Question:

Discuss critically how firms develop innovations internally and how the effect of firms' knowledge management initiatives on their overall performance. Draw on any relevant organisational examples to justify your argument.

Knowledge management and innovation

Introduction

The systematic process of building, sharing, and utilising knowledge to accomplish organisational goals is called Knowledge Management (Duke et al., 2022). On the other hand, innovation can be defined as the goal of generating and executing novel ideas, products, or processes that can contribute to competitiveness and adaptability (Lei et al., 2021). A Knowledge-Based View (KBV) focuses on integrating the concept of Knowledge Management (KM) and innovation, which positions knowledge as the most valuable strategic asset of a firm (Obeso et al., 2020). By converting this knowledge and collaborating effectively, companies can transform the combined knowledge into a sustained innovation and foster superior performance (Franco and Landini, 2022). This essay provides a critical analysis of the way companies generate innovations within a company and the influence of KM initiatives on their overall performance. Based on theoretical frameworks and an organisational case of Tesla, it argues that planned management of tacit and explicit knowledge can be used to drive sustained innovation and enhance a long-term competitive advantage.

The concept of knowledge management and its influence on a firm's performance is based on the Knowledge-Based View (KBV), which argues that the competitive advantage of a firm lies in its ability to create, store, and use knowledge (Duke et al., 2022). According to this perception, knowledge is no longer a store but a dynamic ability to create productivity, innovation and flexibility in volatile markets. The

Socialisation, Externalisation, Combination, and Internalisation (SECI) model, conceptualised by Nonaka and Takeuchi (2001), explains how organisations transform individual learning into collective knowledge. Through this ongoing conversion, organisations create a greater ability to innovate and respond to evolving environments (Lei et al., 2021).

As empirical research indicates, proper KM practices enhance decision making, operational efficiency, and the overall performance of an organisation(Mardani et al., 2018). As a result of knowledge sharing and collaborative work between departments, firms decrease redundancy and can accelerate learning cycles (Franco and Landini, 2022). This flexibility allows them to anticipate technology or consumer demand changes and convert knowledge into implementation mechanisms that can keep them competitive. Therefore, KM initiatives are not negligible but rather part of the innovation system of a firm. Companies that incorporate KM into their corporate culture develop the tendency to remain resilient, unlock the creativity of employees and maintain superior performance in the long term.

Tacit and Explicit Knowledge

Two types of knowledge that are mutually dependent include tacit and explicit knowledge. Both are needed in the process of innovation. Tacit knowledge is subjective, empirical and difficult to tabulate, while explicit knowledge is codifiable, transmissible, and easy to distribute throughout the organisation (Nonaka and Takeuchi, 2008). The efficient transfer between these two forms is key to the SECI model, which explains the process of knowledge escalation via socialisation, externalisation, combination and internalisation. It transforms individual knowledge into collective organisational learning, contributing to an innovation-friendly environment (Lei et al., 2021).

Firms that strike a balance between the tacit and explicit flows of knowledge achieve a greater extent of integration between the creativity of employees and formal processes, which results in a more sustainable

innovative environment (Obeso et al., 2020). According to Franco and Landini (2022), this kind of synergy promotes the diffusion of knowledge, so that firms can turn the knowledge gained internally into marketable products or services. Lack of innovation happens when tacit knowledge has been overly isolated or when explicit knowledge is managed poorly. Therefore, a continuous interaction of these knowledge forms not only facilitates the generation of ideas but also provides a measure of adaptation and competence in dynamic environments. Mastering both dimensions enables firms to convert raw expertise into strategic innovation ability.

Internal Innovation Development

The internal cultivation of innovation relies on the capacity of a firm to transform its knowledge into new products, services or processes using an intentional organisational process. The main pillar of this process has been Research and Development (R&D), which enables companies to transform their knowledge systematically into technology advancements and a competitive edge (Ergun et al., 2025). When applying the concept of the Knowledge-Based View (KBV), R&D has been viewed as an organised space of using both tacit and explicit knowledge and converting ideas into practical innovations (Abuaddous et al., 2018). Training and employee development initiatives are equally important towards creating an absorptive capacity for the firm to identify, absorb, and utilise new knowledge (Mardani et al., 2018).

The process of continuous learning transforms employees into active members of the knowledge creation process, enabling them to be innovative not just within their immediate functions. Departmental cross-functional knowledge sharing and problem-solving are brought about by interdepartmental collaboration (Franco and Landini, 2022). Such internal networks create a sense of trust as well as social capital, which are critical in exchanging tacit knowledge often ignored by formal systems. Innovation laboratories and online knowledge hubs also lead to innovation as they allow companies to test the idea

and improve it in an iterative process rapidly (Zaim et al., 2018). These processes combine internal knowledge and strategic capability, making innovation a long-term and organisational process.

KM Initiatives and Organisational Performance

Knowledge Management (KM) programs provide the organisational structure and technological support for transforming knowledge into quantifiable organisational performance. Some of the KM tools used by firms include knowledge repositories, intranets, and communities of practice to help create, store, and share knowledge between different departments (Abuaddous et al., 2018). Such systems provide a means of capturing both tacit and explicit knowledge and making it available to reduce duplication of effort and create learning in the organisation. Mardani et al. (2018) state that these initiatives can be used to increase the efficiency of operations by reducing information imbalance and enhancing coordination in the decision-making process.

