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TITLE Knowledge creation and strategy formation in a public, nonprofit healthcare organization: A descriptive case study

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Knowledge Creation and Strategy Formation
in a Public, Nonprofit Healthcare Organization:
A Descriptive Case Study

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ABSTRACT OF THE DISSERTATION

Knowledge Creation and Strategy Formation
in a Public, Nonprofit Healthcare Organization:
A Descriptive Case Study

Although organizational knowledge is considered the most strategically important resource and learning the most strategically important capability for organizations, many initiatives being undertaken to develop and exploit this knowledge are not explicitly linked to or framed by the organization's strategy. The study described the relationship between knowledge creation and strategy formation knowledge structures as they occurred within the boundaries and context of a public, nonprofit healthcare organization. This organization had more than 5,300 employees, a 14-member top management team, and a seven-member publicly elected board of directors. During the study, the organization experienced the departure of the chief executive officer and the return of a former chief executive officer with 22 years of previous service with the organization.

The study followed a descriptive case study format using qualitative methods. The primary method of data collection was the interviews of the top management team and the board of directors. Data were also captured through document analysis and observation. Data from the interview transcripts were analyzed and captured using computer-aided cognitive mapping. Causal maps served as a research technique to explore the knowledge structures of the organization. In addition, the interpretation of results was discussed in the

context of an organizational learning system model. The level of analysis of the study was at the organizational (collective) level.

The findings of this study did not reflect a coherent sense of direction for the organization. The knowledge structures did not encapsulate a systems perspective about the interdependencies within the system or the exploration of new possibilities. There was a heavy emphasis on obtaining and applying information with a propensity toward performance. For the organizational learning structure, this resulted in little critical inquiry and little actual organizational learning. Concerning strategy, it reinforced operations rather than vision.

Implications of organizational knowledge structures and organizational learning for practice, research, and methods are explored in the final parts of this study.

DEDICATION

This study is dedicated to my loving husband and my beautiful daughter for their encouragement and love during this *very long intellectual journey*.

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**CHAPTER 1:
INTRODUCTION**

"Knowledge itself is power," Frances Bacon (1987) maintained, and perhaps that assertion is even more true today than when he said it 4 centuries ago. In an economy where the only certainty is uncertainty, the one sure source of lasting competitive advantage is knowledge. As markets shift, technologies proliferate, competitors multiply, and products become obsolete almost overnight, successful companies are those that consistently create new knowledge, disseminate it widely throughout the organization, and quickly embody it in new technologies and products (Johnston, 1998). These activities define knowledge-creating organizations (Nonaka, 1991, 1994).

The increased importance of knowledge in contemporary society is demonstrated in the work of Drucker (1968), a socioeconomic theorist, and the work of Toffler (1990), a futurist. They focused attention on the importance of knowledge as a management resource and as power within the organization. In recognizing knowledge as the key to business success, scholars such as Quinn, (1992), Reich (1991), Schwandt (1994b, 1997; Schwandt & Gundlach, 1992; Schwandt & Marquardt, 2000), Inkpen (1998), Von Krogh (1998), and other researchers in the fields of technology management, organizational theory, and management strategy have begun to theorize about the creation and management of knowledge. Quinn (1992) shared with Drucker and Toffler the view that the economic and producing power of some modern corporations lies

more in their intellectual and service capabilities than in their hard assets. He went a step further by maintaining that the value of most products and services depends primarily on how knowledge-based intangibles, like technological know-how, product design, understanding of the customer, personal creativity, and innovation, are developed. The realization that knowledge is the new competitive resource (Bollinger & Smith, 2001) has become an important focus for organizations and countries (Cohen, 1998; Porter, 1980, 1985, 1990).

Strategy Formation

When strategy formation arrived on the scene in the mid-1960s, corporate leaders embraced it as the one best way to devise and implement strategies that would enhance the competitiveness of each business unit. Planning systems were expected to produce the best strategies, as well as step-by-step instructions for carrying out those strategies, so that the doers, the managers of businesses, could not get them wrong (Brockmann, 1998). Mintzberg (1994b) suggested that planning has not exactly worked out that way, and "while certainly not dead, strategic planning has long since fallen from its pedestal" (Mintzberg, 1994c, p. 107). As a result of its disfavor, managers and theorists turned their attention to other processes of implementation, such as transformational leadership, teamwork, employee empowerment, and reengineering (Prahalad & Hamel, 1994; Schwandt, 1997).

This refocusing of interest has led to the reconsideration of the relationship between strategy formation and organizational action (Mintzberg,

1994b) and a call for new paradigms in the field of strategy formation (Prahalad & Hamel, 1994). When Mintzberg (1990b) categorized strategy research into 10 distinct approaches, he identified one of these as the learning school, which describes strategy formation as an emergent process. Researchers (Lindblom, 1959; Mintzberg, 1978, 1994b; Quinn, 1980; Weick, 1979b) in the learning school have helped to make major strides in showing the importance of viewing strategy as a learning process (Lahteenmaki, Tiovonen, & Mattila, 2001).

