

# Challenges of Using Dynamic Capability and Knowledge Management to Improve the Performance of Business Organizations

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## Abstract

*Knowledge management's primary function is to make commercial organizations more competitive. Business organizations must confront worldwide issues when they transition to the knowledge-based economy era, particularly the employment of knowledge-based information technology. For corporate organizations, knowledge management is a source of competitive advantage. This research used aimed to investigate how dynamic capabilities and knowledge management as one of the strategic management ideas contribute to the overall performance of a corporate organization. The data were facts and expert opinions collected from credible national and international sources. The relationships between studies and prior research pertinent to the evolution of strategic management, knowledge management, challenges and problems, and their impact on the performance of business organizations were analyzed. The results showed that investment in human resources is necessary to implement knowledge management as a source of competitive advantage for commercial companies. Knowledge must be managed through an information system in order to be created, transferred, and shared within the company. Business organizations can implement organizational learning through knowledge management. Additionally, organizations need dynamic capabilities to maintain a competitive edge. These skills, routines, and processes are seen as internal to a corporate organization and allow it to adapt to its environment while making the most use of its resources. This study also demonstrated how information management and dynamic circumstances are crucial for enhancing the effectiveness of corporate organizations.*

**Keywords:** Knowledge Management, Business Organization, Dynamic Competitive Advantage

## 1. Introduction

Companies that compete in today's dynamic and demanding business climate face new obstacles. The corporate climate is conducive to the development of knowledge-based economic studies. The intangible assets contained in a company's human resources are significantly responsible for its survival and competitiveness in order to flourish and win market competition (Lev & Daum, 2004; Pike et al., 2005). These intangible assets can be skills or information, but they are not the capacity to purchase and process raw materials into finished commodities. Organizational performance will depend significantly on their capacity to operate in a global corporate environment that is dynamic and undergoing fast change (Hitt, 2000). Moreover, market environment changes are unexpected (Lawton & Rajwani, 2011). Consequently, numerous firms concentrate on how they produce, manage, and utilize their intellectual assets (Klaila & Hall, 2000).

The learning process is considered as a means of self-development, in order to improve knowledge, experience, and provide benefits for self-development (Çakır et al., 2021). The goal of the organization's learning process is to store collective organizational knowledge, which consists of the information that already exists in individual organizations. The idea behind how businesses try to increase, alter, reorganize, or adapt their current assets and expertise in order to add value in a continually shifting business environment (Katkalo et al., 2010). Dynamic capabilities are a company's capacity to adjust its resources to a fast-changing environment in order to create value (Ambrosini et al., 2009).

In the future, it will be hard for organizations to figure out how they can stay alive in a knowledge-based competitive environment. Every organization needs to be able to look at important things like the environment, keep an eye on changes, and figure out if they are opportunities or threats for the business. So, in order to do an analysis of the business environment, organizations must be able to come up with a good plan. This needs to be done to help the company make strategic decisions and reduce the business risks it has to face.

Every organization needs to be able to take advantage of different opportunities and threats, as well as deal with them when they happen. Support for the use of information technology and knowledge management can help come up with good ways to do things. Organizations need to know what's going on by looking at the weaknesses and strengths of their competitors (Hartley et al., 2013). Furthermore, it is vital to understand consumer demands and needs through continual innovation techniques, knowledge investment, and knowledge-based human resources.

This study examines the function of knowledge management in fostering organizational competitiveness in the context of knowledge-based competition. The topic focuses on the shift in the paradigm of competition toward knowledge-based competition and human resource management in the era of globalization. In addition, the study of knowledge management serves as the basis for the organizational learning process, which aims to boost the competitiveness of businesses.

## 2. Method

This research used a literature review methodology to investigate how dynamic capabilities and knowledge management as one of the strategic management ideas contribute to the overall performance of a corporate organization. This study examines facts and expert opinions from credible national and international sources. This study examines the relationships between studies and prior research pertinent to the evolution of strategic management, knowledge management, challenges and problems, and their impact on the performance of business organizations.

## 3. Results and Discussion

### 3.1. Knowledge Management Concept

Knowledge management was first offered at a European management conference in 1986 (American Productivity and Quality Center, 1996). There is no consensus on a generally accepted definition of knowledge management, resulting in various, confusing, and abstract conceptions of knowledge management. The concept of knowledge management thereafter grew swiftly and drew the discussion of numerous specialists. The following table contains several definitions of knowledge management that provide an overview of the fundamentals of knowledge management.

