

## **How Knowledge Organizations Work: The Case of Real Estate Agencies**

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This paper is concerned with value configurations that represent different value creation logic. We suggest the value shop as an appropriate value configuration for real estate agencies, where knowledge is the most important resource that is applied to solve problems. The knowledge organization has emerged as the dominant structure of both public and private organizations in the transition from an industrial to a knowledge society. According to the knowledge-based theory of organizations, knowledge is the main resource for an organization's survival and success.

### **Keywords**

Value configuration; Value shop; Knowledge management; Problem solving

## 1. Introduction

The knowledge organization has emerged as the dominant structure of both public and private organizations in the transition from an industrial to a knowledge society (Lassen et al., 2006). According to the knowledge-based theory of organizations, knowledge is the main resource for an organization's survival and success (Garud and Kumaraswamy, 2005).

Traditionally, real estate agencies have employed unskilled personnel without formal training. Recently, professionalism has emerged as a necessity in the business. For example, in a study by Dabholkar and Overby (2006), professionalism has emerged as an important factor in an investigation of real estate agent services to homeowners. Professionalism includes honesty and knowledge in addition to agents simply being professional in their interactions.

Similarly, Hemphill (2007) finds that professionalism affects real estate broker selection. She finds that agents consider the following as key elements of a listing attempt: really hearing the vendor, getting along with the vendor and getting to know the vendor. A fundamental premise of market orientation of real estate brokers is that the firm should meet customer expectations. Hemphill's (2007) research shows that the real estate firm (represented by the agent) has somewhat disparate views from the customer (represented by the vendor in terms of factors affecting real estate broker selection).

This paper makes a conceptual contribution to real estate research by discussing the changing roles of real estate agents and agencies as knowledge workers and organizations respectively. Specifically, this paper conceptualizes the real estate agency as having the value configuration of a value shop, where customer problems are solved.

## 2. Knowledge Organizations

While knowledge organization in the library sciences is concerned with the organization and representation of texts in various forms of information systems (Andersen and Skouvig, 2006; Hemre, 2006; King, 2006; Laise et al., 2005; Rao, 2006), knowledge organization in the management sciences is concerned with structures within which knowledge workers solve knowledge problems (Bennet, 2005a, 2006b; Lassen et al., 2006; Smith, 2003; Uretsky, 2001).

Bennet (2005a) defines knowledge organizations as complex adaptive systems that are composed of a large number of self-organizing components that seek to maximize their own goals, but operate according to rules in the context of relationships with other components. In an intelligent complex adaptive system, the agents are people. The systems (organizations) are frequently composed of hierarchical levels of self-organizing agents (or knowledge workers), which can take

the forms of teams, divisions or other structures that have common bonds. Thus, while the components (knowledge workers) are self-organizing, they are not independent from the system that comprises them (the professional organization).

Knowledge is often referred to as information combined with interpretation, reflection and context. In cybernetics, knowledge is defined as a reducer of complexity or relation to predict and select actions that are necessary in establishing a competitive advantage for organizational survival. That is, knowledge is the capability to draw distinctions, within a domain of actions (Laise et al., 2005). According to the knowledge-based view of the organization, the uniqueness of an organization's knowledge plays a fundamental role in its sustained ability to perform and succeed (Turner and Makhija, 2006).

According to the knowledge-based theory of the firm, knowledge is the main resource for a firm's competitive advantage. Knowledge is the primary driver of a firm's value. Performance differences across firms can be attributed to the variance in their strategic knowledge. Strategic knowledge is characterized by being valuable, unique, rare, non-imitable, non-substitutable, non-transferable, combinable, and exploitable. Unlike other inert organizational resources, the application of existing knowledge has the potential to generate new knowledge (Garud and Kumaraswamy, 2005).

Inherently, however, knowledge resides within individuals and more specifically, in the employees who create, recognize, archive, access, and apply knowledge in carrying out their tasks (Liu and Chen, 2005). Consequently, the movement of knowledge across individual and organizational boundaries is dependent on knowledge-sharing behaviors of employees (Liebowitz, 2004). Bock et al. (2005) find that extensive knowledge sharing within organizations still appears to be the exception rather than the rule.

The knowledge organization is very different from the bureaucratic organization. For example, the focus of the knowledge organization on flexibility and customer response is very different from the focus of the bureaucracy on organizational stability, and the accuracy and repetitiveness of internal processes. In the knowledge organization, current practices emphasize using ideas and capabilities of employees to improve decision-making and organizational effectiveness. In contrast, bureaucracies utilize autocratic decision-making by senior leadership with unquestioned execution by the workforce (Bennet and Bennet, 2005b).

In knowledge organizations, transformational and charismatic leadership is an influential mode of leadership that is associated with high levels of individual and organizational performance. Leadership effectiveness is critically contingent and often defined on the ability of leaders to motivate followers toward collective goals or a collective mission or vision (Kark and Dijk, 2007).

