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## Evaluating the Relationship between Knowledge Management and Competitive Advantage; Case study: A Carpet Company in Mashhad

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### ABSTRACT

The purpose of this study is to examine the relationship between knowledge management and competitive advantage in a carpet company in Mashhad. In this study the components of knowledge management are formed from four components of knowledge acquisition, knowledge conversion, knowledge application and knowledge support and competitive advantage consists of three components of product differentiation, cost leadership and focusing on market. Statistical community consists of all managers including senior, middle and operational managers in this company. In this study due to the limited statistical community including thirty-six managers, the census method is used and all community has been studied. In this study two questionnaires have been used to collect data. Questionnaires used in this research are researcher made that after being designed by a number of specialists and experts they were examined by a pilot study and their views were considered in the questions. Due to the topic and hypotheses, the current study is an applied research that information has been collected by a survey method; but from the aspect of information analysis is exploratory and survey research. To analyze data in the study, two methods of descriptive statistics and inferential statistics are used. In the descriptive part, central indexes (mean) and dispersion (standard deviation) are calculated from the tables of frequency distribution. Also the related figures are plotted. In the inferential statistics part, to evaluate and analyze the study hypotheses, Pearson's correlation coefficient test was used due to variables normal distribution and interval scales. Also, to investigate the study linear model the stepwise regression method was used. In this study all hypotheses have been confirmed and the effect of knowledge management components on competitive advantage components was investigated.

**Keywords:** Knowledge Management, Competitive Advantage, Carpet.

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## Introduction

Today, information and knowledge have become important resources for organizations and in fact they form the capital of organization so that it can be claimed that modern organizations cannot organize themselves without knowledge and maintain themselves as a dynamic and active company in the modern turbulent environment. Despite that in the organization there are many technical infrastructure facilities and individuals with knowledge and experience in different fields, most individuals and staffs exchange their knowledge in intimate conversations in the organization hallway, but they may not gain their intended knowledge after wasting some time, or engineers in technical and administrative or design units as well as specialists in other units to solve a problem or a special issue related to the roles they are responsible may spend time for weeks to obtain knowledge required for problem solving, but if opportunities and facilities are provided they can gain their knowledge required from the intended resource as soon as possible and without wasting their precious time. On the other hand, modern organizations compete with each other to attract customers as customers are profitable for the organization and business. So, practice on knowledge and produce knowledge can make the business get ahead of the competitors. In fact, competitive advantage is those factors that cannot be imitated by others or is too hard, too expensive, and too time-consuming. Hence, knowledge can be considered as a competitive advantage that organizations can hardly imitate the competitors. It is important to note that creator, convertor, sharer, supporter and protector and in a word a knowledge resource in any organization and business is the most

important capital and is the resource of organization i.e. human resources or human capital.

## Problem Statement

Today dynamism, complexity, and uncertainty are distinct characteristics of organizational environments. In such an environment organizations for business development and customers' satisfaction require suitable knowledge management. Today, many organizations have found that to achieve success in such an environment full of competitive challenge they need an integrated and systematic approach to knowledge within their organization (Jamshidian, Hadadian, 2007). The success of the present and future competition between organizations to a small extent is based on allocation of physical and financial resources and to a large extent is based on knowledge management. Therefore, the task of leadership in an organization is to create an environment for knowledge management. To put it clearer, in the contemporary era the challenge ahead of managers is to prepare a suitable environment for the growth and development of the human mind in the knowledge oriented organization (Aligholi et al, 2012). Despite the highly diverse changes and living in an era known as the age of technology, the results of studies conducted on the carpet knowledge management area indicate that very little and limited efforts have been done on carpet as a commodity and an export product that brings currency to country and also creates employment.

Therefore, a commercial trading company carpet in Mashhad has been selected for the study that is a producer and supplier of this industry art and has design,

engineering, production, distribution, marketing and sales departments to investigate the relationship and the effect of knowledge management on the competitive advantage of this industry and to answer the main question that if there is a relationship between knowledge management and competitive advantage in Mashhad Zomorod carpet company?