Strategy Formation and Knowledge Structures

Although organizational knowledge is considered the most strategically important resource and learning the most strategically important capability for organizations, many initiatives being undertaken to develop and exploit this knowledge are not explicitly linked to or framed by the organization's strategy (Zack, 1999a). The importance of this subject is reflected in the burgeoning of cognitive studies in journals such as *Administrative Science Quarterly* and *Academy of Management Journal* and in books and essays. One exhaustive review of relevant literature of knowledge structures (Walsh, 1995) listed no fewer than 323 studies. This review showed that an impressive number of scholars have been drawn to focus their research on cognition in organizations, and most of this research referenced a top-down information processing construct. Walsh suggested the need to begin to utilize consistent terminology. Galambos, Abelson, and Black (1986) used the term *knowledge structures* to

generally refer to the cognitive structure underlying top-down information processing.

Organizational knowledge structures or cognitive maps refer to shared understanding about the nature and importance of issues faced by the organization and relationships among the issues. Prahalad and Bettis (1986) suggested that this shared understanding can be described as a general knowledge structure that can store a shared dominant general management logic. Lyles and Schwenk (1992) argued that cognitive maps of top management closely represent core aspects of organizational knowledge structures since it is their interpretation of the importance of environmental events and their view of the knowledge structure that is communicated through speeches and statements. Knowledge structures is a term used in cognitive sciences: it is a mental template based on prior experience (Walsh, 1995), consisting of organized knowledge (Fiske & Taylor, 1991) in an information environment that enables interpretation and action. Walsh (1995, p. 281) argued the importance of knowledge structures in strategy formation and the intriguing challenge management researchers face. He stated:

This challenge has been that while knowledge structures may transform complex information environments into tractable ones, they may also blind strategy makers to important changes in their business environments, compromising their ability to make sound strategic decisions. This problem-focused appreciation of cognition has been the foundation for much of the work on managerial and organizational cognition during the past ten years. (p. 281)

Many strategic management theorists assume that firms, like individuals, learn from their past experience and can transform these experiences into useful knowledge that will make them more competitive in the future (Chandler, 1962; Hamel, 1991; Lyles & Schwenk, 1992). Learning from past experience is enhanced by the availability and analysis of feedback. As a result, organizational learning refers to the development of insights, knowledge, and associations between past actions, the effectiveness of those actions, and future actions (Fiol & Lyles, 1985). Learning, therefore, is a change in the state of knowledge (Baddeley, 1990; Shrivastava & Mitroff, 1983) within the organization. The product of this process is a change of organizational knowledge structures, which deal with goals, cause and effect, beliefs, and other cognitive elements (Lyles & Schwenk, 1992). It is important to note that organizational knowledge structures differ from individual knowledge structures because they are socially constructed, depend on negotiations, are drawn from consensus among the organizational members (Daft & Weick, 1984), remain relatively stable over time, have long-term effects, and impact the whole organization. Organizational knowledge structures can be considered to be a collective system of constructs based on experiences (Daft & Weick, 1984).

Strategy Formation and Organizational Learning

The literature on organizational learning has not reached its potential in influencing strategy formation. The literature is loosely connected, inconsistent, and based on several different definitions of organizational learning (Huber,

1991; Miner & Mezias, 1996). Strategy scholars have not been any more successful in integrating organizational learning into their research (Bierly & Hamalainen, 1995). Common to the strategy formation and organizational learning constructs are the concerns with an unpredictable external environment; the need for continuous input of information concerning present and future conditions; the formation of sound organizational actions based on valid knowledge; the integration of knowledge and action to sustain the organization as a viable entity within the external environment; and the formation and nature of knowledge structures and dominant logics (Bettis & Wong, 2003) that impact the organization's culture and capacity to both learn and perform (Schwandt, 1997).

Most of the studies on organizational learning (Argyris & Schon, 1978; Bartunek, 1984; Fiol & Lyles, 1985; Ford & Hegarty, 1984; Huff, 1982; Lam, 2000; Schwenk, 1988a; Shrivastava & Schneider, 1984), however, focus on a single concept and its definition and impact. Little effort has been devoted to the study of the more important issues of the linkages between the development of shared understanding (Ireland, Hitt, Camp, & Sexton, 2001) and organizational actions (Lyles & Schwenk, 1992). While the literature is supportive of an active dialogue concerning strategy formation and organizational learning (Hodgkinson & Thomas, 1997), their dynamic social linkages are not well delineated.

Current strategy formation and organizational learning constructs attempt to explain the survival behaviors (adaptive and proactive) of collective social

systems (organizations). Each construct considers external environments vital to the construct, but neither construct addresses collective behavior (strategic actions) and cognitive patterns (knowledge structures) as nonlinear manifestations of the same social system of actions that simultaneously incorporates acts of both performance and learning (Schwandt, 1997; Green, 1988). The collective (organization) is an amalgamation of actors, objects, and norms and is characterized by social phenomena that are more than just the sum of the individual behaviors and attitudes of the individual actors (Schwandt, 1994a).

An organization's ability to respond to ongoing environmental changes reflects its capability to continually process, interpret, and act on new information to create the new knowledge upon which it formulates its strategies and actions (L. Kim, 1998). This form of action, the creation of new knowledge, reflects the focus of the field of organizational learning (Bartlett & Ghoshal, 1998). Earlier, the need for additional research on the linkages between organizational learning and strategy formation was identified. This gap in the literature is extended to include the nonprofit sector, as Young (1993) has argued that nonprofit research and theory have been slow to develop, and Merget (1993) advised that models are needed to overcome obstacles to evaluation and organizational research in nonprofits. Although the concept of organizational learning appears occasionally in the literature on nonprofits (Crosswell, 1996), its meaning continues to be