Taxonomy of Organizational Knowledge: What Kind of Knowledge Is Needed to Build a Competitive Advantage?

Master Thesis

MSc. Strategic Management

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Abstract

Resource based view states that building a competitive advantage today involves using different types of knowledge. This paper sets out to identify those types and focuses on three areas: finding a coherent theoretical framework for classifying organizational knowledge based on knowledge dimensions, defining clusters of knowledge types within that framework with proposing their relationship to competitive advantage and testing those propositions in an empirical study within a small coherent sample of organizations. The study reveals that the competitive advantage is likely a combination of all types of knowledge with different functions and effect, whilst the crucial two types are the ‘experiential’ and the ‘encultured’ knowledge.

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Introduction

In today's global market place where the Internet has provided a for example a small hi-tech firm in India with an opportunity to compete for business in the USA or companies all around the world to bid for the same resource mined in South America; where the information travels so fast that it instantly renders obsolete any advantages companies used to enjoy 50-60 years ago, the question of competitive advantage rises more than ever. Today, most of the companies can build their plant or offices where they see it fit, hire anyone from nearly any country of the world, market their good or services on home market or export them. Only a handful of businesses can enjoy the fruits of restricted competition, usually because of national protectionism, which in turn is very much open for the risk of change on political landscape. The resource-based view states that the reason for this is in the shift of resources necessary for building a competitive advantage and instead of competition based on tangible resources such as land, location, work force, ores or money we have proceeded to an era of competition based on intangible resources, such as knowledge.

The general topic of knowledge and its relationship to competitive advantage however is immense. It is enough to look at the rate by which the Internet has been expanding to get an idea of the potential amounts of knowledge, knowing that information publicized on the Web only makes up a fraction of it. There also exist a massive number of all kinds of research on the subject of (sustainable) competitive advantage. The problem with that, as one might guess, is the lack coherence and structure to the various viewpoints. As we see below, only a few authors have bothered to go as far as actually defining the dimensions or the types of knowledge. It is therefore no wonder that there exists so many views on the subject – there are hundreds of interpretations of 'knowledge' simply because it seems such a common concept.

When talking about competitive advantage and knowledge, it is of course necessary to limit ourselves to the organizational knowledge, in other words the knowledge which an

organization is able to use for its benefit and not just any knowledge in the world. With this clause in mind, this paper is set out to investigate into the core of knowledge and define some fundamental aspects of it, so that there emerges a possibility to align some of the previous work done in search of competitive advantage based on knowledge and build some more consistent theory of sustainable competitive advantages.

Purpose and the Research Question

The purpose of this Master Thesis is therefore to shed some light on the subject of knowledge types used by successful organizations. The research question is divided into two parts: ultimately we want to know, "What type of knowledge is more likely to provide competitive advantage" (RQ2) and perhaps give some suggestions where to look for some more general ideas about sustainable competitive advantages. However, in order to do that, because of abundance of, but fragmented research in this area of organizational knowledge, it is first necessary to find out "How to classify different types of knowledge?" (RQ1).

In the end, three tasks will be accomplished: firstly we suggest a coherent theoretical framework for classifying organizational knowledge based on comparable qualities and point out other ways of improving that framework; secondly we define clusters of knowledge types within that framework based on existing organizational knowledge literature and propose their relationship to success; and thirdly we test those propositions in an empirical study within a small coherent sample of organizations.

Disposition

Based on the outline of the research question, the reminder of the paper is structured as follows: The first chapter of part one provides an overview of the relevant literature on organizational knowledge dimensions and introduces the theoretical framework for classifying organizational knowledge. In second chapter, the types of organizational knowledge are defined. Chapter three analyses the relationships between organizational knowledge types and competitive advantage and outlines several propositions. Chapter four in

the second part of the paper introduces the field research, its methodology and setting. Chapter five presents the field study and the analysis. The remainder of the paper is devoted to answers to research questions and conclusions.

Part I: Review of Literature

Organizational knowledge has been studied and continuously tried to categorize for the last half century, but has become much popular in the last fifteen years. Nevertheless, large gaps in understanding and defining organizational knowledge exist. One of the main unfilled gaps is the lack of synthesis between different approaches on this subject. The most common dichotomy is the authors' view of knowledge by certain dimensions (e.g. see Narasimha, 2000) or a classification to types of knowledge (e.g. see Blumentritt & Johnston, 1999). Hardly any synthesis of those two views can be found in the literature today, less empirical studies. In this paper, we will outline the different dimensions from the organizational knowledge literature and use them as basis for a comprehensive knowledge classification. It is divided between two chapters. In chapter one, the dimensions will be defined. In chapter two, these dimensions will be used as a framework for classification of knowledge types and five emerging knowledge type clusters are defined.

1. Dimensions

The literature on the subject of organizational knowledge dimensions can be divided into two general parts. First part, the bulk of authors, describes one or two dimensions of knowledge or classifies knowledge by one or two dimensions. Of that great deal comprises the discussion around the implicit and explicit qualities of knowledge. A few authors have also tried compiling taxonomy of different dimensions whilst adding several new ones and thus attempting to classify the whole spectrum of knowledge on the dimensions (e.g. see Narasimha, 2000). The problem with that is of course that knowledge has usually the qualities of more than just one dimension. Another problem with multiple dimensions the question of complexity which most likely has maintained the bulk of research stick to just a few of them. Here we attempt to go past this apprehension or complexity and set out to incorporate more dimensions. Before that, it is necessary to define the dimensions.

Tacit – explicit dimension

The notion of tacit knowledge dates back to the works of Polanyi (1962, 1966) and even James (1950) (Spender, 1996). The most common and extensively highlighted classification of organizational knowledge is along the dimension of tacitness (Matusik & Hill, 1998; Narasimha, 2000; Nonaka, 1994). In this dimension, knowledge ranges from highly tacit to fully explicit (Matusik & Hill, 1998; Nonaka, 1994), codified (Polanyi, 1966) or articulable (Winter, 1987) knowledge. According to Polanyi (1966) 'explicit' or codified knowledge can be transferred via formal and systematic methods in the form of official statements, rules and procedures and thus is objective and can be expressed unambiguously in words, numbers, symbols, specifications and is more easily shared (Nonaka, 1994, Nonaka & Takeuchi, 1995; Nonaka & Konno, 1998; Polanyi, 1966; Nelson & Winter, 1982).

Unlike explicit knowledge, which is structured and can be extracted from the individual, tacit knowledge is learned through experience and is difficult to articulate, formalize and communicate (Nonaka & Takeuchi, 1995; Polanyi, 1962; Polanyi, 1966; Spender, 1996; Winter, 1987). Tacit Knowledge is highly personal (Nonaka & Konno, 1998), deeply rooted in action, experience, commitment and involvement in specific context as well as in individuals ideals, values or emotions (Nonaka, 1994; Nonaka & Konno, 1998) and thus, it cannot be formalized, documented or communicated easily to others. Some of the examples of highly tacit knowledge involve insights, intuitions, and hunches (Nonaka & Konno, 1998).

Since tacit knowledge is usually acquired unconsciously or semi-consciously (Leonard-Barton & Sensiper, 1998), one characteristic of tacit knowledge is that of effortlessness. This means that there is an inherent difficulty when wanting to express all the knowledge totally to others – in Polanyi's words: "We know more than we can tell" (Leonard-Barton & Sensiper, 1998).

Nonaka (1994) and Nonaka & Konno (1998) distinguish between two components of tacit knowledge: technical and mental. The technical component encompasses the informal personal skills or crafts that are often referred to as 'know-how'. The mental component

consists of beliefs, ideals, values, schemata, and mental models that are deeply ingrained in us, and often taken for granted (Nonaka, 1994; Nonaka & Konno, 1998).

Kogut and Zander (1992) argue that knowledge is not only tacit nor explicit, but there exists a range of knowledge which varies in complexity and suggests organizational knowledge being measured by the degree of explicitness. Building on the work of Rogers (1962) and Winter (1987), Kogut and Zander propose that degree of explicitness be measured or evaluated in three components: codificability, teachability and complexity. Codificability then refers to the extent to which the knowledge can be articulated or represented in documents and words. The more explicit the knowledge is, the greater its codificability. Teachability is the ease by which the knowledge can be taught to another person. By definition, the more tacit the knowledge, the harder it is to teach it. Complexity refers to the number of critical and interacting elements of the knowledge needed to accomplish a given task. The more elements needed to complete a task, the greater is the complexity of the knowledge (Kogut & Zander, 1992).

Individual – collective dimension

The second most common classification of organizational knowledge goes by the dimension of individual vs. collective knowledge (Matusik & Hill, 1998). Individual knowledge refers to the knowledge embodied in an individual in an organization (Leonard & Sensiper, 1998; March, 1991). For example, in the course of work, a legal assistant in a law firm handles a unique legal proceeding not attempted by anyone in the organization. As a result, the knowledge gained by that legal assistant becomes his individual knowledge. In other words, individually held knowledge is the sum of individuals' competencies, information, experience and knowledge (Zander & Kogut, 1995).

However, when the individual knowledge is shared, it becomes collective (group - Kogut & Zander, 1992) knowledge. Collective knowledge is therefore the knowledge held commonly by a group of organization members. This includes organizing principles, routines, practices, top management schema, and relative organizational consensus on past experiences, goals and

missions, competitors, and relationships that are widely diffused throughout the organization and held in common by a large number of organizational members (Lyles & Schwenk, 1992; Zander & Kogut, 1995) This knowledge is both situated and embedded in the organization as a community of practice (Brown & Duguid, 1991; Spender, 1996).

Some researchers (Gowler & Legge, 1982) have questioned whether there is any real difference between collective knowledge and the aggregation of individual knowledge. Simon (1991) maintained that the organization per se does not hold any knowledge; only its members do and the collective knowledge is just the aggregate of the individuals' knowledge in an organization. At the other end of the spectrum, Nelson and Winter (1982) argue that collective knowledge is an attribute of the organization just like its culture and thus it is not possible to reduce the collective knowledge to a simple sum of various competencies and capabilities of all the individuals. Brown and Duguid (1991) and Berman et al (2002) share similar opinion and maintained that shared knowledge is located in complex, collaborative social practices. Weick and Roberts (1993) also provided evidence to demonstrate that collective knowledge resides at the organizational level. In other words, towards the collective end of this dimension, simple aggregation of knowledge held by the individuals does not add up because collective knowledge is conceived to be socially and contextually embedded in an organization and therefore produces additional “goodwill” and collective knowledge can and does emerge on its own in the interaction of individuals.

Private – public dimension

There are other two quite commonly accepted dimensions. One of these dimensions dichotomizes organizational knowledge into private and public knowledge (Matusik & Hill, 1998; Argote et al, 2003; Uzzi & Lancaster, 2003). Private knowledge refers to the knowledge uniquely possessed by the organization. It represents a resource that is valuable, rare, and imperfectly imitable (Barney, 1991) in other words ‘soft’ (Argote et al, 2003). Examples of

private knowledge include the organization's unique practices, processes, documentation, trade secrets or business strategies (Matusik & Hill, 1998).

Public knowledge consists of knowledge not proprietary to any particular organization or firm. It resides in the public domain. This knowledge includes industry and occupational best practices, total quality management, design for manufacturing, just-in-time inventory, lean manufacturing, and team-based incentives are all examples of best practices currently in the public domain, although at one point in time, many of these best practices were actually private knowledge (Matusik & Hill, 1998).

Component – architectural dimension

Drawing from the works of Amit & Schoemaker (1993) and Henderson & Clark (1990), Matusik & Hill (1998) suggest another classification along the component – architecture dimension (Matusik & Hill, 1998) further developed by Tallman et al (2004). Component knowledge is the knowledge that refers to a particular, discrete, identifiable aspect of an organization's operation, so called 'component', which together form a larger system or more precisely 'architecture' of the system. It is normally tied to the industry, is relatively coherent and definable and usually unrelated to context. These components found in an organization are the resources, knowledge, skills, and technologies (Amit & Schoemaker, 1993; Henderson & Cockburn, 1994; Tallman et al, 2004).

For instance, the examples of component knowledge in technology-oriented industries include scientific, technical, engineering, and design skills, in consumer industries it involves knowledge of consumer behavior, marketing, sales, promotion, etc, whereas the motion picture industry requires knowledge of production, direction, cinematography, acting, and many other technical aspects of film making (Tallman et al, 2004).

Tallman et al (2004) suggest that component knowledge ranges in nature from straightforward technical (simple, tangible, explicit) know-how through highly systemic (complex, intangible,

tacit) scientific knowledge. Highly technical knowledge including blueprints, product patents, step-by-step instructions for an operation, and systemic component knowledge including scientific theory, complex process patents, activities that require "learning by doing," organizational routines, etc. (Tallman et al, 2004).

Architectural knowledge differs from component knowledge in that it relates to organization-wide routines and schema for coordinating and integrating the various components of the organization into patterns for productive use (Henderson & Clark, 1990; Henderson & Cockburn, 1994; Matusik & Hill, 1998; McGaughey, 2002). Architectural knowledge is typically complex, intangible, and tacit, highly organization specific, causally ambiguous, and private because of its historical dependency, organizational embeddedness and holistic and evolutionary nature (Matusik & Hill, 1998; Nelson & Winter, 1982; Tallman et al, 2004). Architectural knowledge involves the structures and systems of organizations and evolves endogenously as an inseparable part of an organization, rather than existing independent of the organization (Dierickx & Cool, 1989). Due to its unique nature and development, no two organizations share the same architectural knowledge (Tallman et al, 2004).

Matusik and Hill (1998) found that there is often no single individual who is in a position to see, comprehend, and articulate the totality of architectural knowledge.

Exploratory – exploitative dimension

Drawing from the work of March (1991), Narasimha (2000) proposes distinguishing between the exploratory and exploitative knowledge, bringing about a qualitative difference. Exploitative knowledge refers to focusing on learning routines that refine the existing product/process knowledge. Since according to March, focusing on what you already do reduces the possibility of discovering something new, there is yet another direction that should be followed in order to reverse that effect – routines that organizations develop to facilitate development of developing new products and processes that are outside of an organization's repertoire of routines, thus defining the exploratory knowledge (March 1991,

Narasimha, 2000; Matusik & Hill, 1998). The characteristics of such routines are search, discovery, experimentation and judgment postponement (Narasimha, 2000).

Other dimensions

There are other dimensions defined in the organizational knowledge literature. For example, Narasimha (2000) outlines another dimension of knowledge distinguishing between the depth and the breadth of knowledge defining the depth of knowledge as expertise in an area and the breadth of knowledge as the number of areas the expertise is developed. To illustrate this, he brings an example of resources allocation to R&D which can be the same for two companies, but with a significantly different outcome based on how many areas are focused on. From this he concludes that the same stock of absolute knowledge could represent different breadth and depth (Narasimha, 2000).

