Pragmatic Account of the Process of Knowledge Creation
In a Chinese Context – How Socially-Produced Identity
Is Transformed into Economic Production

Submitted to: Otago Business PhD Colloquium, October 18 – 19, 2006

Lenny Sunaryo, Department of Management
Email: lsunaryo@business.otago.ac.nz

Keywords: Overseas Chinese (Indonesia); knowledge creation, pragmatism, Confucianism, guan-xi, wu-lun

1. Introduction

Knowledge is regarded as important for creating organisational value and enhancing organisational competitiveness, especially in an unpredictable environment (Nonaka, 1994). However, there is little understanding of how knowledge is created in organisations, nor of how the knowledge creation process can be managed (Tsoukas & Mylonopoulos, 2004).

This study is grounded on the idea that understanding contexts is crucial in managing the knowledge creation process (Glisby & Holden, 2003). More specifically, it is based on the idea that it is important to understand how identity is formed in the Chinese context, and how this leads to social knowledge that supports coordination and communication, which facilitates subsequent transformation of identity into economic productivity that creates a firm’s superiority over competitors (Kogut & Zander, 1996).

It examines the process of organisational knowledge creation from the perspective of Chinese entrepreneurs in Semarang, Indonesia, for these reasons: first, studies on Chinese businesses have been predominantly based on Western management concepts, and do not represent the real situations in the Chinese context (Tsui, 2006); second, most of the extant studies on organisational knowledge creation have been inspired by Nonaka & Takeuchi’s (1995) generic model of continuous knowledge conversion as the fundamental process for knowledge creation. Despite the popularity of Nonaka’s work, it is based on business practices in large Japanese firms, which limits its generalisability to other social contexts, including the Chinese one under examination here. Further, the study of Chinese entrepreneurs in Indonesia, particularly in Semarang (a close-knit Chinese society), is undeveloped despite their significant contribution to the national economy.

2. Literature review

Nonaka and Takeuchi (1995) argue that the success of many Japanese firms depends on their ability to create new organisational knowledge through a generic cyclic model of continuous interactions and transformation of tacit and explicit knowledge through the four processes of socialisation, externalisation, combination, and internalisation, as depicted in their SECI model. These processes can only be successful if ba (corresponding to a mental or physical space or field) exists as a context in which knowledge is utilised, shared, and transferred to create new knowledge when individuals interact with each other dynamically. For them, an organisation can be treated as a collection of fields (ba)
They suggest that \( ba \) can either arise spontaneously or be created consciously; and the role of management is to manage \( ba \) for facilitating group activities (Nonaka & Konno, 1998). Thus, in addition to the ‘right’ contexts for social interactions, Nonaka et al. also consider a manager’s (leader’s) actions as critical for knowledge creation, which in turn impacts firm’s performance.

A few other scholars who have also treated social activities as critical for knowledge creation suggest that the process of solving problems among professionals is evolutionary and pragmatic, depending on the degree of interactions with their clients (Engeström, 2000). The more interactions they have, the more collective the decision-making process. As a result, the process of knowledge creation is highly contextual and cannot be understood at the individual level, but only at the group level (i.e., within its social context). The process is further influenced by power and politics; shaped by organisational strategies and incentives that influence the struggle between competing bodies of knowledge in organisations (Tsoukas & Mylonopoulos, 2004).

### 2.1 Limitations of the SECI model and extant studies

The SECI model is certainly useful for explaining the process of new organisational knowledge creation; however, it is not without limitations. First, this model is too standardised and generalised. It assumes that it is universal – that it can be applied in any social-cultural context (Glisby & Holden, 2003). Second, it assumes that there are no contradicting opinions and disturbances among interacting agents in the process, and that situations are predictable (Engeström, 2000). Third, the assumption that knowledge is created out of the rational functioning of the mind (Nonaka & Takeuchi, 1995) is questionable, because our personal knowledge is influenced by habits, which are built on beliefs and are more or less firmly held, and thus not consciously performed (Bourdieu, 1977). Fourth, the model assumes that the processes of acting and behaving, including learning, are conscious and intentional. In fact, in many cases, new knowledge is created unconsciously – it emerges during the course of social interactions. Fifth, the model does not explain the motivations for individuals to become involved in the SECI cycle. It appears to assume that knowledge is easily and automatically transferred when key personnel are exchanged or when new personnel are hired (Engeström, 2000). Last, there is actually no clear distinction between tacit and explicit knowledge, neither between personal and organisational knowledge (Polanyi, 1966).

In the past, the relationship between organisational resources and firm performance has been discussed in the strategic management field, e.g., the Resource-Based View (RBV) theory of the firm. However, despite RBV’s recent rapid development in methodology and content, most studies were conducted using quantitative methodologies, which have not offered enough empirical results addressing the relationships between certain capabilities (e.g., tacit knowledge) and firm performance. For this reason, the necessity of using a wide variety of theoretical perspectives and methodologies in order to help explain firm performance has been called for (Hoskisson et al., 1999). More importantly, extant studies in RBV have not explained the impact of social-cultural values on identity that leads to social knowledge for coordination and communication, with subsequent transformation into economic production activities that create a firm’s superiority in its chosen markets (Kogut & Zander, 1996).