In a knowledge society, knowledge organizations are expected to play a vital role in local economic development. For example, knowledge institutions, such as universities, are expected to stimulate regional and local economic development. Knowledge transfer units in universities, such as Oxford in the United Kingdom and Grenoble in France, are responsible for local and regional innovations (Smith, 2003).

Uretsky (2001) argues that the real knowledge organization is the learning organization. A learning organization is one that changes as a result of its experiences. Under the best of circumstances, these changes result in performance improvements. Knowledge and learning organizations are usually (but not necessarily) used to describe service organizations. This is because most, if not all, of the value of these organizations comes from how well their professionals learn from the environment, diagnose problems, and then work with clients or customers to improve their situations. The problems with which they work are frequently ambiguous and unstructured. The information, skills, and experience needed to address these problems vary with work cases. A typical example is detectives in police investigations.

Similarly, Bennet and Bennet (2005b) argue that learning and knowledge will become two of the three most important emergent characteristics of the future world-class organization. Learning will be continuous and widespread, utilizing mentoring, classroom, and distance learning and likely self-managed with strong infrastructure support. The creation, storage, transfer, and application of knowledge will be refined and developed such that it becomes a major resource of the organization as it satisfies customers and adapts to environmental competitive forces and opportunities.

The third characteristic of future knowledge organizations will be organizational intelligence. Organizational intelligence is the ability of an organization to perceive, interpret and respond to its environment in a manner that meets its goals while satisfying multiple stakeholders. Intelligent behavior may be defined as being well prepared, providing excellent outcome oriented thinking, choosing appropriate postures, and making outstanding decisions. Intelligent behavior includes acquiring knowledge continuously from all available resources and building it into an integrated picture, bringing together seemingly unrelated information to create new and unusual perspectives and to understand the surrounding world (Bennet and Bennet, 2005b).

According to Bennet and Bennet (2005a), designing the knowledge organization of the future implies the development of an intelligent complex adaptive system. In response to an environment of rapid change, increasing complexity and great uncertainty, the organization of the future must become an adaptive organic business. The intelligent complex adaptive system will enter into a symbiotic relationship with its cooperative enterprise, virtual alliances and external environment, while simultaneously retaining unity of purpose and effective identification and selection of incoming threats and opportunities.

In the knowledge organization, innovation and creativity are critically important. The literature on creativity provides a view of organizing for innovation by focusing on how individuals and teams come to shape knowledge in unique ways. Innovation consists of the creative generation of a new idea and implementation of the idea into a valuable product, and thus, creativity feeds innovation and is particularly critical in complex and interdependent work. Taylor and Greve (2006) argue that creativity can be viewed as the first stage of the overall innovation process.

Innovative solutions in the knowledge organization arise from diverse knowledge, processes that allow for creativity, and tasks directed toward creative solutions. Creativity requires application of deep knowledge because knowledge workers must understand the knowledge domain to push its boundaries. Team creativity likewise relies on tapping into the diverse knowledge of a team's members (Taylor and Greve, 2006).

Within knowledge organizations, we often find communities of practice. Brown and Duguid (2001) argue that for a variety of reasons, communities of practice seem to be a useful organizational subset for examining organizational knowledge as well as identity. First, such communities are privileged sites for a tight, effective loop of insight, problem identification, learning, and knowledge production. Secondly, they are significant repositories for the development, maintenance, and reproduction of knowledge. Thirdly, community knowledge is more than the sum of its parts. Fourth, organizational ability to adapt to environmental change is often determined by communities of practice.

### **3. Real Estate Agencies**

Myers and Crowston (2004) phrase the question: Will real estate agents survive? Their agenda is the transformation of the real estate industry by information technology. We have seen in other industries, such as law firms, that systems and services provided on the Internet have caused a transformation into value-added services by lawyers (Rebitzer and Taylor, 2007). Therefore, we believe it is a question of transformation, rather than survival, into becoming knowledge organizations for most real estate agencies.

Real estate agencies can be conceptualized as knowledge organizations. For example, Hemphill (2007) stresses the importance of process knowledge as well as organization procedures that are brought to the relationship by the agent and the agency. To stay ahead, the agency must be a learning organization that changes as a result of its experience. It is dependent on employees sharing knowledge and developing new knowledge.

Roulac and Distad (2004) find that the knowledge structure of real estate shifts foundations over time. In their review of the real estate principles textbooks, they find that legal knowledge has diminished in priority and importance among the real

estate community generally and real estate academics specifically, even though it still receives the most coverage in real estate textbooks in aggregate. Finance is accorded much greater coverage in recent textbooks.

Samuells (2001) argues that real estate groups are knowledge intensive organizations, where there is a need for putting knowledge management to work. Real estate organizations require real-time access to knowledge on a variety of subjects, including information on the core business and conditions affecting it, current objectives of business units and corresponding real estate requirements, and the latest thinking in approaches to real estate. The main goal of knowledge management is to improve efficiency and effectiveness in communication processes, allowing team members to learn and focus on creativity and innovation.