Digital repositories and intranets are centralised data repositories where employees can record best practices, solutions sharing and cooperate on innovation projects (Zaim et al., 2018). This continuous stream of ideas increases the urgency with which solutions to problems are achieved and is associated with the establishment of flexibility in dynamic business environments (Ergun et al., 2025). Meanwhile, communities of practice enable informal learning and the building of trust, which enables the free flow of tacit knowledge among the employees (Nonaka and Takeuchi, 2008). This empirical evidence suggests that organisations that have a well-developed KM infrastructure are more productive, innovative, and have higher customer satisfaction levels (Lei et al., 2021).

KM initiatives can be successfully applied to align technology tools with human expertise, turning knowledge into a driver of strategic performance. Therefore, KM systems are no longer administrative

support tools but the core of enabling sustainable innovation and the success of organisations over the long term.

Case example: Tesla

The case of Tesla, Inc. is a good example of how well-developed Knowledge Management (KM) and internal innovation systems can turn the industry standards upside down and support long-term performance. The success of innovation in the company stems from the fact that tacit and explicit knowledge can be integrated in the company using a collaborative process, which can be similar to the SECI model proposed by Nonaka and Takeuchi (2008). There is constant socialisation and externalisation, which involves engineers and designers transforming and codifying their experiential knowledge into technical knowledge to guide new vehicle design and production processes (Velikorossov et al., 2022). It is a cycle of learning that contributes to the incremental and radical innovations that sustain the technological advantage of Tesla (Lei et al., 2021).

The Tesla knowledge ecosystem can be described as a living library, with cross-functional teams receiving knowledge through digital platforms (Obeso et al., 2020). Its transparency and experimentation culture enable the quick spread of knowledge among R&D, production, and software development. This is consistent with the opinion of Mardani et al. (2018) that KM builds operational efficiency and flexibility. In addition, Tesla uses real-time data of its global fleet, which serves as an evolving knowledge base, informing design improvements and predictive maintenance, which can be directly associated with KM-performance outcomes (Franco and Landini, 2022).

Tesla transforms knowledge into a strategic advantage by institutionalising KM practices at all levels. With its innovation system, it shows how systematic knowledge conversion with the help of collaboration

and digital infrastructure can result in superior productivity, customer satisfaction, and a sustainable competitive advantage.

Conclusion

To conclude, knowledge management (KM) is a powerful tool on which companies should build internal innovation and maintain high performance. Based on frameworks such as the Knowledge-Based View (KBV) and SECI model, companies can transform personal knowledge into shared intelligence to drive creativity, flexibility, and long-term sustainability (Obeso et al., 2020). Tacit and explicit knowledge should be intentionally combined with the help of collaborative systems, R&D, and digital platforms, as shown by Tesla, to increase efficiency and constant learning. Some KM programs include repositories, intranets, and communities of practice, which convert knowledge into tangible innovation outcomes that boost productivity and robustness (Mardani et al., 2018). Lastly, organisations that categorise knowledge as a dynamic resource instead of a fixed commodity develop sustainable innovation, positioning them at the frontline to thrive in environments that are dynamic and uncertain.

References

Abuaddous, H., Sokkar, A., & Abualodous, B., 2018. The Impact of Knowledge Management on Organisational Performance. *International Journal of Advanced Computer Science and Applications*, 9, pp. 204-208. https://doi.org/10.14569/ijacsa.2018.090432.

Duke, J., Igwe, V., Tapang, A., & Usang, O., 2022. The innovation interface between knowledge management and firm performance. *Knowledge Management Research & Practice*, 21, pp. 486 - 498. https://doi.org/10.1080/14778238.2022.2029596.

Ergun, E., Tunca, S., Cetinkaya, G., & Balcıoğlu, Y., 2025. Exploring the Roles of Work Engagement, Psychological Empowerment, and Perceived Organizational Support in Innovative Work Behavior: A Latent Class Analysis for Sustainable Organizational Practices. *Sustainability*. https://doi.org/10.3390/su17041663.

Franco, C., & Landini, F., 2022. Organisational drivers of innovation: The role of workforce agility. *Research Policy*. https://doi.org/10.1016/j.respol.2021.104423.

Lei, H., Khamkhoutlavong, M., & Le, P., 2021. Fostering exploitative and exploratory innovation through HRM practices and knowledge management capability: the moderating effect of knowledge-centred culture. *J. Knowl. Manag.*, 25, pp. 1926-1946. https://doi.org/10.1108/jkm-07-2020-0505.

Mardani, A., Nikoosokhan, S., Moradi, M., & Doustar, M., 2018. The Relationship Between Knowledge Management and Innovation Performance. *The Journal of High Technology Management Research*, 29, pp. 12-26. https://doi.org/10.1016/j.hitech.2018.04.002.

Nonaka, I. and Takeuchi, H., 2008. *The SECI model* [online]

Obeso, M., Hernández‐Linares, R., López-Fernández, M., & Serrano-Bedia, A., 2020. Knowledge management processes and organisational performance: the mediating role of organisational learning. *J. Knowl. Manag.*, 24, pp. 1859-1880. https://doi.org/10.1108/jkm-10-2019-0553.

Velikorossov, V., Genkin, E., Zakharov, A., Ozerov, S., & Makhnovskaya, E., 2022. IMPROVING MANAGEMENT INNOVATION AT TESLA. *EKONOMIKA I UPRAVLENIE: PROBLEMY, RESHENIYA*. https://doi.org/10.36871/ek.up.p.r.2022.10.02.013.

Zaim, H., Muhammed, S., & Tarim, M., 2018. Relationship between knowledge management processes and performance: critical role of knowledge utilisation in organisations. *Knowledge Management Research & Practice*, 17, pp. 24 - 38. https://doi.org/10.1080/14778238.2018.1538669