TACIT KNOWLEDGE AND ITS CORELATION TO INNOVATION AND PERFORMANCE IN OBTAINING COMPETITIVE ADVANTAGE: A STUDY IN A BUSINESS OPERATING IN THE TEXTILE INDUSTRY

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ABSTRACT

Today, the redefinition of competition and its ever diversifying characteristics drive enterprises to search for new remedies. Besides, the ordinary solutions that businesses learn in competition might lead them to dead ends. This could be possible through the correct exploitation of tacit knowledge by businesses and through acquiring new competencies in the performance cycle. The purpose of this study is to describe research on the relationship between tacit knowledge, innovation and performance in assuring competitive advantage, depending on an empirical study made in a business operating in the textile industry located in Istanbul, Turkey. The data obtained through the use of questionnaires, regarding the study, was analyzed with the SPSS 11.5 program by also using factor analysis, correlation analysis, regression analysis and complementary statistical methods. As a result of the study, it is evident that there is high level of correlation and significance between tacit knowledge, innovation and performance. It was observed that tacit knowledge has considerable impact on innovation and performance. Besides, innovation has substantial effect on business performance as well.

Keywords: Competitive Advantage, Knowledge Management, Tacit Knowledge, Innovation, Performance, Textile Sector

JEL Classification: M15, L25

REKABETSEL ÜSTÜNLÜĞÜN SAĞLANMASINDA ÖRTÜLÜ BİLGİNİN, YENİLİK VE PERFORMANSLA KORELASYONU: TEKSTİL SANAYİNDE FAALİYET GÖSTEREN BİR İŞLETMEDEKİ ARAŞTIRMA

ÖZ

Günümüzde, rekabetin yeniden tanımlanması ve her geçen gün daha da karmaşıklaşması, işletmeleri yeni çözüm arayışlarına itmektedir. Bununla beraber alışılmış çarelerin kullanılması, işletmeleri çıkmazlara götürebilmektedir. Bu ise, işletmelerin örtülü bilgiyi doğru kullanımı, yenilik ve performans sarmalında yepyeni yeteneklere sahip olmaları ile mümkün görülmektedir. Bu çalışmanın amacı, örtülü bilgi, yenilik ve performans arasındaki ilişkiyi araştırmaktır. Araştırmanın uygulama aşaması, İstanbul ili merkezli tekstil sektöründe faaliyet gösteren bir işletmede yapılmıştır. Araştırmadan elde edilen veriler SPSS 11.5 programı ile, faktör analizi, korelasyon analizi, regresyon analizi ve tanımlayıcı istatistik teknikler yardımıyla değerlendirilmiştir. Çalışma sonucunda, örtülü bilgi, yenilik ve performans arasında çeşitli bulgular elde edilmiştir. Elde edilen bulgulara göre, örtülü bilgi, yenilik ve performans arasında yüksek düzeyde anlamlı bir ilişkilerin varlığı gözlenmiştir. Yine örtülü bilginin, yenilik ve performans üzerinde önemli etkilerinin olduğu görülmüştür. Ayrıca yeniliğin işletme performansı üzerinde de önemli bir etkisinin olduğu görülmüştür.

Anahtar Kelimeler: Rekabetsel Üstünlük, Bilgi Yönetimi, Örtülü Bilgi, Yenilik, Performans, Tekstil Sektörü

JEL Sınıflandırması: M15, L25

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1. Introduction

Today, no doubt, one of the most important commodities for businesses is knowledge. It is possible to consider knowledge as a force providing advantages in the business life thanks its properties as being a source, low-cost asset and means to create additional value. Knowledge, being a source of power, assumes a great importance for businesses. However, the unbounded management of knowledge would not bring success to the businesses. That is why it is imperative to manage knowledge systematically.

The emergence of knowledge management and technological changes in order to secure competitive advantage has fostered the significance of innovation in businesses. To benefit from and adapt to new conditions, innovation and consequently performance rise as a defining factor regarding the capacities of businesses (Parashar and Singh, 2005:115-123). The gravity of operations resting on knowledge in order to secure competitive advantage expands continuously. The focal point of the studies on this issue is that knowledge, innovation and performance are fundamental inputs for businesses. The innovative businesses are the ones that manage to both transmit knowledge and succeed in transforming the knowledge.

The position of knowledge in endeavors and the operation of businesses affect the necessity and persistence of competitive power. Within this process of effect, the presence of knowledge as explicit or tacit bears great significance. The concept of tacit knowledge is generally/basically determined in constituting the mental sets and realizing operations (Papatya and Papatya, 2005:747-766). Therefore, the main aim of this study is to present empirical research aimed at establishing the correlation between tacit knowledge, innovation and performance in order to secure competitive advantage.