**Table 1. Knowledge Management Concept Approach**

Originator	Definition
UNDP (2014)	Knowledge Management (KM) is the practice of capturing, storing and sharing knowledge so that we can learn from the past and apply it in the future.
Bergeron (2003)	KM is a strategy for optimizing business by identifying, selecting, managing, filtering, and packaging important information in a business organization with the aim of improving employee performance and organizational competitiveness.
Tjakraatmadja (2002)	KM is a systematic step in managing organizational knowledge, to create value, and competitive advantage.
Harkins, Carter, Timmins (2000)	KM is a framework or system designed to help companies capture, analyze, apply, and reuse knowledge so that decisions are made faster, smarter and better and achieve a competitive advantage.
Davenport & Prusak (1998)	KM is a combination of practices, values, contextual information, and expert views, which produce certain thoughts.
Gurteen (1998)	KM is basically about people sharing knowledge; learn from each other and work together more effectively.
Sveiby (1997)	KM is the art of creating value from intangible organizational capital.

Source: (Kristinawati & Tjakraatmadja, 2018)

Knowledge production is the improvement of existing knowledge through the discovery of new information. Additionally, it is a process of reflecting on the experiences that have been had. Typically, such procedures arise when people are more forthcoming about work faults, the process, and attempts to make improvements. In addition, the process of developing knowledge inside an organization involves the generation of new knowledge based on current information.

### 3.2. Knowledge Based Business Competition Paradigm

Globalization and escalating competition have made corporate organizations rethink their business strategies and emphasize the importance of knowledge as a fundamental component. Knowledge-based rivalry now plays a significant part in today's commercial competition. The transition of the world economy to a knowledge-based economy is impacted by this circumstance. A superior company organization that can successfully create and manage its knowledge assets will have an advantage over rivals. Organizations that prioritize information as a source of competitive advantage, on the other hand, will fall behind. Similar to this, in corporate organizations, those with more knowledge will be rewarded with bonuses or other suitable awards.

The knowledge-based economy that is currently in development is supported by high levels of knowledge, information, and skills, and the accessibility of intangible assets may be ensured (Teece, 1998; Wertemanagement, 2016). Knowledge is a factor in the development of corporate organizations today, which also affects a nation's economy. Therefore, it is essential that this information be created and successfully managed in order for commercial enterprises to survive and perform better. It is crucial for corporate organizations to boost investments in areas like education and training, including research and development, in order to attain these goals.

The knowledge economy, or knowledge-based economy, is currently characterized by a number of significant characteristics, including the significance of

knowledge as an intangible factor of production, the formation of strategic cooperation and partnerships, and the existence of rapid strategic changes in a network. A more effective administration of human resources is required in the knowledge era. This situation results from the significant impact that human resources have on improving organizational performance (Gelade & Ivery, 2003). The function of successful human resources focuses more on skill development, creativity, and innovation, as well as managing change and transformation. This role transforms a business into a learning organization (Chang & Lee, 2007).

### **3.3. Business Organizational Competitiveness and Knowledge Management**

In an era where knowledge plays a critical role in deciding the performance of commercial organizations, knowledge management receives special emphasis. Organizational leaders must grasp the process of knowledge generation in order to gain a competitive advantage. Organizational leaders must encourage their organizations to become productive learning environments (Bass, 2000). One goal of implementing knowledge management in organizations is to improve performance and company operations in order to gain a competitive edge. Knowledge management is used to improve how people inside and outside of an organization talk about business. Organizational leaders also stress a culture of learning and improving knowledge, and they encourage a system of rewards based on how well people do their jobs (Lau & Ngo, 2004). The organization must reorganize the knowledge that is already present in its human resources due to the significance of knowledge as the key to organizational competitive advantage.

### **3.4. Learning Organization and Knowledge Management**

The paradigm shift in the era of globalization can be observed in business organizations. In the era of knowledge, the quality of an individual's thinking is the most important aspect for managing work systems. Then, it is utilized and integrated in all production processes, which are ultimately realized as commodities and services. In the knowledge era, the ownership of physical buildings is no longer a predictor of a company's competitive advantage. Knowledge in the forms of creativity, innovation, and knowledge determines excellence more than anything else (Carayannis, 2008). The key to improving the well-being and quality of individuals and work groups in companies is the discovery and expansion of each individual's knowledge (Roux et al., 2006).

It is essential to emphasize the organization in order to alter the organization's values for a business organization to succeed. Additionally, businesses need to refocus by developing and utilizing intellectual property through knowledge management. This is done so that businesses may compete more successfully in knowledge-based and business environments. In order to achieve a sustained competitive advantage, knowledge is viewed as the primary resource (Kongpichayanond, 2009; Ndlela & du Toit, 2001). Knowledge management helps organizational learning processes achieve a synergistic mix of data and information to process information technology capacity with innovative capacity and human creativity (Pemberton & Stonehouse, 2000; Yahya & Goh, 2002). The success of an organization's technological advancement can be achieved through the excellence of its human resources, specifically their knowledge and abilities. In addition, knowledge management is a strategic process for identifying and developing competitive resources (Huang et al., 2016; Parikh, 2001).

