

Knowledge Management Innovation: Perspectives from the Islamic Development Bank

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Abstract

International financial institutions should no longer rely on traditional ways to conduct business. By innovating on legacy platforms, organizations are able to be on the competitive edge. Information is power and managing information or knowledge will ensure profits are maximized and competitive business advantage is attained. In the case of the Islamic Development Bank (IDB), becoming the leader in the international banking industry requires smart leveraging of innovation in knowledge management. By exploring these innovative capabilities, organization information processes will enhance the routine activities for IDB while simultaneously positioning itself strategically in the eyes of the world as the leading Islamic financial institution that serves the interests of the people to its fullest potential. Consequently, key performance indicators (KPI) can then be identified and applied to ensure objectives are achieved. The outcome of this paper would be of interests not only to the IDB's top management but also to academics, advocates of KM and innovation and would ultimately contribute towards breadth of knowledge within these two areas for further in-depth, empirical studies

Keywords: innovation, knowledge management, competitive advantage

Introduction

On August 5, 2011, Elliot (2011) reported that the most serious global economic crisis has hit the lowest grade since the Great Depression. Again, the crisis was triggered by the newly downgraded US debt status (Elliot, 2011). Previously in May 2009, the world economy was also in a deep recession, which started with the financial crisis in the United States (Boston Consulting Group, 2009; Elliot, 2011). This crisis occurred through a combination of low interest rate policy, deregulation of non-bank financial institutions and the massive growth of the

unregulated derivatives markets (Boston Consulting Group, 2009). During these tumultuous times, survival of financial companies becomes critical. Organizations across the world including IDB have to be more innovative either in cutting cost of operations, reengineering the production processes and inventing new products or services to stay relevant in the market. Knowledge has been identified as an important element which is critical for organizations to be innovative (Ho, 2007).

Nevertheless, the challenge for organizations to stay competitive is becoming more and

more difficult these days due to the continuous global economic crisis. Adopting and executing the right strategy is becoming more imminent (Morgan, Levitt and Malek, 2007). Furthermore, organizations are forced to think 'outside of the box' in order to position themselves strategically in the market. The challenge for organizations to stay competitive is becoming more and more difficult these days due to the current economic crisis. Adopting and executing the right strategy is becoming more imminent (Morgan, Levitt and Malek, 2007). The tolerance and margin for error are less compromising as small failures have bigger business implications which would affect bottom lines and force organizations to be out of business (Andrew and Sirkin, 2006). To prepare for the inevitable battle, organizations are leveraging on the knowledge that they inherit and acquire from outside to be as innovative as possible in providing solutions. Knowledge and innovation are key intangible assets which are priceless in this world of borderless economy (Uhlener, van Stel, Maijaard and Folkeringa, 2007).

As awareness of capturing tacit and explicit knowledge is becoming increasingly essential among business communities these days, the need to conceptualize the scope, properties and remit of knowledge management (KM) has become apparent. Strategically, organizations are adopting knowledge management and innovation strategy as key ingredients to re-align their business directions, identifying ideas, managing risks efficiently, monitoring and managing activities effectively (Dhondt, 2003).

The theory of economic growth postulates that innovation is a primary source of an organization productivity growth and cost cuttings. Innovation is the outcome of organizations' efforts to produce new or improved products, introduce more efficient productive processes and implement organizational or managerial changes or new marketing and design processes (Dhondt, 2003). Innovation stands out as one excellent

objective of management activity in general, and knowledge management specifically (Firestone, 2001).

Andrew and Sirkin, (2006) suggest that the challenge of innovation is not in the lack of ideas but rather in successfully managing the innovation so that it delivers the required return on the organizations' money, time and people. This study reveals how knowledge management and innovation form a strategic combination to lay the foundation for organizations to achieve competitive advantage.

Significance of Study

The Islamic Development Bank (IDB) is undergoing a new transformation agenda in conjunction with its new Vision 1440H. There are nine strategic key thrusts mandated under this vision. Broadly guided by the end goals in mind, IDB would be more stringent in its endeavor to alleviate the standard of living and prosper the Ummah across the world through Islamic finance, syariah compliance initiatives and economic integration that mobilizes resources between member countries and Islamic communities.

Background and Literature Review

These days, many reports have been published to inform that the global business landscape is littered with expensive, well intended strategies that failed due to many reasons such as poor content management, lack of coordination, no buy-in and poor execution. Any business entity's strategy describes how it intends to create value for its shareholders, customers and citizens as are the vision and mission of IDB.