2. Knowledge Management

In order to define knowledge management, first of all, the concept of knowledge and the concepts related to knowledge will be explained. With regards to this, data expresses the objective realities on incidents that are independent of each other. Information could be defined as a visual or an acoustic message. Besides, knowledge is a flexible composition that compiles and assesses the experiences and information in a certain order (Davenport and Prusak, 2001: 22-27). The management of knowledge, too, is a process that directs the share, spread and use of knowledge, as well as being a process that constitutes and accommodates knowledge. The management of knowledge is the fundamental means to ensure competitive advantage and, thereby, securing competitive advantage is an imperative goal for businesses (Darroch and McNaughton, 2003:572-593). Businesses consider knowledge as one of the substantial competitive forces because, thanks to this concept, businesses could compose their *sources and capacities* in new forms, as well as create superior value (Zack, 1999:125-145; Grant, 1997:450-454)

The management of knowledge could be assessed at a level beyond making fixed investments and directing systems for businesses because: (a) the businesses become knowledge-diversified continuously; (b) in order to achieve the market targets, radical changes shall be achieved or the process of change shall be managed; (c) the application of knowledge for ensuring contrast is important; and (d) the informatics technology rather necessitates the spread of knowledge or the culture to spread knowledge (Papatya and Papatya, 2005:747-766). The management of knowledge is a means to organize and share the concrete and relative sources of a business. The management of knowledge is a systematic approach towards creating a culture that continuously learns and shares knowledge as well as establishes intellectual capital for businesses. The management of knowledge is to guide the capture of business knowledge that persuades the business to act rationally and improve the performance of the business. The command of knowledge is associated with acquiring, organizing and sharing the knowledge, creating the appropriate environment and system for this process, as well as convincing individuals to share their personal knowledge (Naktiyok, 193). For the knowledge management of businesses, within the framework of implicit and tacit knowledge, numerous modeling studies have been done concerning their operations, missions and functions. However, this classification could be considered in three basic groups. This modeling is presented in Table 1 below.

Table 1: Models Related to Knowledge Management

Classification	Models	Definition
1. Models concerning the classification of knowledge.	The model of Polanyi (1962)	The philosopher Polanyi, who also considered the opinions of the Greek philosophers, classified knowledge as explicit and tacit. Tacit knowledge is a concept that cannot be transformed into words, depends on perceptions, is personal; its content is unique and is difficult to transfer. On the other hand explicit knowledge is a concept that could be stated, is aware of and can easily be transferred from one individual to other with formal and systematic communication means or orally.
	The model of Boisot (1987)	Boisot classified knowledge in four categories with respect to coding and diffusion dimensions. (a) Possessive Knowledge is stored in a coded format, accessible by the authorized individuals and not transferred across the organization. (b) Personal Knowledge is that known by individuals but not shared. (c) Public Knowledge is knowledge stored in the database of the organization and accessible by everyone. (d) Joint Perception is knowledge spread in the organization by social means slowly, but not coded.

	The model of Nonaka and Takeuchi (1991-1995)	Nonaka and Takeuchi determined two dimensions in the generation of knowledge; epistemological (the bifurcation of explicit and tacit knowledge) and ontological (the separation of knowledge among individuals, groups and organizations); beginning from the creation of knowledge from the interaction between explicit and tacit knowledge stated the "knowledge spiral" that is conducive to create organizational knowledge. According to this spiral, the situations of socialization, externalization, integration and internationalization appear. Moreover, individuals could spread the knowledge organization wide and transform it into organizational knowledge." However, the content and sort of the knowledge are different in each situation. Joint knowledge is generated with socialization, conceptual knowledge is generated by externalization, systematic knowledge is generated by integration and functional knowledge is generated by internalization.
	The model of Hendlund and Nonaka (1994)	They examine knowledge in two dimensions: these are (a) whether the knowledge is explicit or tacit, (b) the transfer levels of the knowledge (among individuals, groups and organizations)
	The model of Spender (1996)	According to the model, knowledge has two dimensions as explicit – tacit and individualism – sociality. Classifications are (a) "rational knowledge" in explicit and individual dimension, "concrete knowledge" in explicit and social dimension, (c) "automatic knowledge" in tacit and individual dimension and (d) "joint knowledge" in tacit and social dimension.
2.The Intellectual Capital Models	The model of Contractor (2000)	According to the model, knowledge is composed of intellectual possession (registered patents, trademarks etc.), intellectual sources (database and software which is coded but not included in records), and intellectual capital (joint knowledge, individual capabilities, know – how, organizational culture and customer satisfaction).
	The model of Zander and Kogut (1995)	They define the intellectual capital as existing inside the organization as a whole, not jointly coded and implicit human capital. Although, it is not stated in the balance sheet, the intellectual capital defining the perceived value comprises all relative values with regards to human beings.
	The model of Scandia (1996)	The model of Scandia states that knowledge is a value of mental sets and this value is lost when an individual leaves an organization.