Organizations must be able to actualize the application of information technology in the context of knowledge. Because information technology plays a crucial role in the process of disseminating vital company-wide information via intranet media. Organizations must be able to create and implement technology and knowledge creation

for their employees. In addition, the roles of communication and knowledge management must be refined. Without modern technology, it will be exceedingly difficult for businesses to compete. Therefore, if it cannot be met, it will inhibit the process of knowledge distribution, thereby impeding the knowledge capitalization process within the business. In addition, by adopting an approach based on information technology, firms can enhance their talents and capacities to generate knowledge and great ideas. This is quite optimistic for the company's ability to develop fresh insights and possibilities that offer value for both internal and external customers. When connecting with customers, a wealth of valuable information is gleaned.

### **3.5. Knowledge Management Implementation and Challenges**

Building a great business organization in a market with a lot of competition is not easy. Business organizations need to come up with strategies that keep up with the changing needs of the business world (Hillman et al., 2000). However, there are numerous challenges to implementing knowledge management in commercial organizations (Riege, 2005). The most difficult aspect of implementing knowledge management is motivating individuals to share their knowledge. It is probable that there are still personnel who are unwilling to disclose information.

The organization's social environment may be impacted by the use of information technology to implement knowledge management (Sambamurthy & Subramani, 2005). For instance, during the knowledge transfer process, certain employees may be unwilling to give special information that may be exclusive to them only. Workers must interact with one another in order to share knowledge. Questions that must be discussed with staff members who possess this special understanding will frequently come up whenever there is an issue. The work will become more difficult to complete as a result. As a result, knowledge management may be transferred more easily when information technology is used. As a result of having to submit all of their knowledge to the system so that everyone can access it, people who possess unique knowledge now face the issue of feeling as though they have lost their individuality. The majority of people are hesitant to impart their information. Employees may be reluctant to share their information for a variety of reasons, including the difficulty or effort involved in putting their knowledge into written pieces or other forms. In order to offer information sharing in a way that is more easily understood and easier to transfer, a mechanism must be developed. Because all work has a time restriction in the organizational setting, information sharing needs to function well.

The next problem is figuring out how to make sure that the knowledge management process can produce knowledge documentation as needed, on time, and in a way that helps get work done (Ray, 2008). If this procedure is successful, it will leverage this information and give value to the organization. The implementation of knowledge management requires the assistance of information technology (Liebowitz, 2001; Pan & Scarbrough, 1998). This is essential for the system's accessibility, information retrieval speed, data backup system, and other features related to the advancement of organizational knowledge management. Knowledge management will be dispersed manually and unable to advance efficiently without the backing of sufficient information technology.

In addition, organizational work culture is a crucial factor for the successful application of knowledge management in corporate organizations. Work culture is associated with daily actions or procedures performed by employees. The tendency to have trouble adapting to and adjusting to a new work culture, such as knowledge sharing, is an impediment to the adoption of knowledge management.

### 3.6. Dynamic Capacity

The dynamic capability (DC) idea embodies criticism of the resource base view (RBV) approach. This concept believes that ability, rather than being a resource, is at the heart of a company's success (Morgan et al., 2009). It is assumed that capability consists of the internal routines, abilities, and processes that allow a corporation to adapt to its business environment and maximize its resources (Teece, D.J., 1997).

The dynamic capability theory says that markets change and that firms have different abilities to get and use their resources, even though their resources are all the same. These differences explain why the performance of different companies has changed over time (Eisenhardt & Martin, 2000). The capabilities held are also dynamic, such that they may assist organisations execute new strategies to reflect changing market conditions by merging and modifying available resources in new and diverse ways (Morgan et al., 2012).

To meet the operationalization requirements of the framework, dynamic capabilities can be readily divided into three categories of entrepreneurial/managerial orchestration processes and company-wide activities (Teece, 2007):

1. Identifying and assess opportunities at home and abroad (sensing);
2. Mobilising resources worldwide to address opportunities and capture revenue (seize); and
3. Advancing updates (transformation).

Normal skills, on the other hand, are not enough for long-term survival and growth. In a fast-changing economy where intangible assets are key to gaining and keeping a competitive advantage, firms with dynamic capabilities have a better chance of building and keeping a competitive advantage, which leads to better performance. But companies also need a good strategy if they want to compete and win (Teece, 2014).

## 4. Conclusions

The economic trend in the period of the knowledge-based economy is more dependent on knowledge, information, and high skills. Intangible assets are also required for the growth of knowledge management for corporate organizations. In order to ensure the company's sustainability, the role of human resources with the necessary capabilities is crucial and important. Knowledge-based human resources with specific and distinctive abilities are vital and crucial to an organization's success.

How important it is for organizations to keep up with technological changes as a way to transfer and share information within the organization. For knowledge-based human resources to grow, there needs to be a way to learn that helps both the learning process and the learning process within the organization. Knowledge management is all about gathering and sharing information, which is the foundation of how organizations learn.

Dynamic capabilities are the internal routines, skills, and processes that allow an organization to adapt to its business environment and maximize its resources. The capabilities are also dynamic, so they may assist businesses in implementing new strategies in response to changing market conditions by combining and altering available resources in novel ways.

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