A Theoretical Perspective on the Relationship between Leadership Development, Knowledge Management Capability, and Firm Performance

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Abstract

Since Knowledge Management (KM) is increasingly becoming an integral business function for lots of firms, as the latter recognize that competitiveness depends upon the effective management of intellectual resources, this paper aims to propose a theoretical model identifying the extent to which performing leadership development and its enablers in terms of developing training programs, possessing social capital skills, possessing human capital skills, settings goals, and deploying unique experiences; that are believed to enable knowledge management capability put into effect in the Jordanian public shareholding firms, and its impact on firm performance.

Keywords: knowledge management capability, leadership development, firm performance

1. Introduction

Some studies examine the critical success factors for employing KM. As reviewed by Salimi et al. (2012), some studies found various factors which were key success factor to KM (Skyrme & Amidon, 1997). These factors contain strong link to a business imperative, a compelling vision and architecture, knowledge leadership, a knowledge creating and sharing culture, continuous learning, a well-developed technology infrastructure, and systematic organizational knowledge processes. Davenport & Volpel (2001) found eight common success factors. They were linking KM to economic performance or industry value, a clear purpose and language, a standard and flexible knowledge structure, multiple channels for knowledge transfer, a knowledge-friendly culture, a technical and organizational infrastructure, change in motivational practices, and senior management support. APQC (1999) included strategy and leadership, culture, technology and measurement in their framework as facilitators which can support the operation of KM. Chourides et al. (2003) identified various critical factors for successful KM implementation in five organizational functional areas: strategy, human resource management (HRM), Information Technology (IT), quality and marketing. Indeed, antecedents or direct enablers of knowledge management are needed to examine the latter impact on organizational performance (Chen & Huang, 2007; Fugate et al., 2009; Kiesling et al., 2009; Holsapple & Wu, 2011; Matzler & Mueller, 2011; Brion et al., 2012; Chen & Huang, 2012; Reich et al., 2012; Salimi et al., 2012; Wang & Wang, 2012). However, by reviewing the literature, the researcher noticed that a consensus appears among the body of research concerned with the knowledge management phenomenon: the antecedents of knowledge management are recognized as necessary prerequisites for companies to realize benefits from their investments and their long term planning; besides the question of how and the extent to which firms utilize knowledge management to complement their learning orientations remains largely unexplored specially when taking into account the role of leadership development. Therefore, because there is very limited work on the relationships between knowledge management antecedents in terms of leadership development, knowledge management itself, on the organizational performance, the researcher will take them into account in the current study. The major aim of this research is to investigate the antecedents and outcomes of knowledge management to achieve higher organizational performance.
The rest of this paper is organized as follows. It begins with the literature review regarding knowledge management capability, leadership development, and firm performance. Then, the research hypotheses are described. Next, the methodology used for the study is provided. The discussion and conclusion are then addressed.

2. Knowledge Management Capability

Knowledge is what a knower knows and there is no knowledge without someone knowing it (Fahey & Prusak, 1998). Zack (1999) emphasized that firms consider knowledge to be their most valuable and strategic resource, and confirmed that the more a firm knows about its customers, products, technologies, markets, and their linkages, the better it will perform. Therefore, since knowledge is involved in most activities in firms, it has become a primary factor in their success. In addition, firms need to manage their knowledge resources more efficiently to enhance performance and produce the biggest payoffs, and to obtain a competitive advantage (Meso & Smith, 2000). Several researchers in the KM field emphasize the importance of knowledge. For instance, Prusak (1999) in Myers (1996) offered numerous reasons to explain such values. First of all, firms are under huge pressure to stay ahead of competitors because of increased adaptability and process speed, as a result of the globalization of the economy. Also, there is increasing awareness of the value of specialized knowledge, as embodied in organizational processes and routines, in coping with the pressure of economic globalization. In addition, people are now better able to work with and learn from each other as a result of falling cost of networked computing.