	The model of Kaplan and Norton (1992)	Besides the models presenting the components of intellectual capital, the Balance Scorecard model of Kaplan and Norton is considered as an integration of different point of views of managers and performance evaluations.
3.The Knowledge Models Constituted Socially	The model of Dewey (1933), Agryris and Schön (1978), Weick (1979), Daft and Weick (1984), Slocum and Dilloway (1990), Huber (1991), Nevis (1991), Kim and Takeuchi (1995), Crossan, Lane and White (1999),	This model defines the knowledge comprehensively and associates knowledge with the social processes of an organization such as the learning process. According to this opinion, social paradigms and processes play an important role with regards to define knowledge as explicit or tacit. Knowledge, whether implicit or tacit, can never be isolated. There is always tacit knowledge in the creation of explicit knowledge. It is believed that the organizational learning is the fundamental process in the progress of knowledge.
	Damarest (1989)	With regards to this model, in knowledge management, four dimensions were developed as the structuring, diffusion, application and formalization of knowledge. Therefore, knowledge is not only structured scientifically, but also includes social structuring as well. Moreover, knowledge is preserved in the organization by social interchangeable means. The sort of knowledge facilitating diffusion is used as commercial value. Later on, the model was improved by McAdam and McCreedy as well as the elements such as scientific paradigm, social paradigm, advantages provided for the business and liberation of workers were added to the model.

Reference: Papatya and Papatya, 2005:752-753; Süral, Özmen, Saatçioğlu, 2002:472-477; Kakabadse, Kouzmin, Kakabadse, 2001:137-154; Hedlund, 1994:73-90; Spender, 1996:45-62; Lank, 1997:406-412; Brooking, 1997:364-365; Demarest, 1997:374-384; Nonaka, 1991:96-104.

Different models will be developed with regards to knowledge management. However, when the relevant literature is examined, the models developed are more related to models improved based on explicit knowledge for the reason that it is difficult to define tacit knowledge.

3. Tacit Knowledge

Tacit knowledge is defined as the sort of knowledge that is difficult to express and explain. Furthermore, tacit knowledge is the type that is difficult to code and symbolize, but can be comprehended; is not easy to explain, but is noticed; and is possible to be generate and develop, but cannot be evaluated. Tacit knowledge could be learned by means of cooperative experiences (Koskinen, 2003: 67-81). That is why this sort of knowledge is tough to formulate, define and share. While explicit knowledge "identifyi[es] the object itself," tacit knowledge presents the knowledge of "how it happened."

In short, tacit knowledge is a concept that is far beyond the recorded data of businesses; it is also included in the mind–sets of societies and related to work processes and products. The sources of tacit knowledge are mental models, values, beliefs, perceptions, assumptions and concepts (Lubit, 2001: 164-178; Nonaka, 1994: 14-37). Beginning from Polanyi, who first defined tacit knowledge, the management of tacit knowledge is assessed regarding the sustainability of competitive advantage in order to create new knowledge and continuous innovation (Lubit, 2001: 164-178; Mitri, 2003: 173-189). Moreover, the strategic role of tacit knowledge is of great importance in its reflections on research and operations as well as comprehending its effects. Especially, the evolution of conditions in competition in comparison to the past, the impact of informatics technology, the obligation to adjust to new and dynamic competitive conditions compel businesses to transform tacit knowledge into competitive advantage (Papatya and Papatya, 2005: 747-766; Tserng and Lin, 2004: 781-802). Furthermore, the dynamism of competition entails that businesses should generate knowledge and focus on internal capital resources (Hall, 1992: 135-144). The characteristics of the components of competitive advantage are difficult to imitate, are unique, are valuable and cannot be substituted. Tacit knowledge bears these properties; it is difficult to imitate, is unique and is valuable if it possesses the characteristics to be processed and transformed into a product. Tacit knowledge is composed of rationales and capacities that emerge from the human resources of a business (Barney, 1991:99-120; Droege and Hoobler, 2003: 50-62). In other words, the constitution and sustainability of tacit knowledge depends on the correct management of that tacit knowledge. Therefore, knowledge management and tacit knowledge management are to be emphasized with regards to both not limiting the development facilities and to not decrease the innovation generation capabilities of businesses (Kash and Rycroft, 2002: 581-606; Koskinen, 2000:41-47). Furthermore, this indicates the situation of the businesses in the face of developments because the focus of business on the knowledge generation process is substantial with respect to competitive advantage (Johannessen and others, 2001:3-20). Therefore, it is necessary to acquire and develop tacit knowledge as well as to handle it efficiently. The process of tacit knowledge is presented below in Table 2.