#### **4. Value Shop Configuration**

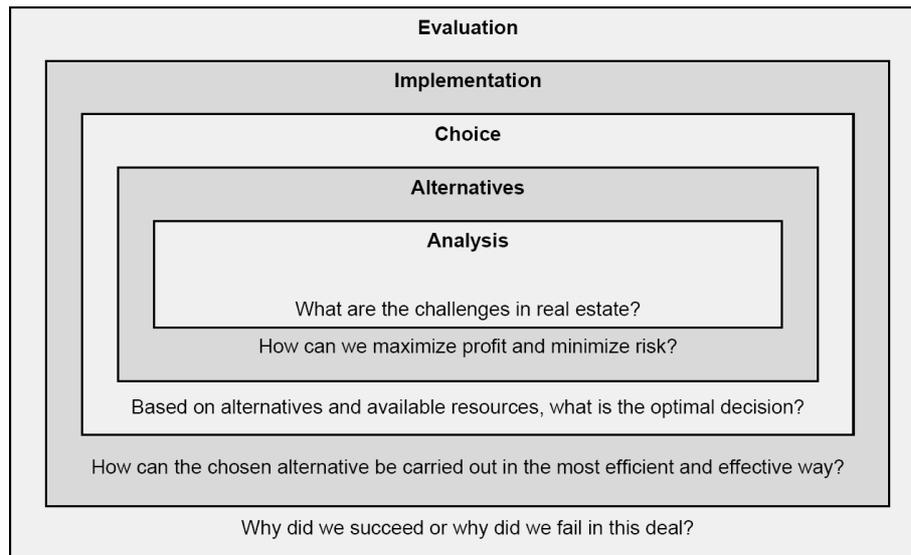
For a long time, we thought that the only possible value configuration for business organizations is the value chain developed by Porter (1985). However, insights emerged that many organizations have no inbound or outbound logistics of importance, do not produce goods in a sequential way, and do not make money only at the end of their value creation chain.

Therefore, two alternative value configurations have been identified, labeled as value shop and value network, respectively (Stabell and Fjeldstad, 1998). As we move into a knowledge economy, real estate agencies make their living from knowledge creation and application. The typical value configuration for finding such knowledge work is the value shop. The value shop creates value by applying knowledge to customer and client problems.

Also, the number of value networks is growing as enterprises are in the business of connecting people and organizations. A value network is an organization that creates value by connecting clients and customers that are, or want to be, transacting with each other.

A value configuration describes how value is created in a firm for its stakeholders. It shows how the most important business processes function to create value, representing the way that a particular organization conducts its business.

The best-known value configuration is the value chain. In the value chain, value is created through the efficient production of goods based on a variety of resources. The organization is perceived as a series or chain of activities. Primary activities in the value chain are: (1) inbound logistics, (2) production, (3) outbound logistics, (4) marketing and sales, and (5) service (Porter, 1985).

**Figure 1** Value shop for real estate business

A value shop creates value by solving problems. Finding a buyer for a home that the owner wants to sell is a typical example of problem solving. Knowledge is the most important resource in the value shop (Sheehan, 2005). A value shop is characterized by five primary activities: (1) problem finding and acquisition, (2) problem solving, (3) choice, (4) execution, and (5) control and evaluation. In the case of real estate brokerage, the problem is to change ownership from someone who does not want to own anymore to someone who would like to become the owner. It can be done in different ways, and a choice of procedure has to be made in primary activity number three. After implementation, the choice can be evaluated.

A value shop schedules activities and applies resources (mainly knowledge) in a fashion that is dimensioned and appropriate to solve a specific problem, while a value chain performs a fixed set of activities that enables it to produce a standard product in large numbers.

The five activities in the value shop are interlocking and while they follow a logical sequence much like the management of any project, the difference from a knowledge management perspective is the way in which knowledge is used as a resource to create value in terms of results for the organization. In the case of real estate brokers, different kinds of knowledge are needed to solve the problem.

The third and final value configuration is the value network. A value network is an organization that creates value by connecting clients and customers that are, or want to be, dependent on each other. These companies distribute information, money,

products and services (Stabell and Fjeldstad, 1998). While activities in both value chains and shops are done sequentially, activities in value networks occur in parallel. The number and combination of customers, and access points in the network are important value drivers in the value network. More customers and connections create higher value to stakeholders.

## 5. Conclusion

It is certainly possible to conceptualize a real estate agency as a value chain, shop and/or network. The importance of alternative value configurations lies in the focus chosen by each alternative. While a real estate agency as a value chain focuses on the efficiency of paper work, a value shop focuses on the added value of knowledge work, and a value network focuses on the connecting ability of the real estate agent when connecting sellers and buyers. We have argued in this paper that the real estate agency of the future should be best conceptualized as a value shop, where the critical resource is knowledge.

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