Moreover, Nonaka (1994) distinguished two types of knowledge: explicit and tacit knowledge. Since explicit knowledge tends to be considered as everything that can be documented, archived, or codified, it can be contained within artifacts like paper or technology. Therefore, it could be shared (e.g. books can be passed on, databases can be consulted). Tacit knowledge is more difficult to qualify, and is retained by people in their heads. Hence, it is the product of their minds’ experiences and learning. Nevertheless, in some cases it could be shared (e.g. by the use of email, chat rooms, or instant messaging as individuals tend to use such technologies informally), however, it is mostly shared in the course of story-telling and in conversations. Nonetheless, explicit knowledge of knowledge management and tacit knowledge complete each other, and both are important elements approaches in firms. Knowledge management defined as a set of business processes developed in a firm in order to create, store, transfer, and apply knowledge (Laudon & Laudon, 2012). Murray (1998) emphasized that KM is a strategy that utilizes a firm’s intellectual assets and the talents of its members to produce new products, values, and to enhance competitiveness. Some scholars (e.g. Alavi & Leidner, 2001; Masa’deh & Shannak, 2012; Shannak et al., 2012; Shannak, Masa’deh, & Alkour, 2012; Masa’deh et al., 2013) emphasize the need for large firms to integrate their IT with their KM strategies and processes in order to survive in their highly competitive business environments.

Furthermore, knowledge sharing which was defined as process through which explicit or tacit knowledge is communicated to other individuals; can be clarified by three points of views. First, knowledge sharing means effective transfer, so that the recipient of knowledge can understand it well enough to act on it. Second, what is shared is knowledge rather than recommendations based on the knowledge; the former involves the recipient acquiring the shared knowledge as well as being able to take action based on it, which simply involves utilization of knowledge without the recipient internalizing the shared knowledge. Third, knowledge sharing may take place across individuals as well as across groups, departments, or organizations (Becerra-Fernandez & Sabherwal, 2010), thus sharing knowledge is an important process in enhancing organizational innovativeness and performance (Kannan et al., 2013). However, depending on whether explicit or tacit knowledge is being shared, exchange or socialization processes are used. Socialization facilitates the sharing of tacit knowledge in cases in which new tacit knowledge is being created as well as when new tacit knowledge is not being created. There is no intrinsic difference between the socialization process when used for knowledge discovery or knowledge sharing, although the way in which the process may be used could be different.

In addition, Gharaibeh (2013) pointed to Alomary (2004) who conducted a research on commercial banks of Jordan to study the joint use of IT and KM to achieve a high value on the work of banks, data were collected from (116) manager, experts, and consultants working in (16) commercial Jordanian banks, in which the research found a strong relationship between knowledge management and high value works at the researched banks, and a strong relationship between information technology and the high value of the work. Also the study found that there is a strong relationship between the joint use of knowledge management, information technology and high value to the work of the commercial banks. Further, the researcher recommended that to take advantage of the World Wide Web (Internet) in the provision of services and enhance the value-added, to use decision support systems and expert systems, and greater attention to motivation and satisfaction of employees and support the
achieve high value for their work.

Also, organizational culture has been defined as the specific collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization (Al-Azmi et al., 2012; Alkalha et al., 2012; Obeidat et al., 2012; Shannak, Obeidat, & Masa’deh, 2012; Masa’deh, Shannak, & Maqableh, 2013). Further, it is a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way you perceive, think, and feel in relation to those problems (Schein, 2004). Albatyneh (2007) tested three main hypotheses: the first hypothesis examined if there is an impact of the knowledge site on performance and organizational learning, and the second hypothesis concerned if there is an impact of knowledge management, which includes the organizational structure and organizational culture, infrastructure, information technology on organizational performance and organizational learning; and third hypothesis related to the effect of the exercise of knowledge management practices (i.e. the diagnosis, the acquisition and generation, storage and distribution, and application of knowledge) on organizational performance and organizational learning. The study was applied on (15) Jordanian Commercial Banks and distributed questionnaires in which (114) were used in the analysis, and the researcher recommended that banks should encourage individuals to carry out KM initiatives concerning individuals, setting goals, exploiting the availability of experts in the field of knowledge, and modifying the organizational structure and the availability of infrastructure for information technology and operations concerning the diagnosis and knowledge acquisition.

Gharaibeh (2013) indicated that Almaddan (2008) aimed to measure the impact of organizational culture factors on the implementation of knowledge management, in Orange Jordan Telecommunication Group. The total number of employees were (2700), the sample analysis included (270) employees at all levels which was selected randomly, and the researcher found that: there is an effect of cultural executive on knowledge management, organizational culture effect on knowledge management, also the leadership variable was the most effected on knowledge management; the other impacted factors on knowledge management were as following (workers, incentive systems, organizational processes, organizational structure, and information systems). The researcher also recommended that top management should adopt a strategy for managing incentive systems to encourage workers to be creative and innovative; and encouraging to generate knowledge in order to improve performance and enable organizational creativity and innovation.