### **The Necessity and Importance of the Research**

Knowledge as an intangible capital available for the most important resource of an organization i.e. organization's human resources is used as a competitive factor against competitors by the organization. Knowledge can increase organizational performance and organizations in a world where resources are limited can use knowledge to increase efficiency and effectiveness and totally to increase their productivity that this creates an advantage for the organization compared to its competitors. Knowledge management is used to support marketing decisions, especially in relationship management with customers. Interactive marketing, customer case history and inter-organizational management are important issues that organizations need to attention to them. In a customer-driven environment, the modern businesses of today need a deeper understanding of data mining and knowledge management to support marketing decisions. Availability to large amounts of data, especially customers' data has been possible through information technology and with separating, sorting, and identifying stages and data analysis the prepared related information prepared is used for marketing problems solving (Jamshidian and Haddadian, 2007). Today, organizations should be able to empower themselves for absorbing knowledge and

can absorb new and more knowledge than competitors. The better organization prepares necessary contexts, the better it can absorb knowledge. The staffs and organization facilitate knowledge absorbing (Mathi, 2004). In industrial economics, organizations were able to maintain their strong competitive position for years. They created or maximized value through optimization process (economy). The most important economic resource i.e. the means of production are not consider capital or natural resources or work force anymore, this is knowledge that is and will be the fundamental economic resource (Roding, 2012). Advances in technology have changed many works from manual to knowledge based works. In fact, today knowledge and also technology have an important and key role in production. In today's global economy, the only competitive advantage of companies is their innovation process i.e. to solve problems in competitive areas, they combine market knowledge and technical knowledge with creative talents of knowledge workers and in this way they can create business value from information. With the advent of knowledge-based economy, global economy moved toward integration and information technology changed it into a single global economy. In these new circumstances, companies should continually deal with the process of changing and adapting to new economic realities and it is clear that knowledge is the key to success in the modern economy (Darmi, 2007).

### **Knowledge Management**

Knowledge management is a process that helps organizations in identifying, selecting, organizing, diffusing and transferring information as well as important expertises that are a part of

organization's memory and typically are in the organization as unorganized. This knowledge structuring makes possible the effective problem solving, dynamic learning, strategic planning and decision making. Innovations of knowledge management focus on knowledge identification, its expression so that it can be shared formally and using its value leverage effect due to reapplication (Turban, Mclean, 2004).

Knowledge is the full utilization of data and information combined with skills, competencies, beliefs, perceptions, commitments and human intrinsic motivation. Knowledge in the form of beliefs, judgments, relationships, perspectives and concepts is introduced and it is the basis and driving force for the post-industrial economy (MacCormack, 1997). Knowledge management is not a new thing, human civilizations from generation to another generation dealt with knowledge preservation and transfer for understanding the past and predicting the future. In today's complicated and dynamic business environment, the range of thirst for knowledge becomes wider and deeper progressively, a knowledge that is rapidly changing and disseminating outside of organizations. Information technology and Internet have also created new challenges for creation, preservation and management of knowledge (Abbasi, 2007). Knowledge management is organization's strategic effort that tries to be superior to competitors by control and using personnel's intellectual capital and the organization's supports. Storage and distribution of knowledge make the organization's employees work smarter and avoid rework and produce more innovative products to better meet the needs of customers (Neckoudari and Yaghoobi, 2010).

Knowledge management can be used accurately to define a problem of decision making, define the elements of decision making, and generalize them and this can be for example due to the organization's need to solve complicated problems that are created by conflicting goals (Moghadas, 2007, 382).

### **Knowledge Acquisition**

Knowledge acquisition for organization is the first stage to transfer and distribute knowledge in organization. The acquired knowledge is important when it is used. In the stage of knowledge acquisition, the knowledge or the new knowledge should be entered into the system. In the stage of Knowledge acquisition, a process or some processes may be performed simultaneously. Knowledge may be discovered, created or developed or these processes may be performed simultaneously. Knowledge may be absorbed by the organization or created in the organization. Knowledge acquisition preserves the dynamism of organization and is a hope for its survival.

### **Knowledge Conversion**

Knowledge conversion is for the exchange of knowledge. Individuals through social actions can share in the sharing of knowledge that is personal and difficult to formulate. One of the ways for knowledge conversion is externalization i.e. individuals' personal knowledge with latent quality is converted to a clear knowledge that is available and is easily transferred to other individuals or groups that this is achieved through expression and registration of individuals' personal knowledge such as a report or documentation, that in this area groupware systems and workflow systems are used. Clear knowledge can be provided

through various processes of documentation with various forms, this conversion is done with the aim of that more audiences have access to that knowledge.

### **Knowledge Application**

In the age of information, the main advantage lies in the capital of knowledge. Knowledge in the today's developed world is rapidly changing into the main competition advantage of organizations. The process of culmination of the role of knowledge, innovations and new technologies in creating strategic advantages and the importance of knowledge resources value in managing organizations have caused that the issue of knowledge management is considered at the heart of the organizations' strategic policies. Knowledge management can promote activities and achieve the desired objectives through integration of the knowledge capitals of organizations in different sectors and direct effect on concepts such as customer orientation, organizational learning, improving organizational culture, leadership and intelligent decision making, redesigning of processes, producing new knowledge and converting the implicit knowledge to explicit knowledge. Thus, organizations need to acquire or develop the necessary modern knowledge and then apply that knowledge in all areas and levels of the organization.

### **Knowledge Support**

Today, all working and scientific groups acknowledge that organizations in order to have continuous and sustainable presence in business and competition world, should operate based on science and knowledge. Despite that knowledge is a necessary resource for the survival of organizations,

and the reason for the success of organizations is to achieve a deep knowledge and understanding at all levels, creating knowledge, knowledge conversion, knowledge acquisition and preservation of knowledge in organization all need support these processes of knowledge management that requires organization's senior management determination and in fact knowledge support needs a culture created in the organization. The organization in order to acquire knowledge, from hiring and recruiting knowledge forces to forces training, creating a culture for sharing knowledge etc needs a process called knowledge support. The support of senior management, the alignment of beliefs, confidence, and motivation are the main components of knowledge management culture and continuous attention to these components is essential in knowledge support of the organization (Moghadas, 2007, 359).

### **Competitive Advantage**

Competitive advantage is told to anything that makes costs increase and income decrease (Rumelt, 2003). Competitive advantage is those factors that other competitors do not have and customers are willing to pay for them and appreciate them compared to competitors (Saloner et al, 2000). Competitive advantage is considered for an organization when it creates value for the company compared to other competitors, and an enterprise or competitor does not have that factor or have less of that factor, and also this factor as a competitive advantage increases the enterprise performance and as a result its productivity and satisfaction of its customers (Barney, 2002). Michael Porter in his book "Competitive Strategies" provides a classic view of the main forces that constitutes the companies competitive

environment, and introduces five competitive forces as the main forces in a company competitive environment (David, 2001, 260). The threat of new entrants, bargaining power of suppliers, bargaining power of buyers, industrial competitors and the threat of substitute products are five forces that Porter set forth. Providing a precise definition of competitive advantage is difficult. Competitive advantage can be considered as factors that the organization has more than competitors and competitors are deprived of having those factors or obtaining them is costly and time consuming for them.

### **Differentiated Product**

Achieving the advantage of 'distinction' means that a business unit would produce a product that consumers and buyers believe that it is quite distinct and unique because of an important feature.

### **Cost Leadership**

Achieving 'cost leadership' means that a business unit would change into a manufacturer or supplier with the lowest cost in its industry. Usually achieving this important milestone and also changing into market cost leadership are possible through increase of efficiency, using economies of scale, the experience curve and the like. Also, in most cases, owners of businesses that follow this strategy invest less on research and development and sales promotion methods etc. It should be noted that cost leadership does not necessarily mean sales with the lowest price in the market. A manufacturer may produce a product with the lowest cost, but not at the cheapest price and this is dependent on the business strategies. If more than one company makes effort in a competitive environment to achieve cost

leadership, usually it creates dangerous conditions for businesses owners.

### **Focusing**

The purpose of focusing is changing into the best company in a particular sector of the market. Focusing can be as focusing on costs and/or focusing on creating differentiation.

### **Knowledge Management and Business Strategy**

The strategy of knowledge management can be defined as a high-level program that its purpose is to provide organizing, or the resources required for achieving the goals and mission of knowledge management. Due to the fact that knowledge is a critical factor in the competitive ability of organization, the role of knowledge in the strategy of organization should be clearly defined (Day et al, 1998).

Park believes that there are two main challenges related to implementing knowledge management plans, one is an encouraging and promoting the culture for adoption of knowledge management and the other is encouraging people to share knowledge (Park et al, 2004). In the development of knowledge management strategy, organization should know the market and know what the market wants, what are enabling factors and how the organization can provide the best answer (Hansen et al, 1999). There is no the best way to implement knowledge management. The superior option depends on company's environmental situations and its strategic vision, and is determined due to factors such as uncertainty, vagueness and complexity in organization environment (Forcadell and Guadamillas, 2002).

## **The Instructor and Learner Organization**

The instructor organizations are organizations that the members in addition to being learners, are instructors as well and mutual learning and teaching is ingrained in their daily activities (Tichy, 2002). Teaching cannot be unilateral and should be bilateral so that instructors are learners at the same time and improve their teaching in this bilateral relationship (Kerfoot, 2003). People in instructor organizations believe that the learned is the success factor in business and try to teach, so that by teaching they make clear the vague and uncertain points of the business and provide a true and clear picture of the business. In the turbulent world of today only the learner organizations are not enough, but instructor organizations are also required (Tichy, 1998).

The learner organizations have been formed basically through completion of the theories related to learning and organizational learning. These organizations create opportunities to exercise responsibility, learn from experiences, are risk taker and are satisfied with the results obtained and the lessons learned (Talebi, 2002). The learner organization is an organization in which learning is considered a permanent need for all staffs and in addition to emphasize on learning, the way of learning, attraction and distribution of new knowledge, creation and production of information and the required new knowledge are focused as well and all of this knowledge will be reflected in behaviors and performances (Ghahramani, 2002). The learner organization is an organization that knows how to use knowledge and gives opportunity and tools to its staffs for creating and applying knowledge (Alan Roding, 2012).

## **Knowledge-based Economy**

Knowledge-based economy is the economy in which to generate wealth, production, distribution and use of knowledge have the basic and dominant role. Knowledge-based economy is an economy that is directly based on production, distribution and use of knowledge and information. The terms 'knowledge-based economy' and 'the information economy' entered into the world economic literature in the 1960s, but developments in the nineties renewed and revived this term. Development of cyberspace has been effective in the rise of global economy and the economic globalization has affected the economy of countries as all countries are exchanging with each other and this makes countries deal with a global competition in economy. According to estimations, in many developed countries including the United States, England and Australia, 60% of the production is done by knowledge workers (Reilly, 2001). Knowledge application in products increases knowledge share in products. The most important determinant in standard of living at forefront of developing countries is the knowledge contribution in the production of goods and services. The economic structure of the present world is basically different with the past. Hardware indicators and tangible assets that in the status of an enterprise had determinant roles have been replaced by innovation, creation of new products and software assets.

## **Study Questions**

### **The main question**

Is there any relationship between knowledge management and competitive advantage in a carpet company?

### **Subsidiary questions**

1. Is there any relationship between the process of knowledge support and competitive advantage in a carpet company?
2. Is there any relationship between the process of knowledge application and competitive advantage in a carpet company?
3. Is there any relationship between the process of knowledge conversion and competitive advantage in Mashhad Zomorod Carpet Company?
4. Is there any relationship between the process of knowledge acquisition and competitive advantage in Mashhad Zomorod Carpet Company?

