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**Knowledge Management
Innovation: Perspectives
from the Islamic
Development Bank**

Authors

**Amir Raslan Abu Bakar¹
and Rugayah Hashim²**

¹Islamic Development
Bank, Jeddah, Saudi Arabia

²Universiti Teknologi
Mara, Shah Alam, Selangor,
Malaysia

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

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Knowledge and innovation
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Strategically, organizations are adopting knowledge management and innovation strategy as key ingredients to re-align their business directions,

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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 reuse. 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 form
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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