A research conducted by Rivera-Vazquez et al. (2009) to investigate overcoming cultural barriers for innovation and knowledge sharing. A qualitative research consists of interviews, carried out to management personnel, and questionnaires submitted to the employees using the results collected from four public and private organizations. The researcher argued that organization must identify and overcome some cultural barriers to be effective in producing and sharing knowledge at the micro level which has to do with the organizational culture as it is shaped by national culture of citizens working for the organization. Rivera-Vazquez et al. (2009) found from the interview responses, the managerial level both private and public agencies have overcome the barriers that set back the knowledge sharing, while the questionnaires found that at the employee level several cultural barriers such as organizational environment, emotional intelligence and managers’ commitment are still present. Moreover, the researchers recommended that this study may be used to develop standard procedures to cope with culture differences when establishing a suitable environment for knowledge production and sharing among employees.

3. Leadership Development

The role of IT in the organization has evolved, researchers from 1980 till now consider the IT as an enabler to achieve competitive advantages, considered as a strategic weapon, and as a crucial support to operational and strategic business processes that has been widely accepted (Kefi & Kalika, 2005; Altamony et al., 2012; Masa’deh, 2012). IT infrastructure flexibility is an enabler to achieve strategic business objectives; operational excellence; new products, services, and business models; customer and supplier intimacy, improved decision making; firm performance; competitive advantages; and survival (Laudon & Laudon, 2012; Masa’deh, 2013). The concept of IT becomes from the combination of hardware and information system. An information system (IS) could be seen as a system composed of software application, support software, hardware, document and training materials, controls, job roles and peoples that use the software application. Thus, information system may help managers and workers analyze problems, visualize complex subjects, and create new product (Laudon & Laudon, 2012). Also, the information system (IS) department can be a powerful change agent. IS departments can affect changes in the organization by suggesting new business strategies and new information-based products.
and coordinating both development of technology and the planned changes in the organization (Gottschalk & Taylor, 2000). The decision making and planning regarding to the technologies that is used in other functions in their operations demand the CEO think how to allocate the decision making and responsibilities. CIO is responsible for the Information Systems and for enhancing these systems in accordance with business strategy. Other responsibilities include development and implementation of IT strategy and information architecture for knowledge management; improve technical infrastructure; enhancement of access to database; applications procurement; and user training and support (Gottschalk & Taylor, 2000).

Initially leadership known as a relational process between leader and followers, and is molded by the context (Fiedler & Chemers, 1974); while others defined it as the use of influence to encourage participation in achieving set goals (Yukl, 2006). Further, an effective leader understands social network relationships among organization members and also between members and others beyond the organization boundaries, and is able to influence individuals’ personal networks for the benefit of the organization (Balkundi & Kilduff, 2006; Galli & Müller-Stewens, 2012). However, there is an important distinction between leader development and leadership development. Indeed, Day (2001) suggested that leader development spotlights the employees and look for enhancing their intrapersonal skills, besides enhancing their Knowledge, Skills, and Abilities (KSA). However, leadership development known as a category of human development which evolves over time, and considered to be an outcome of complex mutual communications between the leader, employees, and the social surroundings. Also, leadership entails that an employee development is included and considered within the circumstance of others; societal systems; besides enhancing their Knowledge, Skills, and Abilities; social capital improves performance through networked relationships that foster cooperation and resource exchange (Day, 2001; McCallum & O’Connell, 2009; Avolio et al., 2010). In addition, McCauley (2001) outlines three components of leadership development: developmental experiences that provide opportunities for learning; personal orientation to learning including one’s ability, skills, and motivation; and organizational support such as rewards for developmental gains.

4. Research Hypotheses

This study used variables that are common in information systems and management literatures. Figure 1 displays the research’s proposed model.