Narasimha also builds on Teece (1982) argument that knowledge is fungible; i.e., it is often not specific to the innovation that it created and defines it as a degree of competence or variety-generating capability (Narasimha, 2000). This dimension captures the property that enables firms to make use of organizational knowledge in different and multiple contexts (Ibid). For example, he suggests a firm that has developed expertise in fermentation technology, where the variety- generating characteristic of that expertise enables it to diversify into multiple product markets in processed foods and pharmaceutical industries. Similarly, it enables the firm to understand and respond to its rivals' innovations in that technology. (Narasimha, 2000).

However, in this paper these last two dimensions have not been studied for two reasons: firstly the lack of research available for these dimensions and secondly to reduce the complexity of this paper rising from the lack of previous works on the subject. Specifically, whereas the literature of authors defining knowledge types has a fair amount of evidence of the first five dimensions, only vague if any reflection of these latter dimensions can be found. Therefore for simplicity reasons, only the first, most common dimensions have been included

in the rest of this research paper. However, the author suggest a further and thus more exhaustive study including more dimensions should be carried out later when this research becomes available.

2. Knowledge types

As we see, the body of research on different dimensions of organizational knowledge is quite remarkable and to an extent, these dimensions also qualify as types of knowledge. The authors themselves clearly suggest using the (pure) dimensional knowledge types as basis for organizational knowledge classification. However, the question that immediately rises here is of course – what happens with the multidimensional knowledge types? Therefore number of authors, starting from Kogut & Zander (1992), Spender (1993) and Collins (1993) to most recently, Buyosiere & Luethke (2004), have chosen the alternative path of classifying organizational knowledge into groups of knowledge 'types'. Blumentritt & Johnston (1999) provide a bird's eye view of the evolution of knowledge type's classification referring Lundwall & Johnson (1996), Collins (1993), Millar et al (1997), Blackler (1995), Fleck (1997) and proposing their own framework. In this paper, we have taken these authors' results and tried to compare the findings within the proposed framework of organizational knowledge dimensions. With a few exceptions (e.g. Spender's Figure 1. (1993), most of the authors had not clearly stated the dimensions which they were drawing from. Therefore this analysis represented a sort of reverse engineering of organizational knowledge types to find what dimensions they are related to. A five-level scale was used to evaluate the existence of dimensions in a type: 'Yes' meaning a high possibility of an extreme (such as tacitness) in a type to a 'no' meaning it was not acceptable in this type. Blanks were left where there was no information or where it was irrelevant.

As a result of this largely subjective approach, most of the mentioned authors' organizational knowledge types were pinned down to the dimensions they represented. (See Appendix 1).

After re-arranging the data by the dimensions, clusters started to emerge. Appendix 1 shows the knowledge types and their authors and their relation to the various dimensions after they have been organized into five clusters i.e. proposed 'types'.[1] These new proposed types are 'encoded', 'embodied', 'know-how', 'experiential' and 'encultured'. Table 1 outlines these types with the corresponding dimensions:

Table 1 – Organizational Knowledge Types vs. Organizational Knowledge Dimensions

Type / Dimension	Encoded	Embodied	Know-How	Experiential	Encultured
Tacit	**no**	**yes**	yes	**yes**	**yes**
Explicit	**yes**	**no**	yes	yes	yes
Individual	0	**yes**	0	0	yes
Collective	0	**no**	0	0	**yes**
Private	0	0	**yes**	0	**yes**
Public	**yes**	0	**yes**	0	no
Component	0	0	**yes**	0	0
Architectural	0	0	0	**yes**	0
Exploratory	0	0	0	0	**yes**
Exploitative	0	0	0	**yes**	0

Source: Author's compilation.

Here, the notions of 'yes' and 'no' correspond to the ones used in the evaluation. The key characteristics have been set in bold. It is important to recognize the zeros, which represent a possibility. In other words, it is possible to define a "sub-type" of encoded knowledge, which has a private characteristic (e.g. Patent). For the reason of simplicity[2] and lack of information from previous authors' work, the author has stuck with just five types which cover the whole spectrum.

However, one interesting phenomenon sticks out from this table – the reason for the difficulty of defining organizational knowledge types past the first two or three – their similarity. In this table, we can see that the reason for these types being different is their different key characteristic dimension. But the reason for being similar is not necessarily the same

[1] It is important to note here that majority of the papers were published before the term "architectural knowledge" was coined by Matusik and Hill in 1998. In this analysis however, after the clusters had been established, it was evident that the extremes of component-architectural dimension clearly characterized know-how and experiential types. This is marked with bold "yes"-s in Appendix 1.
[2] The total original combination of all these dimensions would be over 59 000.

characteristics, but the possibility to take on board additional dimensions and form a hybrid of these types.

In the next few paragraphs we will outline the key aspects of these knowledge types.[3]

ENCODED - explicit, mostly public

The first and quite obvious cluster emerges along the tacit-explicit dimension comprising of all the simple forms of explicit knowledge out there. Most studied authors have categorized explicit knowledge in a separate knowledge type such as 'encoded' (Blackler, 1995), 'formal' (Fleck, 1997), 'codified' (Blum & Johnston, 1999), 'basic' (Byosiere & Luethge, 2004), 'scientific' (Spender, 1993), 'symbolic' (Collins, 1993), or simply information (Kogut & Zander, 1992; Nonaka & Takeuchi, 1994). Some of the authors distinguish between "what is" types such as 'know-what' (Lundwall & Johnson, 1994 and 2001) or 'catalogue knowledge' (Millar et al, 1997) from "what is explained", e.g. 'know-why' (Lundwall & Johnson, 1994 and 2001) or 'explanatory knowledge' (Millar et al, 1997), but in general, all these reflect some sort of knowledge that has transformed or somehow become publicly available information.

The notion of public is somewhat misleading here, because technically, classified papers with the description of a prototype war machine in a secret vault or on a computer drive are also included here although they are not known to everybody. The notion public here means that no specific or additional knowledge is needed to understand it. Most of the time however, knowledge which is not public in its regular sense (also defined in the dimensions section above) is also somewhat tacit i.e. does require some additional expertise to understand, which then places it into a different group (in this paper 'know-how') and therefore solidifies the borders of the 'encoded' knowledge cluster.

[3] The list different examples of those knowledge types is presented in Appendix 2.

The number of examples in this knowledge type is relatively large, including books, materials, manuals, outlines, internet, databases, laws of nature, general education, facts, signs, symbols, laws, codes, theories, formulae, etc. In other words, it is the knowledge that can be broken down to bits (literally) of information that is readily transferable in communication.

EMBODIED - tacit, individual

Another cluster appears at the intersection of tacit and individual dimensions. This cluster of 'embodied knowledge' as we shall call it, has been recognized by many authors as 'embrained' or 'embodied' (Collins, 1993; Blackler, 1995) with a regard to difference if the knowledge is acquired by learning from explicit sources (books) or implicit sources (by doing). Spender (1996) defines 'automatic' knowledge at the intersection of implicit and individual dimensions of organizational knowledge when talking about different types of learning. Later, Blumentritt & Johnston (1999) refer to this type of knowledge as 'embodied knowledge' and we adopt this title.

Embodied knowledge therefore refers to highly tacit knowledge acquired individually by implicit methods, such as apprenticeship, learning by doing and practice or is innate like talent. Mastering this knowledge, such as conceptual and individual skills, cognitive abilities, problem solving techniques rooted in practice and experience often need conscious learning efforts whereas the results normally emerge only over a long period of time. These skills and knowledge of an individual, such as a blacksmith or an artist, distinctly illustrate what Polanyi had in mind when he said "We know more than we can tell" (Polanyi, 1966), thus referring to difficulties in the transfer of this kind of knowledge.

KNOW-HOW - in transition: from tacit to explicit, from private to public

This third cluster, which we title as 'know-how' emerges between the encoded and experiential types of knowledge and is unlike any other type, characterized by its dynamic nature. Knowledge in this know-how cluster seems to be both private and public, tacit and

explicit, so it is important to look at this type in time. It appears that knowledge users are always on the lookout for new knowledge and this knowledge spills over and out of different private sources as these knowledge users move around on the job market thus involuntarily making some private knowledge public. At the same time, the new phenomenon is investigated and studied and gradually made explicit as research progresses. Knowledge users on the other hand bring some pieces of this knowledge to public and explicit knowledge and put it in use in their work place, thus creating some new private and tacit knowledge. This process is referred by Nonaka and Takeuchi as the process of 'knowledge-creation' (Nonaka & Takeuchi, 1994). Although this does not look to be proprietary only to know-how, the other types of knowledge need to be broken down to the component level, which seems to be highly existent dimension in this type.

Lundwall and Johnson (2001) have divided this type into 'know-how' and 'know-who', but dimensionally it doesn't have any qualitative difference. Ultimately, "knowing how" means getting it done either by knowing someone else who can help (know-who) or knowing yourself (know-you). Other authors who bring out this knowledge type distinctively are Fleck (1997) and Kogut and Zander (1992). Some of the examples of know-how include different skills, information about who knows what and who knows what to do or who to talk to, knowledge embodied in tools and instruments, problem solving, recipes of organizing, methods of production, how to sell and buy, how to cooperate etc (Lundwall and Johnson, 2001; Fleck, 1997; Kogut & Zander , 1992).

EXPERIENTIAL - architectural

When the first three types of knowledge are often cited and the definitions fairly congruent, from there on, it is very difficult to find a common denominator. Many authors define several types of knowledge and mention similar qualities, but the descriptions and examples vary considerably from author to author. When looking at different dimensions, the fourth type

emerges quite clearly. More specifically, the fourth cluster outlines the highly tacit and highly architectural type of knowledge.

Authors like Millar et al (1997), Fleck (1997), Blumentritt & Johnston (1999) and most recently Byosiere & Luethge (2004) talk about experiential knowledge type (hence the title) in broader or narrower terms, explaining that there exists some knowledge which makes sense of all the rest of the knowledge out there in a specific context (Fleck, 1997). In a way, this type of knowledge can be considered as a key which, when used with a certain lock, opens the door so that know-how and embodied, but also encoded knowledge could be put in good use in this specific situation.

This type of knowledge also rates high on the exploitative dimension. This makes a lot of sense when the purpose of this knowledge – sense-making – is considered. In other words, experiential knowledge is used solely for deciphering the know-how, embodied knowledge and the situation/context and finding a match from existing options. So by nature, this type of knowledge uses the already existing knowledge by combining them into systems (the so called architecture) and not much new knowledge is produced in the process except experiential knowledge which tells what combinations work. Similar to know-how and embodied knowledge, this knowledge takes long time to accumulate and often is based on intuition rather than logical exclusion and therefore highly tacit. Some of the more frequently working solutions can and will be then made explicit (guidebooks, manuals, rules of thumb (Fleck, 1997) and classified as encoded knowledge, but due to the vast number of possible solutions, the bulk of it remains tacit and thus not readily transferable. Some examples of this kind of knowledge are abilities to recognize situation in context, ability to predict the escalation of situations from vague signs, ability to see the big picture, ability to recognize individual's intentions, desires, motivation and other leadership and organizational capabilities, routines, practices (Fleck, 1997; Blumentritt & Johnston, 1999; Byosiere & Luethge, 2004).

ENCULTURED

On the first sight, the fifth cluster looks to include all types of knowledge that were not previously included anywhere else. Indeed it may seem dimension-heavy when compared to the other types of knowledge, but on closer examination we understand why – it is exactly that multidimensional synergy that is put to work here to form this encultured knowledge.[4] Although different dimensions take part in this process, there are a few key dimensions which define this type of knowledge, such as tacit, collective, exploratory and private.

The most distinctive of these dimensions are collective and private because this type of knowledge acquires meaning in a specific group with accent on both of these words. In other words, this kind of knowledge is created within a group of individuals and then dissolved when the group departs, but most interestingly possibly re-created when the group rejoins. This phenomenon is well known as a 'team-spirit', but there are other, simpler forms like values or common goals, which interestingly may or may not activate in a specific setting. This type of knowledge doesn't necessarily produce positive effects as it may seem. To illustrate the previous point further, a 'negative team-spirit' may occur, for instance when group members' positions in the group are altered or when individual attitudes change. Whereas a bulk of this discussion belongs to the disciple of organizational studies, it is important here to recognize the influence of collective dimension.

On the other hand, since the knowledge exists in a specific group and not just any, it is remarkably private. In most cases, especially when the organizations have been working for some time, this type of knowledge is deeply embedded in the organizational culture (hence the name encultured) and therefore not only private but also tacit. Or alternatively, since the organizational culture is implicit and difficult for an outsider to decipher, therefore it is

[4] The author agrees that this type of organizational knowledge could potentially be broken down to two or three sub-types, based on the concentration of other dimensions such as individual or explicit. E.g. encultured knowledge which is made explicit – process descriptions, goals, values written down, but not actually used (!) For simplicity reasons, we have stuck with one slightly more complex type.

private. This combination of these tacit, private and collective dimensions makes it almost perfectly inimitable and therefore hardly transferable.

However, one other dimension is highlighted in this type of encultured knowledge. It is the exploratory dimension. When compared to experiential type of knowledge, where new knowledge production is minimal, encultured type of knowledge is the main source of new knowledge creation. Although it looks and makes sense that new knowledge is created at every type of knowledge it appears that most of that new knowledge is a modified or transferred from encultured knowledge where it is first created in the interaction process between individuals, in their relationships and communication.

Several authors talk about the various aspects of this knowledge type and based on their approach, define this type as ‘conscious’ or ‘communal’ (Spender 1993), ‘encultured’ (Collins, 1993; Blackler, 1995) ‘embedded’ (Blackler, 1995), ‘meta-knowledge’ (Fleck, 1997), ‘social’ (Blumentritt & Johnston,1999), ‘emotional’ or ‘innovative’ (Byosiere & Luethge, 2004) and despite the various titles and contexts explain the same general idea and provide same sort of examples. Some of these include: interpersonal relationships, roles, group values and goals, teamwork, shared understanding, team spirit and other individual and collective, highly qualitative knowledge which acquires meaning in a group setting (Spender, 1993; Collins, 1993; Blackler, 1995; Blackler, 1995; Fleck, 1997; Blumentritt & Johnston, 1999; Byosiere & Luethge, 2004).

3. Knowledge types versus competitive advantage

The literature on organizational knowledge often reduces the question of sources of competitive advantage to the question about the tacitness of the knowledge. However, simply talking about tacit knowledge as a source for competitive advantage when most types of the knowledge include the tacit component is of little help. Therefore in this paper, we aim to

provide some insight where specifically (among the tacit knowledge) to begin with looking for a sustainable competitive advantage in today's knowledge-based economy.

In the next few paragraphs we will walk through the five knowledge types and formulate some proposals based on the previous discussion.

ENCODED knowledge

One of the principal themes in organizational knowledge literature is the discussion of the role of tacitness of organizational knowledge in leading to the competitive advantage (see e.g. Leonard & Sensiper (1998)). The root of this discussion stems from the fact that tacit knowledge is difficult to articulate and transfer both outside and inside the company and explicit knowledge is not (Winter, 1987; Kogut & Zander, 1992). Within encoded knowledge we are talking about explicit knowledge, which by definition could not be basis for competitive advantage as it is easy to understand, absorb and transfer. As encoded knowledge is readily transferable, we leave out private dimension here simply because in long run, very little encoded knowledge remains private and/or does not leak out to general public. Explicit knowledge becomes public very rapidly and almost involuntarily, in forms of information, data, articles, memos, e-mails, web pages etc. and therefore it makes sense to talk about explicit and public in the same type, which we have defined as encoded.

Similar to explicit knowledge, Matusik and Hill suggest that *"public knowledge cannot be a source of competitive advantage since it is not unique or proprietary to any one firm but is, instead, readily available"* (Matusik & Hill, 1998). Drawing from the discussions of tacit and public dimensions, we can propose the relationships of encoded knowledge to competitive advantage:

> *P1: Encoded knowledge is not a source of competitive advantage, as it is explicit and readily available to the public.*

Matusik and Hill however suggest that whereas public knowledge cannot be a source for competitive advantage, not using the existing public knowledge, such as knowing Japanese

when doing business in Japan, can be a source of 'competitive disadvantage' (Matusik & Hill, 1998). We extend their argument to all encoded knowledge including explicit knowledge yet to become public as the failure to use knowledge already documented within the company may result in a similar disadvantage:

> *P2: Failure to locate and apply encoded knowledge is a source of competitive disadvantage.*

EMBODIED knowledge

This discussion makes it seem obvious to look for competitive advantages within the knowledge types that are more inclined towards tacit end of the spectrum. When doing that however, we have to go further than just dichotomizing between explicit and tacit. Thus first, in embodied knowledge type we are looking at a very specific case of tacit organizational knowledge – that is literally inside of an individual.

Leonard and Sensiper (1998) suggest that individual tacit knowledge can be a source for competitive advantage since it cannot be extracted from the individual. For example, artists can rarely tell how or why they came up with a certain piece or work. Since this kind of knowledge is deeply rooted inside an individual, it becomes very difficult, if not impossible[5] to articulate or transfer that kind of knowledge. When an organization incorporates such knowledge (talent), it is possible for that organization to build their advantage on it. Therefore the proposition:

> *P3: Embodied knowledge can be a source of competitive advantage, because it is very difficult to transfer this kind of knowledge.*

This tacitness does however pose several problems. First, the competitive advantage would then be tied to a certain individual and thus vulnerable to his actions. Embodied knowledge relates competitive advantage to certain individual and this competitive advantage is lost when that individual leaves. Secondly, the rigidity of this type of knowledge does not allow multiplication and therefore no-one else can directly benefit from the existence of this

[5] Hereby we leave out scientific arguments for technical possibilities of transferring the knowledge from one individual to another and assume it cannot be done instantly using conventional methods for learning.

knowledge in the organization. However, there are most likely components upon which this knowledge has been built and although this particular knowledge is individual and can not be transferred, another set of embodied knowledge, which is roughly comparable to (or better from) already existing embodied knowledge can be produced. This discussion is extended more in the next paragraph, but the proposition that follows these problems:

> *P4: The tacitness of embodied knowledge inhibits the spread of competitive advantage by making it difficult to replicate and thus makes the organization vulnerable to actions of such knowledge holders.*

As Narasimha (2000) points out, the question here is how the (HR) management and organization design is used in order to reduce the loss of competitive advantage by such knowledge erosion.

KNOW-HOW

The organizational knowledge type which we have labeled ‘know-how’ comprises of three important aspects: in addition to tacit dimension, also present in the previous type, it also incorporates private-public dimension and is highly component. The latter dimension being the crucial in this case, as it allows or at least significantly increases the transferability of the knowledge. Consider learning to drive a car or play a tune on the guitar: the concept of ‘how to drive’ or ‘how to play’ becomes understandable and thus learnable when it is broken down to components, such as learning to ‘turn the wheel’ or ‘playing a C-chord’. As a result, knowledge broken down to components is more likely to transfer from one person to another or even be codified (tacit-explicit) or from one company to another (private-public). Therefore there always exists both tacit and explicit, private and public know-how. When new knowledge users apply this knowledge, they create more new component knowledge and the loop is closed. We could argue that there exists a time period, when certain know-how is tacit and private, for example there is only a few people how to solve a particular problem, who to contact for specific information or possess a unique machine, but in the long run that advantage is not sustainable, because another organization could solve the same problem

differently, contact a different person or create a roughly similar machine and get the same results, if not better. Hence the propositions:

> *P5: Know-How can be a source of competitive advantage only in short run as other organizations may not have the right know-how.*
>
> *P6: In the long run, competitive advantage based on know-how is not sustainable, because similar or better results could be achieved by rearranging components.*

EXPERIENTIAL knowledge

When the components are arranged into a greater system, another dimension of knowledge – architectural – becomes important. As suggested by Henderson and Clark (1990) and Narasimha (2000), often it is not the knowledge about the components that matters, but the knowledge how to put those components together, the so called architectural knowledge. Architectural and tacit dimensions combined bring about a knowledge type which is very difficult to transfer quickly and which most likely can only be mastered in practice and experience, hence the name experiential. Even so, when the knowledge is mastered in one context, it may be insufficient to use the same knowledge in a different setting. Thus:

> *P7: Experiential knowledge leads to a competitive advantage, by making it difficult for other organizations to decipher and utilize the knowledge within their context.*

The determinant factor is the variability in the number of combinations, which is multiplied by the variety of contexts. This assortment, when looking at the examples of this type of knowledge, is likely to stem from the unpredictability of the human behavior. For instance in human resource management, technique that works for motivating one person may not work quite as well with another. Because of the existence of exploitative dimension in this knowledge type, the competitive advantage does not depend on the ability to create new ideas (which would be component knowledge), but to use the existing ideas within the particular context to create a working solution. Following this thought further, the organizations that accumulate most experiential knowledge should be more competitive, since they have the most working solutions. On the other hand, the more extensive the overall experiential

knowledge and larger the codified experiential knowledge pool, the harder it is to find the working solution. For example, finding consensus could take significantly more time with several experts with different background and experience on a certain issue, than just little experience. Although the outcome may not be the most effective, the additional bonus from the superior knowledge is reduced significantly compared to the amount of time spent on finding it. Berman et al (2002) suggest a U-shaped relationship between knowledge accumulation and value to the group. Thus:

> *P8: Over certain limit, the amount of experiential knowledge starts reducing the competitive advantage, as the number of options is offset by the time it takes to choose between them.*

ENCULTURED knowledge

The last knowledge type category, labeled 'encultured' also includes tacit dimension, similar to previous three types, but the key ingredients here are the collective aspect of the individual-collective dimension and the private nature of this knowledge. The combination of these dimensions implies that not much of the knowledge is left when the organization dissolves. Similarly to the embodied knowledge type, this makes it extremely difficult if at all possible to transfer from organization to organization. Although some of this knowledge can be codified, it is probably not readily applicable in the new setting that is with new organization and therefore needs to be decontextualized (Millar et al, 1997). Because this encultured knowledge is imperfectly imitable by other organizations, the members of the organization have an advantage of mutual understanding by spending less time on explaining things. We suggest that smooth flow of all kinds of knowledge is the main task of encultured knowledge which in turn helps to produce superior results. For this process to start, some 'inside-group' knowledge is created. Thus the proposition:

> *P9: Encultured knowledge enhances the likelihood of competitive advantage by superior returns in overall production and in creation of new knowledge.*

Similar to its fast disappearance, some of the examples of this type of knowledge may also emerge quite rapidly, although the word 'culture' in the name of this category of

organizational knowledge may suggest otherwise. The encultured knowledge, such as a team-spirit or 'fit' could pop up instantly when a group forms based on the individual qualities and desires of group members. For instance, protesters marching on the street against e.g. "smoking in public" could promptly become a coherent group when somebody tried to get rid of them with water cannons. Most of the time however, it takes some time for members of the organization get aligned. One question that raises here is how is the length of encultured knowledge creation related to the strength of these relationships. Millar (1997) suggests that it takes time for 'encultured' knowledge to develop, but once it has, it provides basis for mutual understanding. In other words, relationships formed over time should be stronger than relationships formed in an instant. Combined with the tacitness of this encultured knowledge, we can propose that older organizations with better developed organizational culture outperform newer organizations:

> *P10: Older organizations have a competitive advantage because they have had a chance to accumulate more encultured knowledge.*

On the other hand, encultured knowledge is the glue between know-how, embodied and experiential knowledge, as it is vital for intra-organizational knowledge transfer and problem-solving. No matter how large the organization knowledge stocks, the response time will be severely halted if an organization lacks sufficient amount of encultured knowledge. Hence:

> *P11: The lack of encultured knowledge is a source of competitive disadvantage, as it blocks the intra-organization knowledge transfer.*

Part II: Empirical Analysis

The second part of the paper will examine the proposed framework in a practical setting. It is divided into two chapters: the methodology and the analysis of results. In the methodology chapter, the research method is specified and the reasoning behind the research setting and sample justified. Also we introduce the Southwestern Company and its student program, which was the setting for our research. The analysis section discusses the findings from the conducted field study.

4. Methodology

For this paper, the author has chosen to carry out qualitative research, more specifically a series of case studies within the Southwestern program to test out the suggested propositions and see if the chosen framework could be justified in a simple setting. Instead of aiming for extensive external validity, the empirical part of the paper examines the proposed framework in fairly closed environment with the intent to bring out some strengths and weaknesses of the framework and only suggest some stronger clues for explaining the mystery of competitive advantage. The fairly subjective qualitative approach therefore provided the handiest way to access the necessary target group.

The research itself took over six months from designing the research setting in the spring and follow-up in the summer and fall, combining multiple methods of data collection: a questionnaire, interviews, observations and field notes as well as statistical data gathering. The research consisted of four steps:

1. Devising the questionnaire and the interview questions
2. Carrying out the field work
3. Analysis of results
4. Conclusions

The opportunity for our research was provided by the nature of the Southwestern program, where every year a good number of organizations are formed within the same background and settings (Southwestern Company). These organizations last for 4-5 months of 'selling season' and basically dissolve after that. They share the same organizational background, but yet the organizations by the end of the summer are all different and most interestingly produce significantly different results. There are several similarities between them – such as the preparation, type of people selected to the organizations and so on – as well as differences, such as Organizational Leaders (OLs)[6] personal experience in the program and the number of people who leave the organization before the official end of the program. All this and the fact that the author has been an Organizational as well as Sales Leader gave an opportunity to investigate into these organizations and test the propositions outlined in the Part I of the paper.

The set of organizations was chosen because of two main factors: 1. the accessibility to the organizations, their results and background information and 2. proximity to the author both logistically and culturally in order to eliminate the misunderstandings which come from cultural differences. Since it was logistically impossible to question every member of every organization, we focused on studying the organizations through the OL viewpoints. The sample set included all 26 organizations under one DSL group (Chris Adams) including OLs from Estonia, Latvia, Lithuania, Poland, UK and France. Out of those, 20 participated in the first stage of field work, which was an on-line questionnaire compiled by author (see Appendix 4).

In the second stage, 15 of those 20 respondents were interviewed individually using a general interview guide (see appendix 5) designed after the questionnaire results had been gathered in

[6] Most terms are explained in the text below; the summary of the abbreviations and glossary is also in Appendix 3.

order to obtain more specific information. The participating organizations, OLs and the list of interviews are listed in Appendix 6.

The Southwestern Company

The Southwestern Company got started in 1855 when Rev. J. R. Graves found The Southwestern Publishing House in Nashville, Tennessee and started selling pocket-bibles to soldiers in US civil war a few years later. Today the Southwestern/Great American Inc. has grown into four independent operating companies with many subsidiaries that are involved in selling educational materials, cookbooks, search and contracting services, sales consulting, life insurance, herbs and spices; has a fundraising business, a direct mail-order business and a subsidiary for helping students with work permits for the USA. The Southwestern Company is the oldest and largest of the branches consisting of Southwestern Student Program (direct sales of educational books and CD-ROMs in the USA), Southwestern UK (direct sales of educational books and CD-ROMs in the UK), Southwestern Business Resources (HR search and contracting), SBR Consulting (sales training), Southwestern Legacy (sells life insurance), Wildtree Herbs (sells herbs, spices and culinary blends) and GEC (helps students to obtain DS-2019 forms in order to be able to apply for the J1 work visa for the USA). The full corporate structure as of 2004 is presented on the figure 1 except Wildtree Herbs and GEC which have been set up later.

Today the SW/GA Inc. is owned by its employees and Spencer Hays, former president of the company, who is also the majority shareholder. The minority shareholders are approximately 200 different level Sales Managers/Sales Leaders of the various sister companies. The company has not however always been owned by its employees. In 1969, The Southwestern Company[7] was bought by Times-Mirror Group, but the board of directors headed by Spencer Hays bought it back in 1982 and since then the owners can only be the people employed by

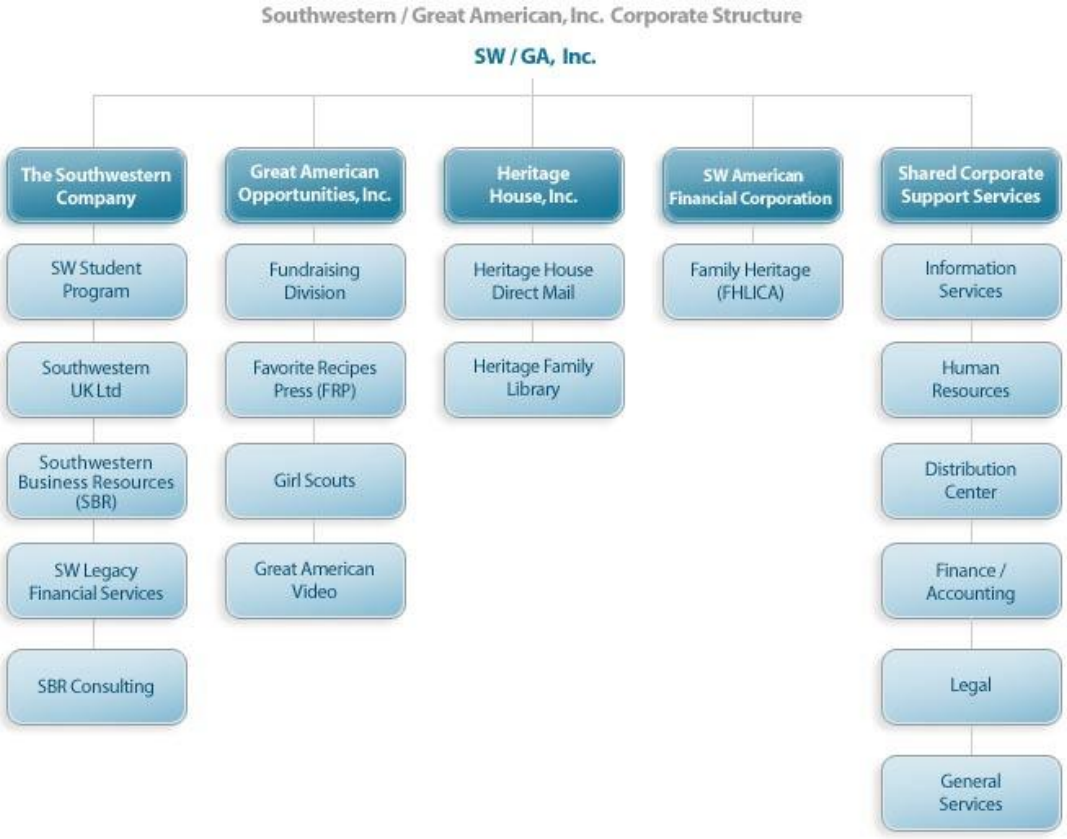
[7] From here on The Company of simply Southwestern

the Company and the shares are distributed based on position within the company and the results.

The Southwestern's mission statement explains the main business model that has been in existence from 1868 when the first students set out to solicit sales of company products:

"To be the best organization in the world at helping young people develop the skills – and the character – they need to achieve their goals in life. We build people: the people who sell our products; the consumers who benefit from them; and the people who become members of our team of employees. We build people. And those people are building a great company."

Figure 1 – SW/GA, Inc. Corporate Structure



Source: Roosaare (2003)

Therefore every year, Southwestern recruits more than 3000 students, who after training are selling Southwestern Products to families in the US, Canada, UK and France during their

summer break. Although the company makes profit from the sales of their products, it is also the aim of the company to provide students with an opportunity to develop their character and also make money for their studies. The company thus only sells its products through its (student) representatives going door-to-door.

The Company sells its Southwestern-branded products to families in private homes and every year, the student dealers are distributed across the sales area so that they could cover the maximum number of potential customers. With one 'selling season' (or simply 'summer' in SW lingo), lasting 10 to 15 weeks based on the length of dealer's school holidays, one dealer covers an area of 50 000 people on average, making approximately 4000 contacts. Over the summer, this totals ca 350 000 customers or roughly $50million in sales for the company. This means, that a good number of people on whose doors the students knock already have Southwestern products. To get round of this problem, the Southwestern product portfolio has been expanding significantly in recent years. The core product introduced by Southwestern was the Southwestern Student Handbook, which initially (1972) was a two-volume huge encyclopedia-like product for school-aged kids and their parents to help with homework. Today the Student Handbook set has grown to 10 books and in addition Southwestern carries a line of children's books as well as many sets of different educational CD-ROMs that were introduced in 1997. All products other than four first volumes of the Handbook set, which is the original Southwestern product, are bought in from various well known publishers and software companies such as Kingfisher, Miles Kelly Publishing UK, Edmark and The Learning Company.

The Company markets its books in continental 48 states in the USA, Canada, UK and France. The student program started in the US in 1868, in Canada 1986, in UK 1994 and in France 2005. The Company has survived both World Wars as well as the Great Depression but the greatest growth of the company has been in the last few years despite the fact that much of the latest information is published electronically instead of books. In general, the sales figures

have not been subject to external factors as much as simply in the number of dealers. Lately the door-to-door business has been affected slightly by the rising fear of terror and many security restrictions which has brought along ordinances against going door-to-door in many cities and towns. On the other hand, Southwestern is the member of Better Business Bureau and one of the leading members of Direct Selling Association, which confirms that it is a very highly regarded company.

The Southwestern Student Program

Whereas the Company currently only sells its products in four countries, it is recruiting students for its program globally. Students who participate in the program represent approximately 350 colleges and universities from the North and South America, Europe and South-Africa. As the company is highly sales-orientated, the main structure within it is the sales organization.

The main sales force of the company are the student dealers participating in this program for the first time and are commonly called as 'First Years' (FYs) who represent approximately 2300 of the 3000. The FYs are recruited, trained and lead by other fellow students called Student Managers (SMs) who have participated in the program before. FYs together with their SM make up a sales team, which there are almost as many as SMs (nearly 700). Dealers are often also called by their lettered contract year, signifying the number of summers the student has been with the program. E.g. the First Years are called A-contracts, second year dealers B-contracts, third year dealers C-contracts etc. FYs and SMs make up a larger organization run by a Sales Leader (SL). Whereas the lettered contract dealers are all independent contractors, the Sales Leaders (or alternatively Sales Managers) are the employees of the Company. Depending on the amount of sales created by the SL group, there are Associate Sales Leaders (ASLs), Field Sales Leaders (FSLs), District Sales Leaders (DSLs) and Regional Sales Leaders (RSLs) who all report to a Director of Sales. Usually the organizations under DSL consist of more than 120 people meaning that DSLs are the first

level where they don't personally go out to sell anymore because all their time is taken by management. All together there are four Directors in the Southwestern Company today who report to three Vice Presidents of Sales lead by the President of the Company. All these people in the organization, including current president Jerry Heffel have started from ground level i.e. as a First Year themselves. This structure is very flexible for the company as 95% of the sales force is not employed by the company but instead is an independent contractor who buys products from the company on wholesale terms and sells them to his clients with a suggested margin.

The company has therefore set up a clear career path to follow for anyone willing to build the organization and thus the students and potential future employees have an opportunity to learn not only how to sell, but also how to build an organization; how to recruit, how to lead and manage. The students who qualify for another summer with Southwestern (SMs) are the main recruiters of new people. It is the SMs who keep Southwestern Company expanding and provide it with the active and motivated sales force (FYs). On the Company side, the SMs are totally independent in what they do or how they go about recruiting. Every SM can build his own team of students with the incentive of receiving 'dealer discount', which is a certain small percentage of sales based on the size and the sales volume of the team. Usually the recruiting starts right after the 'summer' and extends to the beginning of the next summer. The SMs don't have any restrictions on who to choose for their team, however, it is important that the selected FYs were prepared to face this kind of challenge provided by going door-to-door (in a possibly foreign country for Europeans). Therefore the SLs in cooperation with DSL have suggested a standard selection process, which lasts for approximately two weeks and involves many interviews with SMs and a final interview with a SL. Generally the SMs recruit from their home university i.e. where they study themselves. Several SMs, who have already graduated participate in the program 'Full time' and therefore recruit from a few different universities. In the case of European countries, because of the length of the visa

process, the recruiting stops four to six weeks before the Sales School, which is a Company-wide week-long training gathering for all the program participants and marks the official start of the selling season. Appendix 7 presents the schedule of a regular summer.

There is however an important event that happens before the sales teams head to compulsory Sales School. Approximately two months before the Sales School, the SLs sit down with DSLs and/or Director to organize sales teams into bigger groups called 'Summer organizations' and select the Organizational Leaders (OLs) to lead those organizations. The summer organizations are groups of FYs and SMs who work together for the summer time as one (big) team. Usually there summer organizations have 10-25 members based several variables. Some of these are:

- The number of total people under SL;
- The number of SMs under SL;
- The sales territory (also called turf) layout;[8]
- The previous experience with a certain sales area;
- The number of teams (in SL group);
- The number of people with drivers license per team;
- The number of potential OLs within DSL group;
- The capabilities and the experience of the OL;
- Summer vacation dates;
- etc.

Occasionally therefore there are also organizations larger or smaller than that, also it is common that the SMs from one SL group go to the bookfield with people from another if necessary. The OLs are usually more experienced SMs (C-contract or above) or Sales Leaders, but occasionally also the first-time SMs (B-contracts) who by the SLs have been given the confidence and the responsibility of running an organization. There were 26 of such organizations put together in Chris Adams DSL group by SLs in the spring of 2006 and the

[8] For example all the continental US has been divided into 100 "sales areas" and based on projected number of dealers per DSL in Sales School, the Company distributes these areas among DSLs some time before the School Starts. Each of these sales areas have a maximum number of dealers these areas can hold based on how many people live there, how many towns are included and whether the dealers can drive or need to work with a bike or on foot.

following analysis is based on the study of majority of those organizations as mentioned above.

5. Empirical Analysis

In order to be able to compare the organizations success or 'competitiveness', we opted to measure two components of these organizations: the sales in units and the retention rate. The reason for selecting the total organizational production is pretty straightforward as we wanted to keep the model simple enough on the competitiveness side of the knowledge types vs. competitive advantage equation. In addition to just sticking to the overall production however, we have added another variable – retention rate, as it is meaningful on two accounts: first, on the business side of this particular case, the number of people sticking with the program is an indication of business growth for the next year as long-time performance is a function of retention rate and second, it reflects the potential for sustainability. Whereas the discussion of first particular aspect and the impact on the organization competitiveness through multiple time periods lies outside the scope of this paper, the second aspect has a more direct impact. For example, an organization where majority of the people are replaced in a time period could hardly be called the same organization. Thus, the retention rate shows the quality of that organization which directly (by keeping the good people) or indirectly (keeping the momentum) enhances the competitiveness of the organization.[9]

To be able to compare the performance of these organizations, we first had to find a way to evaluate their production. Since the organizations all had unequal number of members with an equally uneven degree of management experience, the total units produced by a single organization differed vastly. In order to bring every organization to a comparable level we used a formula to reduce the different organizational production figures to a single number of 'production per management year' (PPMY):

[9] It is important to note here that retention rate is particularly applicable in this case as the organizations operate on volunteer basis that is, no material incentives are offered in exchange for staying or leaving nor is there any legal restrictions.

$$y = \frac{P}{\sum MY}, \textit{ where}$$

y – Production per management year (PPMY)

P – Total production of the organization in units

ΣMY – the total sum of organization members' years of experience in the organization

This is valid statistically[10] and also makes sense logically because dealers with more experience should on average sell more and therefore organizations with more managers should oversell their less experienced companions. This formula also takes into account the total number of dealers, as every First Year dealer also accounts for one year of experience in this model. Although one might argue that First Year dealers are not quite equally placed in the formula, the actual data suggests otherwise (see footnote 10). In other words, on average two first year dealers produce the same as one B contract manager. Also the First Year dealers have been incorporated in the organizations well before, sometimes as long as eight months before the actual 'selling season' starts to provide instructions and dry-run practice.

The second step was to evaluate the organizations' performance in these two categories of production per experience year and the retention rate. In order to do that, the organizations were ranked from top to bottom in both categories based on their results and evaluated by giving marks according on the five point scale (same as in the questionnaire). The best organization and everyone within 10% of the top scored 5 points, whereas the lowest ranked and anyone within 10% of that organization received 1pt. The organizations who fit into the +/-5% range of the average result in that category received 3pts and the organizations above and below that average range scored 4pts and 2pts, accordingly. The maximum number of points available for any single organization was 10 (5+5) and the least number of points available was 2 (1+1). The breakdown of results, points and the total score is available in the

[10] This is statistically valid as more than 30 years statistics show an average production of ca 1000 units per year of experience. For example, the average First Year student through Sales School (i.e. including early leavers) sells approximately 1000 units. The similar average B contract sells ca. 2000 units and so on.

Appendix 8. This ranking was then used in the following analysis as basis for organizations' performance.

Encoded knowledge vs. competitive advantage

> *P1: Encoded knowledge is not a source of competitive advantage, as it is explicit and readily available to the public.*
>
> *P2: Failure to locate and apply encoded knowledge is a source of competitive disadvantage.*

The topics of sales, motivation, leadership, management, organizational behavior, group psychology and others are among the most booming discussions in today's business circles, particularly due to the growing consultancy industry. Numerous consultants, coaches, motivational speakers, practitioners and academics alike have published countless books and papers on just the subject of sales alone, not to mention vaguer or – in its true sense – tacit subjects such as leadership. In addition, the Company itself has compiled a handful of 'manuals' which are distributed to dealers, SMs and OLs in Sales School. These manuals do not contain any specifically private information, but rather present a compilation of general best practices in these areas, which over the years have proved fruitful for the dealers in their sales and management quest. Most of these (best) practices can be found in more or less detail in the aforementioned publicly available books on the subject.[11] Every year, the Company also hands out a bunch of books together with the 'sales kit' for inspirational reading, which vary from year to year with one exception: every First Year dealer always gets a copy of "The Greatest Salesman in the World" by Og Mandino[12] – a classic book on the importance of building habits in order to succeed. During the preparation for the summer and also in Sales School, the Sales Managers and sometimes Student Managers use and hand out some custom-tailored manuals. Two of the most common ones that everyone in the observed group used were the "Follow-up Manual" and the "FY Spring Training Manual" for recruiting, training

[11] Many of the ideas in those manuals can be referred back to worldwide bestsellers by Stephen Covey and Dale Carnegie (Covey, S. R. (1989). *The 7 Habits of Highly Effective People.* New York, NY: Free Press. / Carnegie, D. (1982) *How to Win Friends and Influence People.* New York, NY: Pocket Books.
[12] Mandino, O. (1983). *The Greatest Salesman in the World.* New York, NY: Bantam Books.

and preparing for the summer for the SMs and FYs respectively. These manuals, although also in English, are specifically tailored by the native SLs for the non-American students in order to ensure the high quality of students who finally board the plane to Sales School, often many thousands of miles away from their secure home environment with an ultimate goal of increasing their productivity and reducing the number of drop-outs.

In other words, the total number of available encoded knowledge sources is vast, as the definition suggests. However, the different layers of management (Company, Sales Leader, Student Manager) act as filters letting through some information more than other, based on their experience, but in general the filtered-out encoded knowledge is out there for grabs for anyone who wants more.

Our study showed that most of the OLs had used the OL manual occasionally to look up some specific questions and several OLs also used some previously prepared notes or game plans for the benefit of the organization, but not much. There are two objective reasons for that: first, the job of the OL is very time-constrained and therefore often making an erroneous judgment fast is better than going through the manuals looking for the perfect answer. Secondly, the numbers of training meetings held both over the course of preparation (such as OL cruise/training) and in Sales School are designed to help OLs to obtain the information from these manuals. Since the content is roughly the same from meeting to meeting, the main points are likely to be memorized by the time OLs get to use that knowledge in action. In other words, much of the time that OLs spend preparing for their summer as an OL they actually process the encoded knowledge to various kinds of know-how.

The encoded knowledge pool however, is far greater than any OL could possibly work through in the maximum eight months of preparation. So naturally, even from the material already distilled for the user by his Sales Leader, the bulk of encoded knowledge remains codified in a manual or a book. Some of this knowledge is later sent to the knowledge users

by means of a weekly newsletter. On average, the usage of encoded knowledge sources therefore remained moderate, varying from organization to organization from "using frequently" to "never".

The results of the field study however show no significant correlation between the usage of encoded knowledge and performance. It appears that the most frequent users of manuals were the inexperienced OLs. This seems logical as from year to year the content of the manuals is roughly the same and with every year as an OL the information from these sources gets repeated and thus more experienced manager is less likely to use the manual as he has heard it for many times. However, experienced OLs did not do better than their less experienced competitors (this finding is more discussed under the experiential knowledge section). Part of the answer to that puzzling result could lie in the fact that the inexperienced OLs looked for confirmation from superiors or more experienced OLs and thus did not trust the manuals even when they used them.

It seems reasonable to conclude that by using the same encoded knowledge sources and validating the new ones, the advantages are eroded and the overall results are similar. We then proceeded to ask if the OLs would have wanted to do anything differently (i.e. use more encoded knowledge sources), provided they had the time. Most if not all OLs rejected this idea, saying they were already overwhelmed with what they had already and helpful would have been not more, but less information. Several OLs pointed out another problem which they had had with all this information – lack of structure[13] (in what they had access to). They were also the OLs who most likely positively answered the question: "Did you have a moment where you knew you had it written down somewhere?" In other words, the OLs who got past the time constraint ended up with the structure problem, whereas most did not get to the structure problem as they did not even have the time to think about it. This provides a hint

[13] This discussion raises the question of slightly modified encoded knowledge – codified knowledge, which was structured by the OL, in other words private explicit knowledge. In order to keep the model relatively simple, we shall look into the process of 'structuring' as a component of the architectural dimension of the experiential knowledge, and not a separate structured sub-type of encoded knowledge.

that P2 is likely to be true, because with lack of time and no structure, the organization could be in competitively disadvantaged position. Unfortunately within this specific sample, it was not possible to isolate the organizations from each other to see the full effect and thus we were not able to verify it. However in the case of one particular organization, the OL itself nearly isolated himself from the rest of the organizations. In this case, author was able to observe – which latter interviews confirmed – one OL communicating significantly less with other groups, superiors, SLs and OLs than did other organizations. The OL later reasoned that he already knew how to do everything. This organization however, ranked one of the lowest retention rates and would have been a candidate to the lowest average producing organization, had not the OL himself had a remarkable production.

This does not exactly confirm P2, but is a second clue that the proposition might be true. Even more interestingly however, this case of the this particular organization suggests that not only failure to locate encoded knowledge, but also failure to first acknowledge and then locate *any* kind of knowledge could be a source of competitive *dis*advantage.

To summarize the outlook for encoded knowledge in creating a competitive advantage, our research shows that encoded knowledge is unlikely to provide a competitive advantage, because the knowledge is readily available to all parties. Thus it confirms that P1 in this particular setting is true. For P2 the research does not provide an adequate proof, although there are clues that P2 is more likely to be true than false. For future research however, P2 should perhaps be extended to all different types of knowledge, not just encoded knowledge.

Embodied knowledge vs. competitive advantage

> *P3: Embodied knowledge can be a source of competitive advantage, because it is very difficult to transfer this kind of knowledge.*
>
> *P4: The tacitness of embodied knowledge inhibits the spread of competitive advantage by making it difficult to replicate and thus makes the organization vulnerable to actions of such knowledge holders.*

Compared to the encoded knowledge, the amount of embodied knowledge within an organization is far more difficult to quantify. One of the ways to measure the embodied knowledge would have been to test the IQ of the organizations' members. Arising from the set up of this paper, which limits the field work to interviews with the organizational leaders, we had to make some assumptions about the embodied knowledge in the organizations. First assumption was based on probability theory, which applied to this particular case let us assume that it is quite unlikely that any given organization included (First Year) students significantly intelligent than others. The opposite of that would imply that a given single recruiter was able to attract students with superior intelligence than another and lower intelligence students were not attracted to him. Even if that were true, having observed the process of putting organizations together, it is unlikely that two or three of those recruiters would have found themselves in the same organization simply because it is common practice to try to balance the organizations when deciding who goes with who by putting together people with various capabilities. Therefore, there are reasons to believe that when it comes to the first year dealers, which make up the bulk of an organization, the organizations' average IQ or the amount of embodied knowledge was roughly similar.

The second assumption concerns the embodied knowledge within the management. Supposing there is a strong correlation between intelligence and performance in this field, i.e. sales and/or recruiting, we will assume that the embodied knowledge was roughly evenly distributed among organizations for one of two reasons: either the manager was good at recruiting and therefore was put together with some low recruiters to keep the average manager-per-first-year ratio and not to put together a giant organization or, the manager was good at sales and therefore was most likely candidate for an OL, which there is only one per organization. On the other hand, if the correlation were negative, the same logic of spreading the management out between different organizations would have applied. Thus, we have a reason to believe with good probability that the rough amount of embodied knowledge within

any given organization was about the same. Therefore, instead of measuring the embodied knowledge, we set out to evaluate the externalizations of this knowledge to the performance of the organization. Specifically, we broke embodied knowledge down to three observable phenomenons and asked OLs to evaluate the impact of each of these to organization's performance. These three parts were OL's personal traits, qualities of individual people and setting examples.

One quantifiable proxy for setting examples was the OL's personal results in sales. Somewhat expectedly, OLs personal success correlated well with organizational performance with a few exceptions. Expectedly, because from the sales point of view, well-performing leader does two things for his organizations benefit: first, raising the average units per dealer as set out in our performance indicator formula, but also and perhaps more importantly setting an example for the organization members. For example, the team leader selling 1000 units a week helps to raise the belief barriers of the other team members with less experience. It is relatively easier for a 1000unit/week producing OL to convince a team member that he/she can sell at least 200/week than for a 200/week OL to do so. The exceptions to this case were Sold Out organization, where the OL sold well, but the organization did poorly and the opposite example of D.U.P.S. organization, where the OL sold average[14], but the organization performed well. In the case of Sold Out organization the reason seemed to have been connected more with failed approach to management rather than embodied knowledge. In the case of D.U.P.S. organization on the other hand, it is possible that the compensating factor may have been another well performing SM (with a PPMY around 2000u).

Whereas the OLs high production relates well with organizations' sales performance, there is no correlation between OL sales and retention rates, which tells us that seeing other people making money can get some people making money also, but not necessarily everyone. This is

[14] The notions of "well", "poor" and "average" are derived from the individual sales statistics of OLs (and organizations w/o OL) and mean their PPMY of "over 1000", "less than 500" and "between 500 and 1000" respectively.

where the rest of the importance of setting an example comes in. OLs evaluated that setting personal examples aspect of embodied knowledge was one of two most fundamental factors of organizations' success, receiving an average of 4 on a 5-point scale. Setting examples was also the most strongly correlated factor to the organizations' final performance, based on the interviews with OLs. This can effectively mean two things: first, the people in an organization take after the leader and/or the leaders whose organizations did not do as well projected their organization's lousy performance to their own not-good-enough example. Most likely, both of them are true. The organizations statistics over the course of the summer which the author had access to show quite robustly how SMs in the organization take after the OL and FYs after the SMs to the smallest details, such as hours and minutes worked to the money spent on weekly expenses. The second point is further enforced when looking at the effect of the other aspect of embodied knowledge – OL's personal qualities, where some correlation can be found. The OLs considered the individual qualities of people more important as the organizations did better. That is, the better organizations did, the more important were individual qualities. The interviews showed that the top OLs were highly confident in what they were doing even if they did not know the answers exactly. With the erosion of self-confidence by managers or more specifically the OL, the organization started to wobble, while other managers and FYs tried to spin the organization more towards their own personal interests. However, in few cases, such as aforementioned Sold Out organization, but also other organizations with an experienced OL, self-confidence did not necessarily produce results. This was most likely so because over-confident OLs did not look for advice from other sources and thus failed to notice better solutions.

The third aspect of the embodied knowledge – individual qualities of people – also ranked high on the factors mentioned by OLs that helped their organizations do well. This is however not so straightforward to measure after the summer, because it is easy to say you had good people after your organization ranked number one and say you had lazy people when your

organization did not do quite so well. The question is, whether the organizations had good people already to begin with or did something happen in the process that made them good. We ruled out the first scenario in the beginning of this section based on pure statistical reasoning. Therefore, it must have been something that was done in the process of building and field management of the organization. Both of these topics involve different kinds of knowledge – experiential and know-how respectively and are therefore explained in following sections. When it comes to building an organization however, therein re-emerges the question of examples. More specifically whether the organization has the right examples for this particular set of organization members? The interviews revealed that in this particular sample, the main question was not whether you had the greatest amount of embodied knowledge but the right set of embodied knowledge. In other words the question was, whether you had the right set of excellent managers, who could be recognized as examples within the organization or not.

Drawing from this discussion, it is easy to see the links between embodied knowledge and competitive advantage as performance and setting a good example provides basis for replication of this kind of knowledge and thus competitive edge (P3); surely it has to be a setting where performance is important. Undoubtedly, this knowledge transfer process is lengthy and subject to mayhem when the person decides to leave before the essence of his embodied knowledge has been transferred to an equally capable follower. Even then this leaves an option that the project fails nevertheless. Therefore the retention of such talent becomes crucial. In Southwestern this is less critical. First, it is less dangerous because the sales period only lasts for four months whereas in the remaining eight months the organizations are usually totally revamped, simply because most people only consider it for a one-summer project and therefore lots of new FYs are recruited to fill their places. It is also less critical in Southwestern, because in those eight months of preparation, knowledge is extremely intensively shared and distributed on all levels, especially everything concerning

sales performance. This extensive knowledge "pumping" results in meager FYs transforming into top SMs the next year and filling the places of future candidates for limited number of OLs. In other words, the loss of talent is equally well balanced with the recruiting of potential future talents and any given time, there are plenty of pretenders for the places freed up by incumbents. Thus, P4 is not entirely accurate in this particular case.

To sum up this section, the proposition that embodied knowledge can be a source of competitive advantage does prove to be true in this setting, because not only is it very difficult to transfer this kind of knowledge, but also because the only people who can effectively benefit from this knowledge in given time period are the organization' members themselves. The second proposition – about the tacitness of embodied knowledge that leaves the company with the person – could make the organization less competitive if that person were to leave in the middle of the summer (which has happened but very rarely). This phenomenon however is particular to this specific business case and therefore no final conclusions should be drawn from this.

Know-how vs. competitive advantage

> *P5: Know-how can be a source of competitive advantage only in short run as other organizations may not have the right know-how.*
>
> *P6: In the long run, competitive advantage based on know-how is not sustainable, because similar or better results could be achieved by rearranging components.*

Know-how is the type of knowledge, which the Southwestern program has been built upon. The acquisition, filtration, transfer, sharing, distribution of know-how is the very central component in how much the sales organization makes money. Therefore, the so called "off-season" preparational training features numerous theoretical and practical coaching sessions both individually (one-on-one) and in groups. Most common for all the participants are Student Manager meetings (SM meetings), Kick-off seminar, Explosion Weekend, Great Recruiters Seminar (GRS) for experienced dealers, First Year meetings (FY meetings) and

Production Seminar for new recruits, Sales School in Nashville and Sunday Meetings on the field for everyone. All dealers and managers frequently have Personal Conferences (PCs) with their superior to cover major points in more detail. In addition, Sales Leaders have their monthly get-back meetings and seminars, as well as OL training, which is the single most important training meeting specifically for the organizational leaders 4-6 weeks before the season starts. All of these meetings serve three main purposes. First, going through different sales, personal, managerial, organizational or any other situations step by step explaining exactly what to do in those situations based on previous experience. Most of the time, it is straightforward top down coaching. Second purpose is transferring the knowledge from encoded sources to actual know-how. This usually involves dry runs of giving sales talks, but also practicing more difficult PCs and holding recruiting presentations. Third, these meetings also encourage bonding between dealers in order to facilitate the knowledge transfer from top performers to pretenders as well as making the individuals more difficult to leave the group once they have made lots of friends.

All this should convince us that after so many trainings and meetings together, all organizations should hold a roughly same amount of know-how. After all, there is exists no exclusive training that is forbidden for some groups or alternative training for others. Although some organizations have special gatherings and team meetings, the know-how shared from meeting to meeting is essentially the same. The varying performance of the organizations however indicates that if this has to do with know-how, there has to be some differences. Apparently the trick is not in the same amount of know-how that is provided, but how much of it is used in the process. We looked what and how the OLs used and how it related to organization's performance.

Since different know-how is quite distinguishable because of its component nature, it was easy to break the know-how used by OLs down to many distinct parts. Analysis shows that quite good correlation can be found between some know-how and performance. For example,

the know-how shared in the pre-summer preparation as well as management techniques correlate well to the results. This seems to signify that in some organizations there existed particular know-how that worked but at the same time it did not work in other organizations although the knowledge was there. For instance, ‘following’ is a specific management technique. Whereas every OL and SM has followed an experienced manager himself over the course of previous summers (most likely repeatedly) and there has been a fair amount of coaching on the subject and generally everyone understands the process, goals and the main idea of this technique, managers fail to produce similar results. This signifies either a missing component, e.g. the component that makes it work in a specific setting, which then refers this into another discussion of the lack of experiential knowledge or, on the other hand it could just be a case presenting the defects in the know-how transfer process.

Morning and evening calls are another example of management techniques. On the contrary to following, which was commonly used technique with dispersed results, these sorts of calls were used less but with much more coherent effect. This is probably so because management who knew how they can help the production by calling were actively busy making calls, whereas the SMs who did not know how to conduct these calls just did not bother to do them. As a result, there is significant correlation in the data showing direct impact on organization performance when this technique was in fact executed.

There are other examples of know-how that seems to have had positive impact on the organizational performance. One of these factors is the usage of personal know-how by OLs, which they had acquired on the field while engaged in sales themselves, both this and previous summers. Although not every OL was equally willing to share their sales know-how with the organization, those who did seem to have done better compared to the organizations where the OL was more reluctant to share his knowledge or considered their knowledge sharing worthless for the group. Also, individual coaching by SL/DSL correlates well with results, meaning the OLs who asked for help with solving some problems or tips for the

performance usually benefited from it and thus it helped the organizations do better on average. This seems to support P5 that in short run this helps the organization do better and give a hint for supporting P6, because in the long run all OLs could have accessed the SLs/the same knowledge, it is just that in this case, the organizations with the OLs who used this knowledge source performed better on average than the OLs/organizations which did not.

Another source of know-how that ranked well on OLs list of success factors was the OL training/cruise. Generally, the OL cruise seems to have helped more people who ultimately did well with their organizations. The interviews revealed however that it was the OLs who were more scared about being OL (e.g. first time OLs, although not all) who benefited most from these meetings because not only did they listen more attentively, but they also used the spare time in OL training to ask additional questions from experienced OLs. This seems to provide one possible explanation to the fact that experience did not help the veteran OLs in comparison to their new comrades. This could be because first, with asking many questions, the inexperienced OLs must have learned a few trade tricks that proved useful in the summer, but also the feeling of knowing all the answers (to rookie questions) may have put experienced OLs in a "comfort zone" and thus made them less attentive to what was covered in the training. Additional detail to support this theory is the fact that from year to year, the general outline of this training is the same and going through the same topic for the fifth time could easily get tedious. So a possible explanation to losing an advantage by incumbents is not their lack of know-how, but the lack of willingness to engage them in the process of ongoing learning.

One of the interesting outcomes from the research was the finding that the organizations where the OL had specialist know-how on the subject or related field from his/her university, such as business or business administration studies did notably worse than the OLs with knowledge from unrelated fields, such as public administration or environmental technology. More specifically, the OLs who had studied business admitted using some knowledge from

their business and organizational behavior classes, whereas the OLs from other fields of study hardly recognized any similarities between what they studied and what they did on the bookfield. The question that raises here is certainly puzzling if not controversial. One possible explanation could be that there exists a wide gap between theory and practice. The interviews with the OLs however let us believe that business students often tried to fit the existing situations in a given theoretical framework and then act accordingly. The non-business students did not bother with frameworks and did better because by following the empirically proven know-how they both did not get confused and saved time not thinking about frameworks.

Several components of know-how that OLs considered as useful did not however show any correlation to org performance. For instance the know-how learned from the Sales School or SM meetings etc. had no significant correlation to performance, most likely because all the OLs had access to it. For example all OLs, from both top and low performing organizations seem to have used the OL Sunday conference calls and talking to other OLs over the course of the summer. Since it rarely was unavailable to limited number of people and the content was applicable to everybody, no one benefited from this kind of know-how as far as having an advantage.

This discussion lets us believe, that know-how could present a source of competitive advantage in short run as other organizations may not have the right know-how, don't know where to look for it or don't have the resources to do it (P5). However, know-how being modular and detached from the context, it is relatively simple to reproduce this kind of knowledge in another environment (organization) and thus erode the advantage. In this particular case, where the whole program is built on extensive know-how sharing, the time it takes for this kind of advantage to dissolve is minimal. Therefore in the long run, competitive advantage based on know-how in this kind of setting is not sustainable, because it is clearly

possible to achieve similar or even better results by rearranging, substituting or leaving out components (P6).

Experiential knowledge vs. competitive advantage

> *P7: Experiential knowledge leads to a competitive advantage, by making it difficult for other organizations to decipher and utilize the knowledge within their context.*
>
> *P8: Over certain limit, the amount of experiential knowledge starts reducing the competitive advantage, as the number of options is offset by the time it takes to choose between them.*

Experiential knowledge is by definition quite close to know-how and it is therefore logical that exhaustive bombarding with know-how – that is, going through the various aspects and possible uses of know-how that is the main theme in the Southwestern pre-summer preparation – has the effect of accumulating some of this experiential knowledge also. Most of the time however, this know-how is exactly just that and not experiential knowledge, as for the latter, it is important to apply it in an unfamiliar environment. Experiential knowledge is thus much more a product of interpretation of previous experiences in the light of new context and the conceptual skill of incorporating the possible sources of knowledge with this interpretation. Therefore, it is not possible to spoon feed anyone with experiential knowledge. The Southwestern program does however involve two additional ways to instill experiential knowledge besides the one main source – the actual (previous) participation in the program itself. Those methods are teaching general guidelines or principles and on the job training.

The first one is pretty straightforward process of acquainting the members of the group, but especially SMs and OLs with the underlying principles of this business, which to stick to in case there is no specific know-how. Some examples of those principles are:

- Finish what you start;
- Work hard – schedule is your lifeline;
- Be positive;
- Have a problem-solving attitude, be part of the solution, not the problem;
- Be coachable;

- Do what you would like to be done unto you;
- Acting quickly is better than waiting for the perfect solution;
- etc.

The second method is also quite simple – the OLs and OL candidates and often prospects for OL candidates (younger SMs) are given responsibilities and tasks during the preparational phase, so that senior managers or SLs have the opportunity to keep an eye on them and hand-guide them through some more sophisticated problems when necessary. These responsibilities often include organizing different events, such as awards banquets, trips or some of those many trainings mentioned above.

It is quite evident however that neither of these two methods has a direct impact on how OLs and their organizations perform, compared to each other. This on the job training most likely helps with some of the skills and is in general helpful in the organizational management, but it is not the key ingredient because on the first instance, all SMs and OLs are introduced to the same principles and on the second instance, the OLs who have been involved heavily in organizing those events do not perform significantly better or worse from those who have not.

There are however many clues that in the heat of the battle, the experiential knowledge does play a remarkable role. For example the analysis shows that the OLs who in the summer recognized what to do in a certain situation with their organizations did much better than those who didn't. The same goes with the situations with SMs, but not with the FYs. In other words the OLs who were in a better shape to find a working solution for the problems with their SM or organization in general were more likely to perform well than others, whereas finding a good solution to FY problems did not make that much difference. At first glance this sounds almost trivial and clear enough without saying that when your organization has a smooth problem solving process, you will likely do better and without context it is easy to assume that perhaps some organizations just had less/easier problems. The data however suggests otherwise. Specifically, it seems that the OLs/organizations, who actually performed

better, also solved greater number and more difficult problems in the process. This finding is also reinforced by the fact that the OLs who did better used several knowledge sources before making a decision whereas the low performers tended to improvise on the spot. The top OLs frequently investigated into their own experience, DSL/SL opinions, SM and/or FY feedback and possible other improvised ideas first and then chose some, usually a combination of ideas or a variation of what DSL/SL suggested. Lower performers more likely just went to improvise/use a cookie-cutter solution first and then stuck with it or in worst case had to re-resolve the problem because not all information had been considered in the first round. After a series of unsuccessful decisions, generally low performers started to ask more advice and as they asked more, they did significantly better. A possible explanation to this fact is that for low performers it is easier to improve from where they are, whereas it is much harder for top performers to do even better.

The organizational leaders who helped their organizations to over perform others by understanding what to do in different situations were needless to say the same OLs who most effectively used different management techniques such as ‘following’ and ‘morning calls’. In previous section we mentioned that unless this was a misunderstanding in the knowledge transfer process, where OL/SL failed to communicate the objective of the technique, it is more likely that the OL lacked some highly architectural experiential knowledge. In other words, the situations faced by the organization were not as clear cut as they might have been pictured and thus the problem was not with the specific know-how (e.g. not knowing the following technique), but in implementing that know-how, more specifically – which know-how to use in which kind of situation. It is apparent that even with only a handful of techniques, the vast amount of unique situations drives the number of combinations to the extreme. Therefore, better performing OLs need to have one of two sets of experiential knowledge: 1. either they have a massive amount of common experiential knowledge, in other

words experience or, 2. they combine the various types of knowledge available to make a best decision.

If the first scenario were true, then the experienced OLs should have a competitive advantage against their inexperienced comrades. Our data however does not confirm that. As a matter of fact, the OLs with more experience tended to do worse than OLs with less experience. This negative correlation is true for both experiences as an OL and experience in the Southwestern program in general, but also for age and years of university studies. One explanation to this would be that the senior OLs took/were given a 'more challenging' organization to run. In some cases, such as Team Roos organization with culturally totally different students than before, this may be true, but not for most people. Comparing the data between last two years, it is not so, because not only had the senior OLs this year one extra summer of experience on their belt, but also the organizations were considerably smaller and staffed with more managers. It could be argued that organizations with more SMs are in fact more difficult to manage, but since all organizations had roughly the same number of SMs it does not make any comparative difference. Based on this and the earlier discussion about the statistical probabilities concerning organization members, it is very difficult to consider the argument of experience valid.

There is however one particular case where experience does matter. This concerns the organizations' performance from their first year as an OL (2005) to their second year as an OL (2006), which shows a steady improvement for all OLs involved in the study. One might argue here in the opposite direction with the same changes in organizations (decrease in average size, more SMs), but that is also refuted by our data showing that the average results within the whole group of OLs were similar or slightly worse. So to sum it up, the inexperienced OLs did much better than the senior OLs whereas the rookie OLs improved from last year improved from their first year of being OL.

The reason for this phenomenon is apparently the difference in the average retention, as the rate in organizations run by less experienced OLs was considerably better than in the organizations run by more experienced OLs. It is possible that young OLs did everything they could to keep everybody because they were afraid to let one person go so that he would open the door for others, figuratively speaking, and thus worked harder to keep them. Indeed, there exists an average negative correlation between PPMY and retention rate meaning it was usually the low performers who left/were sent away. However, there is no evidence that the organization with fewer people sold any better compared to the organization where everybody stayed. In fact, on the contrary – the organizations with the least number of early leavers were more likely to score the best PPMYs. So instead it looks like the experienced OLs just made their own life easier by throwing the high maintenance low performers overboard and that OLs experience to retain or cut out some people has little to do with organizations' sales performance.

There is also little or no evidence that the total management experience (SMs and OL) available within the organization helped the organizations to do better in sales or keep people with the organization.

On the other hand, OLs ranked personal experience highest of all success factors and if asked how they evaluate the impact to their organizations' performance, the answers also correlate well with results. However, the interviews revealed that the reason for this phenomenon is that OLs who did not consider their summer as excellent blame it to their lack of experience.

So even in a business where the experience is considered the key for success, it is not the experience that helps to perform well as an organization. It is however the thirst for success which the experienced OLs lack compared to their less experienced competition. In other words, the senior OLs tend to get lazy pursuing results as an organization, which the OLs also confirmed in the interviews. The common attitude among senior OLs was: "I'm experienced –

I’ll just swing it”. Therefore the younger and more success-eager OLs have an advantage over the older and more experienced OLs.

The second scenario does in fact find supporting evidence in the data as well as interviews with the organizational leaders. Indeed OLs who did better were more likely to use several or all types of knowledge available to them in the process. More specifically, the top OLs used on average three times as many sources of input before they made a decision compared to the low performing OLs. These sources included consulting with encoded knowledge (manuals, books) and various sources of know-how (other OLs, SL, SMs and even FYs) whereas also following their own intuition and applicability to the organization culture. One of the reasons these OLs were able to consult with that many sources was the time it took for a problem to reach the decision maker (OL). The OLs from top performing organizations stressed more than anybody the excellent communication system they had set up in order to be aware of the problems in the organization, which resulted in OL knowing about the problem well before it was on top of the urgent list. The #1 source of feedback was the evening calls. The OLs confirmed that the evening call schedule was the rock of the upwards communication in order to make informed decisions. Uninformed decision making however was one of the top concerns from the low-performing OLs and often followed the lack of sources for adequate information, resulting not only bad decisions but also in reduced trust for management because of all the negative emotions that rose from the altered decisions.

To conclude, this discussion makes it explicit that experiential knowledge leads to a competitive advantage, because certain organizations clearly are more able to utilize the existing knowledge and despite the extensive communication and know-how distribution between all parts of organizations pre-summer and also during the selling season, other organizations are unable to use this knowledge within their context (P7). Also, accumulation of this kind of knowledge relates to increase in competitively as seen from the case of rookie OLs improving in their organization performance in their second year. On the other hand,

after a while, the amount of experiential knowledge starts reducing the competitive advantage, but not because of lack of time, as we proposed (P8), but because of lack of urgency among the organizational leaders. In this case, it appears that a recognized large amount of experiential knowledge advocates the feeling of 'experience' and thus leads the OL to a false understanding of his superiority.

Encultured knowledge vs. competitive advantage

> *P9: Encultured knowledge enhances the likelihood of competitive advantage by superior returns in overall production and in creation of new knowledge.*
>
> *P10: Older organizations have a competitive advantage because they have had a chance to accumulate more encultured knowledge.*
>
> *P11: The lack of encultured knowledge is a source of competitive disadvantage, as it blocks the intra-organization knowledge transfer.*

Building encultured knowledge is one of the main objectives of the various Southwestern meetings. During the preparational phase, the main focus is on shaping the encultured knowledge on upper or broader levels within the Company, such as SL, DSL, Country (e.g. Estonia) or even company level. In our research, we were more interested in the micro i.e. summer organization level encultured knowledge, which would more qualify under the 'private' dimension and thus would let us observe the effect of organizations' encultured knowledge to their performance.

The summer organizations however also benefit from the work done on the SL level, as most summer organizations are based on the 'natural' hierarchy within the group with some minor exceptions. That is, the summer organizations within one Sales Leader group consist of SMs under that particular SL and their teams. Therefore we were able to observe a two-step organizational culture building process: 1. the steps taken by the SL, and 2. the steps taken by OL in order to build a coherent organization. Contrary to step by step recruiting and sales preparation plan administered by SLs and DSLs, the team- or organization-building is completely up to individual SL, OL or SM himself with the exception of Sales School. During the week of Sales School, all OLs follow a general outline of organization-building, which is

designed to form a coherent organization out of the individuals. The aim of the Sales School from the point of OL is therefore not only to teach how to sell and run your own business, but also to figure out the strengths and weaknesses of your team/organization members, the real goals and the motivation, desire and willingness to reach them and essentially to build your organization from the resources you have been given.[15] In the job of the OL, the outcome of the Sales School is thus the cornerstone of the encultured knowledge building within the Southwestern program. Besides that, every SL/OL/SM can execute their own agenda of team-building to the best of their knowledge.

There is a constant debate among the SLs within Southwestern about the necessity of pre-summer team-building work on the SL/OL level and the gains or losses these actions could have versus just leaving everything for Sales School. Most people agree that doing something cannot do any damage whereas too much pre-summer preparation takes away the leverage of pressure from the Sales School and the actual stress on the bookfield wears people off faster than if they had a more rough Sales School. Whereas this question could provide discussion for another full-length paper, we will focus on the more significant hints that our data provided while looking at examples of encultured knowledge such as team members relationships, shared understanding, team spirit, general organizational culture, etc.

The interviews revealed that the top performing OLs were significantly more satisfied with the results of Sales School in many or all aspects of encultured knowledge. For example, team spirit strongly correlated with organization performance. It is of course a question whether a great performance is the result or the cause of a great team spirit. We suggest that stemming from the other aspects of encultured knowledge within the organization; this is a vicious cycle, which can take either positive or negative spin. For instance, the healthy relationships within the organization are the backbone of good team spirit which then helps organization to

[15] The Sales School provides an excellent opportunity to do all this because the intensity of Sales School is built within couple of first days to push people to touch their limits; also the fact that most people are thousands of kilometers away from their safe home environment and the single task focus (the absence of outside factors) help to create much more accurate image of your organization members capabilities.

perform better as team members support and encourage each other in times of success as well as breakdown, which ties the team even closer together (creating encultured knowledge). In contrary, the lack of shared understanding and team members support wipes out the remains of team spirit, thus seriously weakening the organizations' health to overcome challenges and possibly creating an illusion of better opportunities somewhere else (creating 'negative' encultured knowledge). The same is true for the rest of the management team – the OLs of top performing organizations tend to trust their managers more and as a result give away the responsibility which in turn creates the necessary goodwill among organization members. Alternatively, in the case of selfish OLs, the organization reacts to that with a reduced willingness to solve problems on their own and by waiting for the OLs decisions significantly minimizes its outlook for performance. One of the OLs theoretized that the organization size is positively correlated with the OLs capability to personally manage people, thus the number of people sticking with an organization till the end of the summer is the same number of people whose problems the OL is able to solve. That is probably true, provided that the organization does not help. The top organizations however let us believe that with the help of the organization (managers and First Years), the OLs are capable to manage a far greater organization than they single handedly would.

The second example of encultured knowledge besides team spirit that proved vital for building a well-functioning organization was the open and well functioning communication within the organization. Whereas communication setup proved useful also for creating necessary experiential knowledge, it proved absolutely critical for organizational culture. The correlation between the efforts made in order to set up an honest, direct contact between the OL and parts of the organization and performance is evident. The reason why we discuss this in the context of encultured knowledge is because this cannot be done with a flip of the switch overnight. This is a lengthy process and becomes the question of life or death (or staying or quitting for organization members in that sense) within the first few weeks on the bookfield.

Good communication does not just develop in time either. It is the result of one-on-one relationships and trust 'bank accounts' between parts of the organization, especially the leader and the rest. This takes time and parties interest to get to know your team members as well as possible within the limited time the organizations have for preparation. When talking about what they could have done differently several OLs talked about getting to know their people better and connect with them before the summer while they still had time. As a matter of fact, the OLs whose organizations were the poorest performers from the sample many times noted that it was in the Sales School where they first started to notice the lack of shared understanding and team spirit, which later negatively impacted the team performance.

One common theme that relates to this and which many OLs raised both positively and negatively was the coherence of the management team or in other words the overall culture and background of the managers. On the negative side, the lack of unanimous understanding of where to go was undeniably the most certain recipe for a failure. For example, in two of the organizations, the SM(s) had their own beliefs how to run the organization and despite the OLs best efforts, these organizations never started to function as a whole. Also, several other low-retention organizations had misunderstandings which stemmed from cultural differences[16]. Our interviews let us believe that these differences originated mainly not from natural hierarchy, which should be the case, but from two external sources: previous personal experience and most interestingly from the many pre-summer meetings. From those meetings, the SMs had frequently picked up (thus removed from context) the actions and management scenarios that they liked, but were not necessarily aligned with the OLs style of leadership or only vaguely relevant to the situation. (In other cases we can assume there were opposite examples where the OLs actions did not align with the situation.) As a result, instead of everyone going to the same direction there were two or more different thoughts within an

[16] Cultural differences in this context are not the discrepancies in understanding between different nationalities (which also existed) but different views on how the organization works based on personal experiences in previous summer organizations.

organization, which confused the team members and thus affected the organization's performance unfavorably. We also found some negative correlation between the effect of pre-summer SM meetings and the organization performance. In other words, the OLs who used more of the knowledge from SM meetings were likely to perform worse than the OLs who did not use or go to SM meetings. Since the average sales results for SMs and OLs improved from previous summer, it is reason to believe that the knowledge that did not help in organizations do well was not connected to sales, but general management practices.

On the other hand, there were some OLs and SLs who effectively reversed the damage and got everyone looking at the situation from the same angles, whereas most of them failed trying or never even tried. Several of the OLs were able to pull this off on the go – that is in or after the Sales School simply because they had built strong enough relationships in previous summers or before the summer. In another case, one particular Sales Leader (Kertu) proved the beneficial effect of using this kind of approach encultured knowledge building for the whole group. Instead of letting every manager to execute their own controversial experience, she gathered all her SMs and OLs for a pre-summer "orientation meeting" where they went through all puzzling ideas of leadership and management for the summer. As a result, the Turbo group[17] organizations did on average significantly better than those of any other organization. Significantly because not only was their PPMY far greater than for any other organization, they also boasted with the greatest rate of retention, which is odd since those two figures are inversely related. Therefore we can believe that developing encultured knowledge, such as getting people on board, clarifying misunderstandings and in general creating a shared understanding helps to build a solid advantage.

This discussion lets us to conclude that encultured knowledge does enhance the likelihood of competitive advantage because creating positive encultured knowledge starts a cycle of

[17] Turbo group – the name of Sales Leader Kertu's group that consisted of four organizations: DIISEL, Turbobaleriinid, UTR and Vandersellers

performance, which in turn creates more positive encultured knowledge (P9). On the other hand, instead of lack of encultured knowledge there is “negative encultured knowledge” which is a source of competitive disadvantage by cutting off the communication within the organization and thus impeding the transfer of all types of knowledge (P11). Because of the nature of this study, we were unable to observe the differences between the maturities of organizations (P10). However, based on the interviews, we could assume that the older organizations are more likely to be deeper inside either positive or negative cycle of performance.

Analysis

Out of 11 propositions set up in the theoretical framework, eight proved true or partly true whereas one proposition (P4) was not fully applicable to this business model. In the case of two propositions, P2 and P10 we registered some clues suggesting that they were more likely true than false. In particular, proposition P10 states that older organizations may have a competitive advantage because they have had a chance to accumulate more encultured knowledge. As it appeared, in the Southwestern setting it was not possible to measure the direct impact of time as all organizations were of same age. Nevertheless, there were hints that the age of organization could affect the competitiveness of organizations, but it is likely that the effect can be also negative as well as positive.

When it comes to the other propositions, the research shows that within the Southwestern setting, the greatest impediment to competitive advantage within the proposed framework is the lack of encultured knowledge (P11). The reason for this is not only because the opposite is highly beneficial for creating a competitive advantage, but because of the meaning of it. Without the positive encultured knowledge, such as great team spirit, shared understandings, healthy relationships and so on, all the (rest of the) types of knowledge get stuck where they emerge or are created. It could be argued that without the communication, the negative encultured knowledge would be isolated to where it is created too, but it is not the case,

because encultured knowledge only has meaning in a group and therefore many people do know it. It is clearly the know-how, encoded and experiential knowledge, which is not distributed to the parts of the organization. Similarly, the examples brought to illustrate the effects of not being able to locate and apply encoded knowledge (P2) support the same idea. When we looked at the competitive disadvantage in general, our research suggests that failure to locate any type of knowledge is a potential source of disadvantage. In our interviews, OLs often referred to the lack of several types of knowledge, which now in retrospect could have proved useful. It might even prove practical to conduct a more in-depth analysis on the subject of competitive disadvantage alone in order to get more insight into the opposite.

Along with scholars' suggestions, it proved true to rule out encoded knowledge as a single source of competitive advantage simply because it is there for everyone to access. (P1) Even if an organization were to build their business model on some information buried deep in the pile of information e.g. for an OL to keep a member within the team because he found the right passage in the manual, it would not take long for someone else to find it and do the same. The same thing is true for know-how (P6), although there is potentially a much greater lag time, provided that you have some private know-how included. After a while, another organization may deliberately or intentionally stumble upon the same know-how or even better (worse), know-how which works better. For instance, an organization may find a way how to get inside more houses to give presentation and sell more books because of that. Because there is some cross-organization 'following', other organizations could just find out what that other organization is doing to 'get in'. Or alternatively, the second organization could come up with a different approach which works as well or even better at the door and therefore reduce the first organizations advantage to minimum or even surpass, which lasts until another organization comes up with even more successful approach. The (short) time until then however, the organization can and will benefit from the competitive advantage gained through know-how (P5).

Another possibility to lose the competitive advantage is to become complacent. In the case of Southwestern, we see that the OLs are likely to do best at their second summer as an OL as the enthusiasm from novelty is joined by the experience of the first summer as an OL. The amount of experiential knowledge lets the third, fourth and fifth+ year OLs to believe that with such an experience (and usually a good result from the second OL year); the rest of it just comes along swimmingly. It is entirely possible, that there exists an optimal limit of experiential knowledge which is results in peak performance (P8). In this case, it was somewhere between two and three years of OL experience for the OLs after which the excitement fell and the complacency replaced it. In other cases the optimal limit and the ways it affects the competitiveness are likely to be different. Therefore this proposition only proved partially true and more in-depth analysis would definitely be needed in this question.

There are three propositions in this framework, which most accurately define the types of knowledge needed to create a competitive advantage. The first of these – embodied knowledge – is strictly related to the people and the talent within the organization. It seems logical to assume that the more embodied knowledge (greater talent) you have in the organization, the better your results. Our research suggests that similar to sports teams, it is equally important for the business organizations to include great talent as it is to get the team working together (have a great coach). Whereas in most cases where the people are contracted and it is possible to recruit or fire the employees if necessary, the hands of an OL are mostly tied when it comes to the people he has to work with. Also, the Southwestern dealers are all individual contractors, so they are legally free to leave as they wish, which introduces an element of delicacy in the mix. As we saw, it is possible to put together a decent organization from a fairly random set of people, provided they have passed an elementary selection process, which excludes people who can't or don't want to go from door to door in the USA. Therefore we suggest that there exists an entry level of embodied knowledge that a team member needs to have to be able to participate in the organization and an organization is able

to create competitive advantage provided the organization has certain number of people with certain levels of embodied knowledge (P3).

Just having the embodied knowledge is not enough. That embodied knowledge needs to be put working in unison and therefore building encultured knowledge within the organization becomes vital. That encultured knowledge then becomes the key channel of knowledge transfer and facilitator of new knowledge creation (P9). For example the organizations in the observed group who had taken efforts to figure out the communication schemes and taken time to connect with each other within the organization performed significantly better compared to the organizations, who failed to create common culture. A good example was the High Fly organization that had been set up to run without the presence of the OL – everyone in the organization knew his/her task and had been prepared in a way that he/she was able to independently solve most of the problems. On the other hand, it takes some specific knowledge – experiential knowledge – to recognize the capabilities, desires, motivation and personalities and fit that with the opportunities at hand. When talking to the OLs, the OLs from top performing organizations frequently explained their game plans of getting to know the individuals and the situation and then enjoyed finding the connection points. The particularity of the Southwestern program is that since it is a business of personal sales with highly intensive 15 weeks of selling season, it provides hundreds of opportunities for the organization and its members to execute their experiential knowledge. Even just for the OLs, there were hardly any situations where they could use what another OL did for his organization and that is why the experiential knowledge becomes so crucial – it makes the process of using somebody else's experience (or another organization's in this case) very difficult to utilize within their own context (P7).

Based on these findings, we suggest that the competitive advantage of a Southwestern summer organization is not based on any single type of knowledge, but a minimal amount of embodied knowledge combined with the positive encultured knowledge and the optimal

amount of experiential knowledge. The key words for judging the experiential knowledge are the adaptability and the desire for open-mindedness. Our research showed that the top performing OLs were very open minded for all kinds of knowledge input sources, but unlike the low performing OLs, they did not try to fit the situation to the framework, but tried to adapt the framework to the situation.[18] Another example of this was the situations where the management in the organization or the OL was unable to coach or manage people with different personality type than he himself.

[18] There are however several ways to improve the competitive advantage creating process and that is to create a structured approach so that all types of knowledge were more handy, such as figuring out a way how to structure the encoded knowledge in a way that it were all accessible though one single outlet (!) and/or limiting the number of know-how sources based on their special knowledge.

Conclusions

There exists a large number of research and theoretical discussion on the subject of organizational knowledge. However, most of these authors only describe the surface of the phenomenon and with a few exceptions never really bother to dig deeper around the core of it. Even when doing so, most authors revert back to explaining one or two dimensions or few overlapping types of knowledge. Despite the lack of coherence in the previous work, this paper does not try to turn it upside down, but to suggest an alternative way of approaching the subject in a way that most pillars stay in place. This is done by creating a framework for explaining the notion of knowledge based on the synthesis of existing approaches in literature.

The goal of this paper was not to include every possible view nor does it pretend to be the only possible synthesis of those views that are included. This paper does however draw from the most widely discussed works on the subject, outlining the proposed dimensions and building a set of knowledge types with links to competitive advantage onto that framework and testing that on a small sample.

The first part of the paper discusses the many knowledge dimensions and types and arranges these types according to the dimensions to form exclusive clusters thus providing an answer to the first research question (RQ1). The characteristics of the five clusters of knowledge types that emerge – encoded, embodied, know-how, experiential and encultured – are then discussed individually in the second chapter as well as in comparison to the relation to the competitive advantage in third. This discussion presents a selection of 11 propositions to be tested in the empirical part of the paper.

The empirical research conducted within the setting of the Southwestern program consists of questionnaire and interviews with the Organizational Leaders of 20 and 15 organizations respectively. The aims of these case studies was to prove or disprove the propositions and based on that suggest answers to the second research question (RQ2).

The research shows that within the sample, the competitive advantage is likely to emerge as a combination of all types of knowledge with different functions and effect. It also appears that two of the five proposed knowledge types – 'experiential' and 'encultured' play the key roles in the process. More specifically, the first key step of building a competitive advantage appears to be the creation of enough positive encultured knowledge, which acts as the glue between all other types of knowledge. Once that knowledge is in place, the organization still needs some experiential knowledge to conduct this process and tie the various types of knowledge into a coherent product of competitive advantage.

On the other hand, this state of competitive advantage is not sustainable in a status quo. Whereas in this paper we were not able to observe the continuity of competitive advantage over multiple time periods, there were some hints that suggest the competitive advantage is eroded by the accumulation of experiential knowledge.

In conclusion it should be said that the three tasks outlined at the beginning – creating an alternative framework, defining clusters of knowledge and empirical testing – were completed successfully. At the same time, the author hopes that the discussion in this paper encourages other authors to develop these ideas further and more exhaustively as well as conduct supplementary empirical testing.

Since this was not the purpose of this research, the results may not have much external validity as the organizations were all part of one quite exclusive setting. Also several assumptions were made about the quantities of different types of knowledge in the organizations. However, these results provide several exciting dimensions for future research. For example, it would be very interesting to see if another much wider and possibly cross-sectional research would yield similar results. Also, another idea that could provide insight would be to reproduce this kind of studies within another setting and perhaps over several time periods.

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Appendix 1: Clusters of knowledge

		tacit	explicit	individual	collective	private	public	component	arch-al	exp-ry	expl-tive	com-ce	breadth	depth
kogut and zander92	declarative - informatic		yes	yes	yes									
lundwall and johnson 94	know-what		yes	yes	yes	less	mostly							
lundwall and johnson 94	know-why		yes	yes	yes	less	mostly							
millar et al 97	catalogue		yes	yes	yes	less	mostly							
millar et al 97	explanatory		yes	yes	yes	less	mostly							
byosiere and luethge 04	basic		yes	yes	yes		yes							
spender 93	scientific		yes		yes	less	mostly							
collins 93	symbolic		yes				yes							
blackler 95	encoded		yes			less	mostly							
fleck 97	formal		yes								yes			
blum and johnston 99	codified		yes											
lundwall and johnson 94	know-how	more	yes	yes	yes	short run	long run	**yes**						
lundwall and johnson 94	know-who	more	yes	yes	yes	mostly	less	**yes**						
fleck 97	instrumentalit	yes	yes			short run	long run	**yes**						
kogut and zander92	procedural - k	yes		yes	yes			**yes**						
collins 93	embrained	yes	no	yes	no									
blackler 95	embrained	yes	no	yes	no									
blum and johnston 99	embodied	yes	no	yes	no									
collins 93	embodied	yes	partly	yes	no									
blackler 95	embodied	yes	partly	yes	no									
spender 93	automatic	yes		yes		mostly	less							
fleck 97	tacit	yes	no	yes		yes				yes				
millar et al 97	social	more	yes						**yes**					
millar et al 97	process	more	yes						**yes**					
millar et al 97	experiential	more	yes						**yes**	yes				
fleck 97	informal	yes	yes		yes	yes			**yes**		yes			
fleck 97	contingent	yes	yes	yes		yes	yes	yes	**yes**		yes			
blum and johnston 99	common	yes	yes				yes		**yes**		yes			
byosiere and luethge 04	experiental	yes	yes				yes		**yes**					
spender 93	concious	yes	yes	yes		mostly	less							
byosiere and luethge 04	emotional	yes	yes	yes		yes								
blackler 95	encultured	yes	partly		yes	yes								
spender 93	communal	yes			yes	mostly	less							
blackler 95	embedded	yes	yes	yes	yes	mostly	less	yes	yes					
fleck 97	meta	yes	yes	yes	yes	yes	yes			yes				
blum and johnston 99	social	yes	yes	yes	yes	yes								
byosiere and luethge 04	innovative	yes		yes	yes	yes				yes				
collins 93	encultured	yes	no	no	yes									

Appendix 2: examples of knowledge types

Encoded	Embodied	Know-how
Books, materials, manuals, outlines, internet, databases, laws of nature, general education, facts, signs, symbols, laws, codes, theories, formulae, etc	Intelligence, talent, cognitive abilities, personal values, intuition, unwritten rules about how one goes about his work, technical knack	Skills, information about who knows what and who knows what to do or who to talk to, knowledge embodied in tools and instruments, problem solving, recipes of organizing, methods of production, how to sell and buy, how to cooperate etc

Experiential	Encultured
Abilities to recognize situation in context, ability to predict the escalation of situations from vague signs, ability to see the big picture, ability to recognize individual's intentions, desires, motivation and other leadership and organizational capabilities, routines, practices	Interpersonal relationships, roles, group values, group goals, shared understanding, team spirit and other individual and collective, highly qualitative knowledge which acquires meaning in a group setting

Source: Blackler (1995), Blumentritt and Johnston (1999), Buyosiere and Luethke (2004), Collins (1993), Fleck (1997), Kogut & Zander (1992), Lundwall & Johnson (1996), Millar et al (1997), Spender (1993).

Appendix 3: Glossary of Southwestern terminology

A-contract: see FY

ASL/FSL – *Associated Sales Leader/Field Sales Leader:* see SL.

B+ contract: see SM

DSL, RSL – *District Sales Leader, Regional Sales Leader*: An employee of the company, leading a sales organization of roughly 120+ dealers. Ranks between FSL and Director in company hierarchy.

FY/FYD – *First Year Dealer*: A person, usually a student who first time participates in the Southwestern program. Independent contractor. Officially called A-contract.

GA – *Great American, Inc.*: The second largest business within the SW/GA Inc.

GEC – *Global Educational Concepts, Inc*: A sister company of Southwestern that helps non-US students who want to participate in the program with work permits. Approved by the U.S. State Department to issue DS-2019 forms.

GRS – *Great Recruiters Seminar:* A Southwestern Company wide training meeting for SMs, and employees in January where top recruiters and salespeople teach their success secrets.

OL – *Organizational Leader:* An experienced dealer who is put in charge of a group of students, both SMs and FYs for the selling season.

PC – *Personal Conference:* A one-on-one meeting with a superior.

PPMY – *Production per Management Year:* Shows the average production per year of participation in the program.

$$y = \frac{P}{\sum MY}, \text{ where}$$

y – Production per management year (PPMY)
P – Total production of the organization in units
ΣMY – the total sum of organization members' years of experience in the organization

RSL – *Regional Sales Leader:* see DSL

Sales School: An extensive compulsory week-long training session right before the 'summer' where all dealers are trained in sales and management.

Selling season/summer: A four to five month long period (usually summer) of selling Southwestern educational materials or simply 'books' during students break from their university.

SL – *Sales Leader or Sales Manager*: An employee of the company, leading a sales organization of roughly 30+ dealers. There exist different levels of Sales Leaders, such as ASL or FSL, which differ mainly by the sales volume. SL ranks between a SM and DSL in company hierarchy.

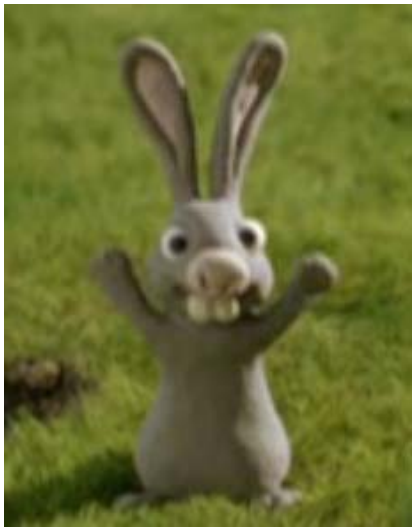
SM – *Student Manager*: An experienced dealer; has participated in Southwestern program more than once. Independent contractor. Based on the number of years with the program, also called B-contract (2 summers), C-contract (3 summers) etc.

SW –*Southwestern*

SW/GA Inc – *Southwestern/Great American Incorporated*

Unit: A term for measuring sales performance, equivalent to roughly 12USD in gross sales.

Appendix 4: Questionnaire



Southwesterni OLide Superküsitlus

võta aeg maha ja vasta rahulikult! btw, it is easier to do when you narrow your browser window!

***1. Name**

***2. Age** 18

***3. University**

***4. Year in University** 1

***5. Major**

***6. GPA**

***7. # Summers with SW** 1

***8. # Summers as an OL** 1

9. Evaluate, how did you do this summer as an OL on a scale 1-5 (where: 1-poor; 2-below average; 3-average; 4-above average; 5-excellent)?

Overall org production	○ 1	○ 2	○ 3	○ 4	○ 5
Overall org logistics	○ 1	○ 2	○ 3	○ 4	○ 5
FY sales	○ 1	○ 2	○ 3	○ 4	○ 5
SM sales	○ 1	○ 2	○ 3	○ 4	○ 5
Personal sales	○ 1	○ 2	○ 3	○ 4	○ 5

***10. How do you compare yourself against other OLs in org performance?**

- ○ I think I was in the top end
- ○ Above average
- ○ I think I did like most
- ○ Could have been worse
- ○ I think I was in the low end

11. Where did you look for help when you had a problem:

with FYs

with SMs

with the Org in general

12. Where did you look for help when you wanted some extra input (didn`t have a problem):

for FYs

for SMs

for the Org in general

13. Evaluate on scale 1-6, how much you looked for advice from following sources:

OL manual	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
Personal experience	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
Your Student Managers	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
DSL (Chris)	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
Sales Leader (Andres, Jaak, Roos, Kertu)	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
Office (Aleks, Debbie)	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
mr Kraam	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
Other	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
if "Other", please specify where/who:						

14. Where did you go FIRST with your question that was:

FY related:	○ DSL/SL/sk	○ books/manuals	○ other SMs/FYs	○ My experience	○ Improvised	○ Other
SM related	○ DSL/SL/sk	○ books/manuals	○ other SMs/FYs	○ My experience	○ Improvised	○ Other
stats related	○ DSL/SL/sk	○ books/manuals	○ other SMs/FYs	○ My experience	○ Improvised	○ Other
org sales related	○ DSL/SL/sk	○ books/manuals	○ other SMs/FYs	○ My experience	○ Improvised	○ Other
personal sales related	○ DSL/SL/sk	○ books/manuals	○ other SMs/FYs	○ My experience	○ Improvised	○ Other

15. Where did you usually FIND solution for your question that was:

FY related	○ DSL/SL/sk	○ books/manuals	○ other SMs/FYs	○ My experience	○ Improvised	○ Other
SM related	○ DSL/SL/sk	○ books/manuals	○ other SMs/FYs	○ My experience	○ Improvised	○ Other
stats related	○ DSL/SL/sk	○ books/manuals	○ other SMs/FYs	○ My experience	○ Improvised	○ Other
org sales related	○ DSL/SL/sk	○ books/manuals	○ other SMs/FYs	○ My experience	○ Improvised	○ Other
personal sales related	○ DSL/SL/sk	○ books/manuals	○ other SMs/FYs	○ My experience	○ Improvised	○ Other

***16. Evaluate, how often did you recognize what you had to do in a situation with your org?**	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
***17. Evaluate, how often did you recognize what you had to do in a situation with a FY?**	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
***18. Evaluate, how often did you recognize what you had to do in a situation with a SM?**	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
***19. How often did you conciously use the right technique (you later saw it worked)?**	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently

***20. How often did you conciously use the wrong technique (you later saw it didn`t work)?**	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
***21. How often did you UNconciously use the right technique (you later saw it worked)?**	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
***22. How often did you UNconciously use the wrong technique (you later saw it didn`t work)?**	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently

23. Evaluate on scale 1-6 how much you used in your OL position what you had learned from:

High School	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
University	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
Sales School	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
Other OLs	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
OL cruise	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
SM meetings	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
FY meetings	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
OL (Sunday) conference calls	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
OL (Sunday Meeting) Outlines	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
Newsletter	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
following other SMs	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
Talking to SMs (in your org)	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
Talking to FYs (in your org)	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
Talking to your SL	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
personal experience (last years)	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
personal sales (this year)	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
other sources	○ 1-never	○ 2-very rarely	○ 3-rarely	○ 4-occasionally	○ 5-frequently	○ 6-very frequently
if "other", please specify:						

24. Evaluate on scale 1-5, what helped your organization to do well:

Hard-working FYs	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much
Hard-working SMs	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much
Team spirit	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much
Trust in your management team	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much

Competition inside organization	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much
Following and other mgmt techniques	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much
Morning conference calls	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much
morning/evening calls	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much
setting examples	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much
good communication	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much
individual qualities of people	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much
OL cruise	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much
your personal strengths	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much
pre-summer preparation	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much

specifically:

something you personally did:	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much

give examples:

great Sunday meetings	○ 1-didn`t help	○ 2-little	○ 3-moderately	○ 4-a lot	○ 5-very much

what was great about them:

25. Please add any comments or thoughts you want or if you want to explain something please do it

here:

Oled kindel, et ei taha rohkem mõelda?

Done! Erase All

Appendix 5: Interview guide

1 What helped your organization do well? What did not help your organization do well?

2 What was most challenging for you this summer? How did you cope with it?

3 What did you think was going to be tough? What actually was tough?

4 Where did you learn to be a good OL?

5 What would you have wanted to do differently?
In preparation How?
On the field How?

6 If you were OL before, did you specifically focus on something in your prep?
If you weren't OL before, did you specifically focus on something in your prep?

7 How much did you have a situation where you didn't know what to do?
Where you didn't understand what to do?
Where you didn't understand why it was necessary to do?

8 How many times did you do something that was different from what was recommended?
Give examples

9 **E1-encoded**
How much did you use OL, SM, FY manuals?
Did you use books on sales etc?
Did you prepare any notes for the summer? Did you use them?
Did you have a moment where you knew you had it written down somewhere?

10 **E2-embodied**
What did you do in retrospect that you know now was an excellent decision which helped you lots but you don’t know why or how you decided that?

11 **E3-kh**
What did you learn from other OLs? From who?
Did you get some good ideas what you used with your organization? Any bad ideas?

12 **E4-experiential**
How tough or easy it was to understand what to do in a specific situation?

13 **E5-encultured**
How much advice you looked from SMs and FYs? Which solution did you normally use?

Appendix 6: List of organizations and interviews

Organization	Q-re	Interview
Girls ONLY®	yes	
PEMBD	yes	15.nov
Team Klikna	yes	
WINNERS		
Maraton	yes	13.nov
Sold Out	yes	17.nov
NRJ	yes	
Indiana Jones	yes	17.nov
P.D.G.	yes	
Supa-Kru.org	yes	10.nov
UTR		
Team Kitty		
FORSA		
TrakasDienas	yes	8.nov
D.U.P.S.	yes	
Turbobaleriinid	yes	16.nov
It's DARE!		
HIGH FLY	yes	15.nov
Vapper Siil	yes	10.nov
DareDevils	yes	13.nov
DIISEL	yes	17.nov
Vandersellers	yes	16.nov
Team Roos	yes	15.nov
Weazel Squad	yes	19.nov
Team Tusco		
MA-SUL-SELL	yes	15.nov
Total	20	15

Appendix 7: Ordinary Southwestern year

<table>
<tr><td colspan="3">January to April - Recruiting and preparation</td></tr>
<tr><td colspan="3">4-6 weeks of mainly preparation as it takes time to get the J1 visa papers in check for the European students</td></tr>
<tr><td>week0</td><td>Sales School</td><td rowspan="15">Selling season</td></tr>
<tr><td>week1</td><td>1st week of sales</td></tr>
<tr><td>week2</td><td>2nd week of sales</td></tr>
<tr><td>week3</td><td>3rd week of sales</td></tr>
<tr><td>week4</td><td>4th week of sales</td></tr>
<tr><td>week5</td><td>5th week of sales</td></tr>
<tr><td>week6</td><td>6th week of sales</td></tr>
<tr><td>week7</td><td>7th week of sales</td></tr>
<tr><td>week8</td><td>8th week of sales</td></tr>
<tr><td>week9</td><td>9th week of sales</td></tr>
<tr><td>week10</td><td>10th week of sales</td></tr>
<tr><td>week11</td><td>11th week of sales</td></tr>
<tr><td>week12</td><td>12th week of sales</td></tr>
<tr><td>week13</td><td>Delivery week*</td></tr>
<tr><td>week14</td><td>Check-out**</td></tr>
<tr><td colspan="3">couple of weeks of optional 'vacation'</td></tr>
<tr><td colspan="3">October to December – Recruiting and preparation for the next year</td></tr>
</table>

* - the week where all the books are delivered for the people who ordered them in the last 12 weeks of selling
** - a week of finishing up delivery, doing paperwork and clearing the account with the Company

Appendix 8: Organizations' performance

OL	OL Suggested her / himself	Rating per stats		Average PPMY		Retention	
HIGH FLY	Above average	top	9	top	5	above	4
Vandersellers	Above average	top	9	above	4	top	5
Weazel Squad	I think I did like most	top	9	above	4	top	5
D.U.P.S.	I think I did like most	above	8	above	4	above	4
Girls Only®	Could have been worse	above	8	ave	3	top	5
Turbobaleriinid	I think I did like most	above	8	ave	3	top	5
PEMBD	I think I did like most	above	7	ave	3	above	4
Maraton	I think I did like most	above	7	ave	3	above	4
DareDevils	I think I was in the top end	ave	6	above	4	below	2
DIISEL	Above average	ave	6	above	4	below	2
NRJ	I think I was in the low end	ave	6	below	2	above	4
Supa-Kru.org	Above average	ave	6	below	2	above	4
TrakasDienas	I think I did like most	below	5	low	1	above	4
SOLD OUT	I think I did like most	below	4	below	2	below	2
Indiana Jones	Above average	below	4	below	2	below	2
Vapper Siil	Above average	below	4	below	2	below	2
Team Klikna	Could have been worse	low	3	low	1	below	2
PDG	Above average	low	3	low	1	below	2
MA-SUL-SELL	Could have been worse	low	3	low	1	below	2
Team Roos	Could have been worse	low	2	low	1	low	1
Average			6		2,6		3