About IDB, it was established in 1973 to "foster the economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of Shari'ah, that is, Islamic Law." (Islamic Development Bank, 2011).

Scholars in management are suggesting that appreciating the importance of knowledge and applying it in the right manner is becoming more and more inevitable these days for organisations to be innovative in their business processes and products or service offerings. The application of balance scorecard (BSC) which was introduced by Kaplan and Norton (1996, 2004) offers a framework for translating strategies into value creation which can be monitored effectively through:

- translating the vision into operational goals;
- communicating the vision and linking it to individual performance;
- business planning;
- feedback and learning, and adjusting the strategy accordingly.

Nevertheless, within the scope of IDB, the paper, albeit briefly, intends to explore:

- the meaning of knowledge and its importance;
- the concept of KM;
- how organizations can leverage on knowledge
- how can the application of KM assist organizations to position themselves competitively
- the meaning of innovation and its importance
- how KM can lead companies to be innovative
- how can the concept of Stage-Gate be applied to innovation process
- the critical success factors in implementing KM and innovation

Organizations are forced to think 'outside of the box' in order to position themselves strategically in the market. The tolerance and margin for error are less compromising as small failures have bigger business implications which not only would be effecting bottom lines but also force organizations to be out of business (Andrew and Sirkin, 2006). To prepare for the inevitable battle, organizations are leveraging on the knowledge that they inherit and acquire from outside to be as innovative as possible in their solutions providing. Knowledge and innovation are key intangible assets which could be priceless in this world of borderless economy (Uhlener, van Stel, Maijaard and Folkeringa, 2007). As awareness of capturing tacit and explicit knowledge is becoming increasingly essential among business communities these days, the need to conceptualize the scope, properties and remit of knowledge management (KM) has become apparent. Strategically, organizations are adopting knowledge management and innovation strategy as key ingredients to re-align their business directions, identifying ideas, managing risks efficiently, monitoring and managing activities effectively (Dhondt, 2003). The theory of economic growth postulates that innovation is a primary source of an organization productivity growth and cost cuttings. Innovation is the outcome of organizations' efforts to produce new or improved products, introduce more efficient productive processes and implement organizational or managerial changes or new marketing and design processes (Dhondt, 2003). Innovation stands out as one excellent objective of management activity in general, and knowledge management specifically (Firestone, 2001). Andrew and Sirkin, (2006) suggest that the challenge of innovation is not in the lack of ideas but rather in successfully managing the innovation so that it delivers the required return on the organizations' money, time and people. This study reveals how knowledge management and innovation form a strategic combination to lay the foundation for organizations to achieve competitive advantage.

The society we are in these days is gradually transforming from industry-based to knowledge-intensive (Van de Ven, 2004). The transformation is coerced by two emerging forces: the changing global economy interactions and inexorable technological enhancement (Chan, Deng, Peng and Xi, 2006). The accelerating intensification of IT assisted by wide usage of internet has developed the business world into borderless economy (Lu, Yuan, Tsang and Peng, 2008).

The world is now experiencing a radical transformation from a mass production system where the principal source of value was human labor and now to the epoch of 'innovation-mediated production' where the principal component of value creation, productivity and economic growth is knowledge (Andrew and Sirkin, 2006). More and more talented people are now being hired globally with the hope that they would be able to make full use of the knowledge that the organizations have and be innovative in their business processes and solution offerings.

Shedroff (2001) suggests that the greater an organization understands a particular subject that it is focusing on, the more it would be able to weave past experiences into new knowledge by absorbing, doing, interacting, and reflecting. Observing the development in management studies, there is a clear transformation process from the state of acknowledging the importance of data to where the world is now moving, that is, having good knowledge alone is not sufficient. Knowledge must be processed further so that it can be applied successfully in order to meet the objectives of the organizations.

Knowledge is so crucial that it has become a key endeavor towards achieving competitive advantage (Scarborough, 2003). The problem that most organizations are facing these days is to identify and capture the relevant knowledge and then apply it in the right direction (wisdom) so that they can be

innovative in their processes or output which would have substantial bearing towards reduction in cost of production or capitalizing on their niches. Also, in order to manage effectively, performance of input must be able to be measured efficiently (Fombrun and van Riel, 2004).