This study is based on pragmatism as the main philosophical and theoretical frameworks, focusing on the leader’s actions and strategies in the process of knowledge creation. The discussion is based on Chinese social-cultural contexts (Confucianism and Taoism) as well
as on the trajectory of historical developments of the Chinese community in Semarang, Indonesia. Thus, this study is based on two RBV sub-topics, i.e., strategic leadership and strategic decision theory, and the knowledge-based view theory of the firm.

It is designed to find answers to the following questions: 1) How do Chinese entrepreneurs in a close-knit Chinese society create new organisational knowledge? 2) How is the Chinese knowledge creation process managed, and what are the motivating drivers behind this process? Data to address these questions will be collected through interviews examining the personal experience of CEOs/owners of Chinese entrepreneurial corporations in Semarang, Indonesia.

3. The pragmatic account of the process of knowledge creation and some propositions

3.1 Pragmatism

Pragmatism is referred to as a technique or method for giving meaning, or in the broadest sense, a theory of meaning (Peirce, 1878). It is a method for giving meaning to reality (truth) and the practical outcomes of human activities in society; understanding is approached through abduction, a logical method for discovering new ideas that rests upon instinct and the natural process of trial and error (Burks, 1946). Thus, pragmatic behaviour is naturally practiced based on one’s repeated practical and functional (workable) experience to guide future behaviour (Peirce, 1878). Thus, pragmatism has to do with problem solving, experience, practical reality, and consequences of human activities in society. Repeated workable actions are eventually programmed into the brain as a proven strategy, believed to be more or less effective again in the future when similar situations re-emerge, and subsequently form habits (Peirce, 1878). Since our beliefs and habitual behaviours are influenced by socially acceptable norms and customs in particular fields, in which there are continuous struggles among interacting members (Bourdieu, 1990), they require enriched communication and cooperation (Dewey, 1925). However, when communication takes place with people from different fields, certain habitual actions may not be fully accepted, causing doubt to arise, and further belief-habit inquiry is required to arrive at a new belief-habit (Peirce, 1878).

3.2 Pragmatic understanding of knowledge and its creation

For pragmatists, most of human knowledge is universal. Human understanding and knowledge about the world consists of a set of beliefs that is formed on some kind of ‘universal’ agreement which is mostly taken for granted (e.g. the colour ‘red’); when these beliefs are accepted, they will be more or less firmly held, and not easily changed. However, an individual’s personal experience; individual cognition and motivation; and the ability and willingness to use prior knowledge and experience to learn, adapt, and arrive at new or improvised actions as the new definition of ‘truth,’ make knowledge particular, contextual, personal, and idiosyncratic (Dewey, 1907). Thus, knowledge is contextual and dispositional – ‘a readiness to act on the basis of beliefs, more or less firmly held, concerning the world or some part thereof’ (Popper, 1989: 118).

According to the pragmatists, knowledge is created in social activities through a series of transformative processes. For example, Peirce suggests that knowledge is created from an idea as a reflection of social reality, transformed to a concept as a repository of tested ideas

proven to be real in the social world; and then parts of it are abstracted when a social actor attempts to make decisions and solve problems. A similar process of abstraction, when repeatedly proven to be effective, eventually becomes habitualised and dispositional and becomes ‘knowledge’ (Peirce, in Moore, 1998: 12). Thus, knowledge cannot be created from nothing (Popper, 1989). It is created after repeated successful experience in the process of arriving at a decision or solving similar problems. Knowledge is a function of social process, i.e., created during social interactions within a social context.

Like Dewey, Mead has also suggested that mind and thought arise out of the social act of communication as expressed in language through significant symbols, human actions, and gestures. Only through participation in social communication can an individual give meaning to social phenomena and realise his/her potential (Mead, 1934). For Dewey, “the healthiest individual is one who lives in a communicating community” (Hall & Ames, 1999: 125). Thus, reality is a field of situations (contextual) and one’s identity (of the ‘self’) is only realised by those who have the ability to give meanings, based on their ‘perception,’ to the behaviours of others in an institution, which is socially formed. Mead also discusses ‘roles’ as an important factor for social stability and order: “It is only by taking the roles of others that we have been able to come back to ourselves. It is further true that the self can exist for the individual only if he assumes the roles of the others” (Mead, 1925: 268). In order to be stable, roles need to be practiced as habitual actions that produce a pattern of activity as a strategy for economising effort for decision-making and problem solving in a particular context. When this socially acceptable action is reciprocated in similar manners, it produces a stable social institution (Berger and Luckmann, 1966: 72).