![Figure 1. The research proposed model](image)

Several leadership development antecedents play a key factor that affect leadership development. This is by exploiting classroom training sessions as well as through interventions such as mentoring, coaching, active learning, intensive feedback programs, job challenges and reassignments, and social networking (Day, 2001). Also, human and social capital capabilities are essential in impacting leadership development. While human capital enhances organizational performance as individuals apply their knowledge, skills, and abilities; social capital improves performance through networked relationships that foster cooperation and resource exchange (Day, 2001; McCallum & O’Connell, 2009; Avolio et al., 2010). Some of the unique traits of human capital include work experience, education, knowledge, skills, and abilities; whereas some of the unique characteristics of social capital contain social awareness, self-management, forging commitments, fostering cooperation/coordination/networks; giving feedback, and establishing trust, goodwill and reciprocity (McCallum & O’Connell, 2009). Moreover, Olivares (2008) emphasized that crucial goal setting means the hub works of human agency and that setting goals and objectives offer a rational nexus to leadership development. Further, setting goals and objectives could be well thought-out in the situation of experiences that might be valuable to leadership development. Moreover, the more leaders’ have self-efficacy, the better execution of standards for achieving self-satisfaction (Wood & Bandura, 1989). Thus, goal setting is seen as a prerequisite for achieving...
Several researchers emphasize that KM capability could be a vital mediator between IT and firm performance (Tanriverdi, 2005; Chan & Reich, 2007; Oduwole & Olatundun, 2010; Shannak et al., 2010; Mladkova, 2012). In other words, these elements of unique experiences are identified as beneficial to leadership development.

**H1:** There is a statistical positive effect of leadership development on KM capability:

The construct of leadership development is important for achieving flexible HRM practice and in turn organizational performance (McCallum & O’Connell, 2009). For instance, performance appraisal is a powerful instrument of human resource practices; it provides information that helps making decisions about promotion, training salaries increases. Tuytens & Devos (2012) defined the performance appraisal as “a variety of activities through which organizations seek to assess employees and develop their competence, enhance performance and distribute rewards” (p. 756). It enhances both employees and organization performance (Peretz & Fried, 2012).

In his study carried out in (2012), Lee commented that supervisors have a strong influence on their employees’ behaviors due to their physical and psychological proximity to employees and due to their ability to administer rewards and punishments as well as performance ratings. He found that supervisors’ leadership behavior is an important antecedent of workplace harassment and a climate of respect which provides a strategic focus that enables organizations to effectively guide employee behaviors to create a civil work environment. This is to say that leadership talk, which is defined as the communication that occurs between leader and evaluated employee, is a key. Good leadership talk helps employees to turn their negative perception to a positive one. It also assists employees to maintain a positive perception. Poor leadership talk, on the other hand, cannot turn employee positive perception to a positive one. However, it causes the possible positive perception to turn into a negative one. The outcome of the performance appraisal is the perceived benefit of it. This outcome could be positive outcomes (overcoming weaknesses and taking opportunities by focusing on strengths), or negative outcomes (absenteeism and turnover). On one hand, feedback can help leaders to reinforce the positive outcomes, and it can help to overcome those negative outcomes by developing a proper communication between the leader and his subordinates, on the other hand.

Moreover, according to Santos (2000), the human resource management practices linked with the cost reduction strategy be supposed to contain a comparatively fixed job description that does not permit ambiguities; job design and focused career definition that supports the professional specialization; performance appraisal directed by short term outcome; observing market pay stages for its use in the compensation plans; and least levels of both training and development. Also, Takeuchi (2009) argued that cost reduction can be followed throughout a flexible management policy of human resources includes an increased employ of contingent employees such as part timer, seasonal employees, and additional temporary contracted; work simplification and measurement actions; job assignment elasticity; highlighting instant technical training and development; and improved performance appraisal. He founded that a cost reduction strategy interrelates with the existence of a focused-flexible HRM. IS application used in cost strategy like TPS, Reporting Systems, and Tracking Systems enable the HR to reduce paper handling, standardizes entry and reporting, increase processing accuracy, increase report turnaround, and early warning of goal deviation. The Experts Systems decreases need for HR experts and helps spread database and training costs over entire workforce. Decision Support System (DSS) increases chance of innovation for HR cost controls. Further, there is an agreement among strategic human resource management researchers that the successful execution of the differentiation strategy necessitates employees’ cultural self-improvement; encouraging employees’ creativity and risk taking; improving employees’ training and development schemes; and a high acceptance of uncertainty and volatility (Santos, 2000; Takeuchi, 2009). Takeuchi (2009) found that the differentiation strategy interrelated positively with performance-based HRM policy.