KM plays a big role in innovation process (Tiwana, 2003), thus, this section will analyze some of the major roles that KM would be able to facilitate and provide better grounds for innovation process to be more successful for the Islamic Development Bank (IDB). As posited by Cardinal et al (2001), tacit knowledge is converted to explicit knowledge, thus, KM provides the platform as well as the processes to ensure that tacit knowledge becomes explicit knowledge, for example, the codification platforms for discussion databases or online collaborative communities of practice. Within the realms of IDB, the capturing of tacit knowledge can be done during the sharing events such as breakfast briefings which can be converted to electronic form where the knowledge can be organized and retrieved for later use. This adds a lot of value to the organization as it is disseminated to the staff what knowledge is available, and it is retrievable for future re-use. Tacit knowledge sharing is critical for IDB's innovation capability but the replication of knowledge-based competitive advantage is inhibited by two factors:

- causal ambiguity leads to specific practices or inputs for replication being unknown; and
- Social complexity or unique organization history that produces the knowledge makes it difficult to replicate.

Even though explicit knowledge is not as dominant as tacit knowledge, it is still considered to be an important component of innovation. In developed science processes, explicit knowledge features quite strongly in the research and development (R&D) processes as there is a rich exchange of tacit knowledge taking place, which IDB should

heed to. Moreover, KM provides the tools, processes and platforms to ensure knowledge availability and accessibility, for example through structuring of the knowledge base. KM can also ensure that explicit knowledge, which can be used as an input to the innovation process, is gathered internally and externally. Finally, KM also provides the means of ensuring the leverage of knowledge and to determine the gaps in the explicit knowledge base that IDB could potentially impact IDB's innovation programs.

Furthermore, in managing innovation, KM plays an important role that enables collaboration. Collaboration requires suppliers, customers, and employees to form knowledge sharing communities within and across organizational boundaries to achieve a shared business objective for communal benefits. In addition, internal and external collaboration plays an important role in the transfer of tacit knowledge and building collective know-how (Pyka, 2002) through online collaboration forums such as intranets and extranets which are readily available at IDB. These collaboration forums are extremely valuable because they ensure the codification of knowledge utilized as input to the innovation process. The stronger the relationship between collaboration partners, the greater the extent of the tacit knowledge transfer (Scarborough, 2003). Gathering tacit knowledge from collaboration partners could potentially reduce risk and cost in innovation by ensuring a first-time-right approach, thus shortening development cycles and ensuring effective innovation.

Needless to say, time is of essence for all business entities. Through knowledge integration, timely insights can be made available to be drawn at the right juncture for sense making, that is, knowledge can be exchanged, shared, evolved, refined and made available at the point of need. With that in mind, without accurate information and KM to underpin knowledge integration, IDB is at risk in respect of inefficiently utilizing knowledge as resource for innovation.

Doubtlessly, KM provides an environment for knowledge creation, sharing and collaboration. Gloet and Terziovski (2004) concluded that there is a significant and positive relationship between KM practices and innovation performance, and those organizations therefore, should strive for an integrated approach towards KM, which assists in building a corporate culture, in order to maximize innovation performance leading to competitive advantage. To re-emphasize, KM ensures the availability and accessibility of both tacit and explicit knowledge used in the innovation process using knowledge organization and retrieval skills and tools, such as taxonomies. It allows the organization to retrieve knowledge in a structured way according to the unique structures and value chain of the organization. It also provides search facilities and tools to enable IDB staff to search for the knowledge required in the innovation process.

In KM initiatives, platforms, tools and processes to ensure integration of IDB's knowledge base can be established. Through KM structures such as taxonomies, KM can ensure the integration of the corporate knowledge base. As a result, the staff would have an integrated view of what knowledge is available, where it can be accessed, and gaps in the knowledge base. This is extremely important in the innovation process for two reasons:

- to ensure that knowledge as a resource is utilized to its maximum benefit; and
- at the same time to ensure that knowledge is not recreated in the innovation process.

Due to the knowledge-driven culture which is embedded in KM, IDB's innovations can be incubated. Knowledge sharing is enhanced by a culture where the role of knowledge, KM, innovation and creative thinking is encouraged. KM programs usually have a strong knowledge culture element through which IDB's organizational culture of knowledge generation and sharing can be

given greater attention. Because of the culture within KM and innovation, creativity and learning through mistakes are encouraged and valued.