3.3 Confucianism and Pragmatism

Confucian scholars have identified much similarity between Confucianism and American pragmatism (Hall & Ames, 1999). In Confucianism, individuals are treated as autonomous agents, capable of becoming anything, thus, there is always a risk of opportunistic behaviour entailed in any relationship. However, the Chinese society is constructed out of morally binding relationships connecting all; and the golden rule in human relationship is based on reciprocity (Tu, 1985). Further, Confucianism also treats ‘family’ (blood related and extended family) as the basic building block of ordered society. It is the central issues of all decisions, and all efforts should be focused to make sure that family have the ability to serve as a stable basic building block by incorporating into the disciplines of hierarchy (Redding, 1990). For these reasons, guan-xi*-based relationships are pervasive in Chinese society (Redding, 1990). Within this ‘family’ concept, the most important reciprocal relationships are reflected in wu-lun (roles-and-responsibilities based) which are taught to and practiced by Chinese individuals from their early childhood and are used as a guide for socially acceptable behaviours because disruptive behaviour is not tolerated.

3.4 Some propositions

Based on the above theoretical framework, the following propositions are derived: 1) The process of knowledge creation in social communication among Chinese is driven by the principles of habitualised and dispositional guan-xi and wu-lun relationships. 2) A Chinese organisation operates as a self-regulating network of individuals who interact intensively in a nested hierarchy of fields. (This concept of organisation includes both businesses and

* A collection of selected people having certain qualities joined together to take part in an inter-connected system, and to complement to each other in making a contribution for the benefits of the network members (Sunaryo, L., 2005).
families. Thus, a business or a family can be viewed as a nested-hierarchical network of fields operationalised through members carrying out different roles and duties). 3) Actions-based on belief-habitualised dispositional relationships persist outside the context of the organisation (be it family or business). As a consequence, individuals will avoid interacting in fields where the expectations of their ascribed roles and duties would be incompatible with their own familial roles and duties. 3a) Knowledge creation is an outcome of both cooperation and competition within an organisation by individuals seeking to improve the situation of both the organisation and themselves according to their roles and responsibilities and pragmatic account and their knowledge of a particular field. 3b) Competitive environment in a close-knit society generates habitual behaviours of focus, continuous learning and struggle for knowledge creation, and thus, achievement or performance is probabilistic.

4. **Research methodology**

This research is approached using a case study for the following reasons. First, the study investigates a contemporary social phenomenon within its real-life context of Chinese approaches to knowledge management (Yin, 2003: 13). Second, the study is being undertaken in order to find explanations of the process of ‘how’ and ‘why’ knowledge is created (Yin, 2003: 5). Third, the unit of analysis is the degree of role embeddedness of a social actor in a certain field (Yin, 2003: 25).

4.1 **Research design**

Data has been collected in semi-structured interviews with open-ended questions, constructed based on a theoretical framework and propositions introduced above (Yin, 2003: 29).

4.2 **Identification of data collection method and sample**

Interviews with 11 CEOs/owners of Chinese entrepreneurial corporations in Semarang were conducted in July 2006. Prior to these interviews, questions were tested in two pilot interviews with two Chinese residents of New Zealand, bearing some resemblances to the intended sample in Indonesia, during May-June 2006, with the data analysed based on the theoretical framework for “analytic generalization,” in which a previously developed theory is used as a template with which to compare the empirical results of the case study. “If two or more cases are shown to support the same theory, replication may be claimed” (Yin, 2003: 32).

All respondents were introduced to the researcher either through her prior executive education lecturing in Indonesia, or family members. (Note that the only way to obtain such in-depth interviews with Chinese-Indonesian subjects is through personal contacts and network relationships.)

The interviews were conducted in Indonesian, English, or Chinese, sometimes a mixture, depending on the preference of the interviewee. Interviews were recorded (based on permission given by the interviewee) and transcribed. Those portions of the interviews that will be cited in the dissertation will be translated into English by the researcher, with subsequent validation by a certified translator before external publication.

4.3 **Data analysis**

To this date, analysis of the interview data is still in progress, and thus is not ready for discussion.
Conclusion
Understanding context is crucial in enhancing the understanding of why and how individuals think and behave the way they do. Thus, the idea of contextualising organisational studies is not new or surprising. This is simply because an organisation is an open system, within which individuals interact dynamically, not only with other organisational members (internal environment), but also with those outside the organisation (external environments). However, contextualising organisational studies is not simple for these reasons, to name a few: first, any forms of organisations or units of interactions consist of idiosyncratic individuals, each with unique life experience and quality; second, these idiosyncratic characteristics are constantly changing, and thus difficult to manage; third, in almost all cases, organisations do not have control over their environments.

This study examines the process of organisational knowledge creation from the perspective of eleven Chinese entrepreneurs in a close-knit Chinese community in Semarang, Indonesia. The analysis is carried out based on Chinese social-cultural values, as well as on the trajectory of historical developments of the Chinese community in the region. Hopefully this may be used for enhancing understanding of how and why Chinese entrepreneurs in this region create new organisational knowledge for superior firm performance.

References:


