EXTERNAL KNOWLEDGE MANAGEMENT STRATEGIES AND FIRM PERFORMANCE

Following the realization that knowledge is a source of competitive advantage, organizations in the recent past have turned their attention to knowledge management. Much of the research attention has been directed towards managing the knowledge residing within the firm. However, the knowledge residing outside the firm boundaries is equally important for firm success. Researchers in the past have suggested that organizations need to manage this external knowledge strategically. Yet, very little is known about how firms can manage external knowledge. In this paper, we develop two strategies for managing external knowledge and argue that they have differential impact on firm performance.

We conceptualize two strategies for managing external knowledge: absorption strategy and participation strategy. Absorption strategy entails scanning the environment for new knowledge and acquiring it from public sources. Participation strategy entails participating actively in the environment and accessing knowledge from public and private sources as a result of that participation. We argue that absorption strategy does not yield performance benefits because it does not get access to the tacit and private knowledge. In the absence of the tacit components, the knowledge acquired cannot be used. Participation strategy grants performance benefits because it helps a firm to gain access to the tacit and private knowledge. As a result of the participation, a firm develops better relationships with the environment. Such relationships help in acquiring the knowledge from environment. Further, active participation helps a firm develop and maintain its capacity for action. Consequently, firms that follow participation strategy derive short-term and long-term performance benefits.

The relationships hypothesized in this paper are being tested in a sample of large Canadian firms. In order to establish the statistical properties of the measures and to test the relationships, we have collected data from 122 employees of a high-tech firm in Canada. Analysis of these responses indicates that the constructs exhibit adequate reliability and validity. Further, the analysis supports the hypothesized relationships.

This study contributes to the literature in several ways. It is one of the very few studies to focus on external knowledge management. This study is among the first to explore the relationships between external knowledge management strategies and performance. Finally, it informs the practice about the effective strategies for managing external knowledge.