Furthermore, IDB employees are able to increase their skill levels and knowledge both formally and informally through knowledge accessibility, sharing and a smooth workflow. Increasing the staff's skills would eventually provide better chances for IDB to have quality innovations. The flow of knowledge across functional boundaries ensures that a wider base of knowledge is available to the staff than only the knowledge they use in their day-to-day activities. Therefore, IDB's staff will have a wider frame of reference of the context in which they work and will therefore be able to innovate more efficiently.

KM assists in identifying and understanding the organizational context, that is, it provides organizational context to the body of knowledge in the organization. Every organization has its own unique corporate memory including IDB. The structures provided to organize and retrieve knowledge from the corporate knowledge base will provide a unique context to each particular organizational knowledge base. Provision of organizational context is critical in the innovation process, as innovation in the organization also takes place within a very specific business context (Tidd and Bessant, 2009).

Lastly, KM plays an important role in identifying gaps in the knowledge base and provides processes to fill the gaps in order to aid innovation. Through the structured provision of access to knowledge, KM provides an overview of what is available in IDB. As a result, this allows IDB's management to understand which knowledge area is lacking and to systematically build the knowledge base in these areas.

Discussion and Conclusion

With IDB in mind, it is important to reiterate that KM systems alone do not possess the qualities required to provide organizations with sustainable competitive advantage but the bundling of KM systems with other organization resources and core competencies is the key to develop and maintain sustainable competitive advantage through product and process innovation. In such a position, KM systems play a major role in the conversion of learning capabilities and core competencies into sustainable advantage by enabling and revitalizing organizational learning and resource development processes, which are:

- to create, build and maintain competitive advantage through utilization of knowledge and through collaboration practices. KM can facilitate such collaboration. Provided that there is a close collaborative relationships between organizations, the application of KM can be applied as a cross cutting tool that intrigues across organizational boundaries to leverage on the knowledge that they have and provide shared sustained innovation and competitive advantage;
- to reduce complexity in the innovation process, and manage knowledge as a resource will consequently be of significant importance. Innovation is extremely dependent on the availability of knowledge and therefore the complexity created by the explosion of richness and reach of knowledge has to be recognized and managed; and
- to integrate internal and external knowledge which the organization can grasp. This entails that timely insights can be made available at the appropriate juncture so that knowledge can be exchanged, shared, evolved, refined and made available at the point of need.

Knowledge integration via KM platforms, tools and processes must therefore facilitate reflection and dialogue to allow personal and organizational learning and innovation.

Impact studies in this area may be extremely valuable, especially to IDB's distinct knowledge management and innovation programs. It is important for both innovation and knowledge management professionals in IDB to understand the systemic relationship between these concepts and the value that it can generate in respect of creating and maintaining sustainable competitive advantage for IDB and other financial institutions. Throughout this paper, benefits of innovation are clearly discussed, hence, it is important to note that, there are also some crucial indirect benefits which IDB should capitalize from the innovation processes such as:

- *branding*: innovation can enhance the brand – IDB's famous presence and acronym is a brand in itself, thereby attracting more customers and enabling IDB to charge relevant premium for their products and services;
- *ecosystem*: IDB's innovators can create exceptionally strong ecosystems of partners and associated organizations, enabling them to leverage their position strategically;
- *knowledge*: the innovation process always produces knowledge, some of which can usually be put to work in more than one way; and
- *Organization*: being innovative allows IDB to attract and retain more of the best people, or at least more of the most innovative ones.

In conclusion, the theory of economic growth postulates that innovation is a primary source of an organization's productivity growth and cost cuttings. As discussed throughout this paper, innovation is the

outcome of an organization's efforts, which in IDB's case is to produce new or improved services, introduce more efficient processes and implement organizational or managerial changes or new marketing and design processes. The prime reason for companies to focus on knowledge management is that knowledge is regarded as the driving force for the organizations of the future. This study has proven that it makes good sense that knowledge management and innovation would from a strategic combination for IDB to achieve competitive advantage where the challenge of innovation is not because of lack of ideas, but rather of successfully managing the innovation so that it delivers the required return on the organizations' money, time and people Andrew and Sirkin, (2006). This paper has looked into how tacit and implicit knowledge in an organization are captured, and the idea creation process, which is the key element in innovation, can be effectively filtered and managed by using a best practice method called Stage-Gate method. Capitalizing from the analyses of this paper, further research could be conducted to see how the Balance Scorecard (BSC) and key performance indicators (KPI) can be applied into innovation processes. A holistic action plan is perhaps established to encompass knowledge management, innovation, BSC and KPI into an overall strategy map for IDB.

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