge, however, is valuable in a different way and can give a company knowledge-based sustainable competitive advantage.

Traditional competitive advantages rooted in physical, financial and technological elements are becoming less robust due to globalization and deregulation, so companies must work harder to define themselves with "distinctive, difficult-to-imitate capabilities." Firm-specific knowledge can be vital for achieving this.

Thus, it seems clear that businesses should make an effort to develop knowledge management (KM) practices geared toward developing and leveraging firm-specific knowledge.

Surprisingly, this is not always the case, as is shown by a preliminary analysis of data from a KM study focusing on senior managers in Spanish firms.

Mismatch between practice and results

The study included three main questions about KM:

- How do managers perceive the effect of general-purpose and firm-specific knowledge on competitive advantage?
- Which type of knowledge do they view as most important?
- What KM practices have they adopted in their companies?

It was assumed that KM practices would naturally align with whatever type of knowledge managers viewed as most critical.

Among the key results are the following: managers believe knowledge to be very important for competitiveness as well as for sustainability; they can discriminate among different knowledge types; they prioritize firm-specific knowledge over general-purpose knowledge from a perspective of sustainable competitive advantage; and they underscore "management

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practices and approaches" as a key element of firm-specific knowledge.

However, a firm's KM practices do not always support or align with these managerial views. Indeed, many managers "seem to expect that [KM practices] are less explicitly related to competitiveness than what one would expect." They tend to focus on technology-related KM initiatives, which are not as conducive as other kinds of knowledge for yielding sustainable competitive advantage.

The bottom line? There is a mismatch between actual KM practices and the knowledge-based outcomes managers seem to hope for. Managers "do not ... anticipate concrete results ... that are consistent with the competitive advantage potential associated to firm-specific knowledge," and "the kind of KM initiatives that managers talk about and the kind of results that they seem to expect from them are also less consistent with that competitiveness potential."

All of these preliminary analyses prepare the way for interesting additional research and actions. First and foremost, the connection between the idea of knowledge-based sustainable competitive advantage and actual KM practices that have the potential to increase it must be studied in greater depth.

Second, there is an opportunity for further research on whether other types of KM practices, particularly those based on Web 2.0 tools, can be used more effectively to address sustainable competitive advantage.

Lastly, managers should focus their actions more directly on enhancing knowledge-based sustainable competitive advantage by implementing effective KM practices that are relevant to this goal. Only by harnessing and strengthening the knowledge that lies within their firms can its power truly be unleashed.

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