**H2:** There is a statistical positive effect of leadership development on HRM practices:

Several researchers emphasize that KM capability could be a vital mediator between IT and firm performance (Tanriverdi, 2005; Chan & Reich, 2007; Oduwole & Olatundun, 2010; Shannak et al., 2010; Mladkova, 2012). In
addition, as mentioned above, performance appraisal is considered to be one of the most difficult tasks a leader should perform. Furthermore, it is proved that performance appraisal affects the future performance of employees. Accordingly, it should be carried out carefully. The role of leaders in this process is very critical to ensure meeting the goals and objectives of this process. For this, leaders should take care of the after appraisal talk to ensure the positive outcome associated with performance appraisal and avoid the negative outcome of this process. Drawing on Nahapiet & Ghoshal (1998), Cohen & Prusak (2001), Hitt & Ireland (2002), Ireland & Hitt (2005), McCallum & O’Connell (2009) suggested five positive impacts of leadership development on organizational performance. First, it reduces transaction costs. Especially the trust developed can lead to reduced need for monitoring of trading partners. Second, social capital advances knowledge creation and sharing due to trust, shared goals and common frames of reference. Third, more comprehensible action flows from organizational stability and shared understanding. Fourth, organization membership is stabilized over reductions in turnover, severance costs, hiring and training expenses. In turn reduced personnel churning helps maintain valuable organizational knowledge. Fifth, by maximizing the values of competition and collaboration, firms enrich their chances to earn above-average financial returns. Based on above, this research hypothesized both:

**H3:** There is a statistical positive effect of KM capability on firm performance;

**H4:** There is a statistical positive effect of flexible HRM practices on firm performance.

5. Research Methodology

According to Smith (1983), quantitative research is associated with the traditional, positivist, experimental or empiricist paradigm, whereas qualitative research is associated with the constructivist approach, or the naturalistic, the interpretative, humanism, and post-modern perspectives. Creswell (1994, pp. 1-2) defined quantitative research as “an inquiry into a social or human problem, based on testing a theory composed of variables, measured with numbers, and analyzed with statistical procedures, in order to determine whether the predictive generalizations of the theory hold true”; whereas a qualitative study is “an inquiry process of understanding a social or human problem, based on building a complex, holistic picture, formed with words, reporting detailed views of informants, and conducted in a natural setting”. In addition, since both single methodology approaches (i.e. quantitative and qualitative) have strengths and weaknesses, the combination between such approaches (i.e. employing different methods such as observations, interviews, and survey questionnaires) could be used to strengthen the validity of research (Nau, 1995; Yin, 1994, 2009). Therefore, this study primarily will use quantitative data complemented by a qualitative survey. The quantitative research will be used to investigate the hypotheses of the study, and then a qualitative research will be commenced by employing semi-structured interviews, to understand in a rich picture the association between the variables in the Jordanian public shareholding firms.

Indeed, this study mainly will use quantitative data supplemented by a qualitative survey. Firstly, the quantitative research will be used to examine the hypotheses of the study derived from the literature review. After that, qualitative research will be commenced by employing semi-structured interviews, to understand in depth the relationship between the variables in public shareholding firms in Jordan. Further, the researcher will explain in great details the philosophical basis and design of the research, and the ways in which the study will be executed. This is by explaining the research population and sample frame, the adequacy of the sample size, the development of the research variables and piloting study, the survey questionnaires translation, and data collection methods in terms of survey completing, and complementary qualitative interviews.

6. Conclusion

Based on literature review, the framework of this study was developed. Furthermore, the data required for this study will be collected from firms in Jordan through a questionnaire distributed to them beside semi-structured interviews. Indeed, this study contributes to the literature by filling the gap that exists in the literature where there is a lack of studies investigating the impact of knowledge management enablers on knowledge management capability, and in turn on leadership development capability and firm performance in the Jordanian firms. Moreover, the contributions of this study will be useful for both academia and practitioners. From the academic perspective, this study aspires to fill the gap of the incomplete causal chains between knowledge management capability and firm performance. Furthermore, because most knowledge management literature is theoretical and lacks empirical evidence (Chatti, 2012; Kumar & Rose, 2012; Sáenz et al., 2012), the current study will not only provide a holistic review of the extant literature on knowledge management, but it will also be the first research of its nature to test the causal chain of knowledge management on firm performance. In addition, from the industry practitioner’s perspective, this study will be of interest to IT managers and business managers in terms of their real relationships among them and their employees, and to achieve the best practices.
for managing knowledge in the firms they work for. IT and business senior management also needs to recognize
the knowledge management mechanisms in which they may well transform their IT preferences into operational
decision making. Consequently, the expected findings could provide useful and practical guidelines to IT
managers and business managers to understand the resources and conditions required to realize the potential
values of their IT investments in terms of HRM practices, and firm-based performance.

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