### **Study Hypothesis**

1. There is a significant relationship between knowledge management and competitive advantage.
2. There is a significant relationship between knowledge acquisition and competitive advantage.
3. There is a significant relationship between knowledge conversion and competitive advantage.
4. There is a significant relationship between knowledge application and competitive advantage.
5. There is a significant relationship between the knowledge support and competitive advantage.

### **The Statistical Community and Determining Sample Volume**

Statistical community is a collection of individuals or units that have at least one common trait. Usually, in every research the community under evaluation is a statistical community that researcher is interested to study its variable trait (traits) units (Sarmad *et al.*, 1997, 178). In the current study, due to the time and place domain, at first an

accurate framework for statistical community is defined, so the statistical community consists of all managers including senior, middle and operational managers in this carpet company and due to the limited statistical community including thirty-six managers the census method is used and all community are studied.

### **Research Methodology**

The current study is an applied research that the information has been collected by a survey method; but from the aspect of information analysis is exploratory and survey research. The researcher in this study has examined the relationship and the effect of knowledge management on competitive advantage in a carpet company in Mashhad. For the field study two questionnaires were used to collect data. The questionnaires used in this research were researcher made that after being designed by a number of specialists and experts were reviewed by a pilot study and their views were considered on the questions. Also, to confirm the validity, both questionnaires were evaluated by related experts and professors and to confirm their reliability Cronbach's alpha was used. The closer is the coefficient to one; the more is correlation between questions. The coefficient within 0.5 to 0.7 is acceptable.

### **Statistical Methods**

To analyze data in this study two methods of descriptive statistics and inferential statistics are used. In the descriptive part, central indexes (mean) and dispersion (standard deviation) are calculated from the tables of frequency distribution. Also the related figures are plotted. In the inferential statistics part, to evaluate and analyze the study hypotheses, Pearson's correlation coefficient test was used due to variables normal distribution and interval scales. Also, to investigate the study linear model the stepwise regression method was used. In



addition, SPSS software will be used for data analysis.

**Table 1.** Cronbach's alpha coefficients for research variables

Variable name	Cronbach's alpha value	Conclusion
knowledge acquisition	0.82	reliability confirmed
knowledge conversion	0.78	reliability confirmed
knowledge application	0.88	reliability confirmed
knowledge support	0.78	reliability confirmed
knowledge management	0.89	reliability confirmed
differentiated product	0.85	reliability confirmed
reducing costs	0.83	reliability confirmed
focusing on a part of the market	0.74	reliability confirmed
competitive advantage	0.91	reliability confirmed

### Statistical Description of Research Variables

**Table 2.** Statistical description of study variables

Variable name	Minimum	Maximum	Mean	Standard Deviation
knowledge acquisition	2.8	5	4.46	0.49
knowledge conversion	3.2	5	4.09	0.42
knowledge application	3	5	4.39	0.49
knowledge support	3	5	4.29	0.45
differentiated product	3.17	5	4.55	0.43
reducing costs	3.2	5	4.44	0.48
focusing on a part of the market	3	5	4.2	0.5
competitive advantage	3.12	5	4.4	0.4

### Research Hypotheses Test

**Table 3.** Review of study hypotheses

hypotheses	Pearson's coefficient correlation	p-value	Test result
1	0.631	0.000	Ok
2	0.642	0.000	Ok
3	0.393	0.019	Ok
4	0.529	0.001	Ok
5	0.591	0.000	Ok

Linear regression model for the dependent variable of competitive advantage with independent variables of knowledge acquisition, knowledge conversion, knowledge application and knowledge support.

**Table 4.** Correlation coefficients, determination, modified determination and the Durbin-Watson statistics value for competitive advantage

Correlation coefficient	Coefficient determination	Coefficient of modified determination of estimation error	The Durbin-Watson statistics value
0.642	0.4	0.392	1.8

**Table 5.** Regression coefficients for knowledge acquisition

Constant	Beta coefficient	t	test p-value
knowledge acquisition:2.04 0.53	0.642	2.148 4.810	0.000

**Table 6.** Regression coefficients of knowledge conversion, application and support

Variables	Beta coefficient	t	test p-value
knowledge conversion	0.023-	0.133-	0.895
knowledge application	0.183	1.024	0.178
knowledge support	0.300	1.755	0.296

Linear regression model for the dependent variables of differentiated product, cost leadership and focusing with the independent variables of knowledge acquisition, supporting, conversion and application.

**Table 7.** Correlation coefficients, determination, modified determination of estimation error and the p-value related to one-way analysis of variance

Dependent variables	Correlation coefficient	Determination coefficient	coefficient of modified determination of estimation error	P-value Related to one-way analysis of variance
differentiated product	0.682	46/0	394/0	0.001
cost leadership	0.622	0.38	0.303	0.004
focusing	0.610	0.372	0.288	0.006

**Table 8.** Regression coefficients of dependent variables

Dependent variables	Constant	Beta coefficient	T	Test p-value
differentiated product	1.930		2.997	0.005
	knowledge acquisition:0.359	0.409	2.051	0.49
	knowledge conversion:-0.237	0.227-	1.217-	0.233
	knowledge application:-0.036	0.036-	0.158-	0.876
cost leadership	0.509	0.509	2.381	0.026
	knowledge support:0.509		1.969	0.58
	1.515	0.146	0.685	0.499
	knowledge acquisition0.143:	0.091-	0.459-	0.649
focusing	knowledge conversion :-0.107			
	knowledge application:0.134			
	knowledge support :0.501	0.137-	0.571	0.572
		0.459	2.003	0.54
focusing	knowledge acquisition:	0.682	2.103	0.044
	knowledge conversion:	0.013-	3.157	0.04
	knowledge application:	0.036-	0.063-	0.951
	knowledge support:	0.148	0.147	0.884
		0.637-	0.529	

**Conclusion and Suggestions**

According to Table 3, Pearson's correlation coefficients values that all are greater than zero and are positive and the P-Value of hypotheses are confirmed. And due to

Table 4 that coefficients of correlation, determination, modified determination of estimation error, and the Durbin-Watson statistics value and p-value test, linear regression model for the dependent variable of competitive advantage with variables of knowledge acquisition, support, conversion and application are significant and due to Tables 5 and 6 the constant and variable of knowledge acquisition has the greatest effect on the dependent variable of competitive advantage.

From Table 7 that indicates coefficients of correlation, determination, modified determination of estimation error and the one-way analysis of variance for each of the dependent variables of differentiated product, cost leadership and focusing, the significance of linear regression model can be concluded. Due to Table 8 it can be said that knowledge acquisition has the greatest effect on differentiated product and focusing, but none of the dependent variables are effective on cost leadership. So, the regression model for the competitive advantage (knowledge acquisition) =  $2.04 + 0.53$ , competitive advantage for differentiated product (knowledge acquisition) =  $1.93 + 0.359$ , and for focusing (knowledge acquisition) =  $1.717 + 0.701$  can be considered for focusing on a part of the market. Perhaps it can be said that the reason of the low effect of other variables is failure to implement properly the knowledge management in this group. Company for knowledge conversion should seek to transfer and share knowledge between the staffs of the various parts, should keep its knowledge new and updated and the old knowledge should be replaced by the new and updated knowledge. The company in knowledge application should follow to change competitive conditions by the use of knowledge. In the strategic program

setting the company should benefit from new and applicable knowledge and information. Company should make its training programs more practical and more scientific, should use the market studies to gain environment information either from competitors or customers. The people used for the market studies should be expert and experienced. In the area of Knowledge support the organization managers should make their view more positive to knowledge management, should strengthen organizational culture, should do the necessary culture building for knowledge management, should be open to staffs' innovation and creativity, and should make the staffs training courses richer. A special attention should be given to knowledge-based marketing management in the company. Senior management should lay the groundwork for further institutionalization of information technology. If the structure of the company will be flat and horizontal relationships will be created among company members, there would be hope to increase company community capacity in the way of company's optimization.

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