Tacit knowledge is defined as the type of knowledge that is difficult to express and share but is quite valuable. It requires considerable resources to acquire, develop and share tacit knowledge; optimal utilization of this process, as well as restoring this process in the business, as innovation and improved performance will provide great benefit.

Table 2: The Process of Tacit Knowledge

Dimensions	***Explanation***
Acquisition of Tacit Knowledge	It depends on the basis of determining and defining the necessary knowledge as well as constituting the technical infrastructure. The acquirement of knowledge emerges during the work process. Knowledge that is deployed in systems and processes and applied is more valuable than the knowledge in the minds of people.
Development of Tacit Knowledge	It is significant how tacit knowledge is transferred into core competences; these competences affect the result of incidents, these competences are assessed and the old and new laborers could be reconciled.
Diffusion of Tacit Knowledge	The fundamentals of tacit knowledge of most of the laborers in the business are organizational culture. Fostering the diffusion of tacit knowledge in organization rests on creating an organizational culture and promoting interaction among workers.

Reference: Erkorgun, 2007: 24-27; Koskinen, 2003: 68-70; Ardichvili, 2002: 459

4. Innovation and Performance

Innovation could be defined as the ability to combine two or more types of knowledge (Parashar and Singh, 2005:115-123). Innovation is a variety of combining capacities of a business in order to implement new processes from the existing ones. In other words, it is a new combination of learning new and current knowledge (Kogut and Zander, 1992:383-397). Innovation is to explore new sources, clients and markets or establishing the new combination of existing sources, clients and markets. Therefore, the purpose of innovation, with respect to businesses, is both to find new ideas, create new and different values, and to create opportunities depending on the commodity, service and marketing concept. This indicates that there is innovation in the basis of securing competitive advantage (Naktiyok, 2004:170-171).

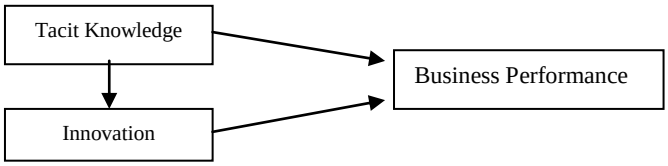
Innovation contributes considerably to the growth of a business, its capability to compete and its performance (Jenssen, 2003:93-106). Knowledge management can be best comprehended with respect to innovation. Knowledge management can be assessed with innovative products and/or services. Knowledge management is primarily related to performance with its capability to spur innovation. The process of innovation benefits from ideas and knowledge in order to provide advantages for the client and contribute value. Innovation requires organizational learning systems that use, develop and integrate knowledge. The efficient allocation of knowledge between the departments in a business enhances the innovation efforts; there is also a positive impact of an innovative business culture on knowledge management (Soo and others, 2002: 129-150; Hogan, 2005: 30-31; Johannessen and others, 1999: 121-139; Marinova, 2004: 1-20).

5. Application: Tacit Knowledge and its Relation to Innovation and Performance in Securing Competitive Advantage: A Research in an Enterprise Operating in the Textile Industry

5.1 Definition of the Research: The Objective of the Research, Hypothesis and Methodology

The Objective and Hypothesis of the Research: The objective of this study is to determine the correlation between tacit knowledge, innovation and business performance and the application of this concept to a textile business based in Istanbul, Turkey. Therefore the study is considered an empirical one. The model of the study and hypotheses are presented below.

Figure 1: The Model of the Study and Hypothesis



H1: There is a positive and significant correlation between tacit knowledge and business performance.

H2: There is a positive and significant correlation between innovation and business performance.

H3: There is a positive and significant correlation between tacit knowledge and innovation.

The Methodology of the Research: The research was conducted at a textile business that has been operating in Istanbul since 1999; questionnaires were given to 100 employees working at various levels of the company. The scales used in the research are composed of ones used before and the effectiveness of the scales has been proven. In the preparation of the questionnaires, the questions related to (a) tacit knowledge (Lee (2001) and Erkorgun 2007); (b) innovation (Callontone and others, 2002); (c) business performance (Morgan and Vorhies, 2001) were organized depending on the scales. The 5-step Likert scale was used in order to assess the parameters in the questionnaire. The data acquired was tested statistically with the SPSS 11.5 program.

5.2 The Analysis of the Data of the Research and the Interpretation of Findings

First, in order to test the reliability of the scales, the Cronbach Alfa values were calculated. Then, the variable factor analysis was applied and average values as well as standard deviations were calculated. Finally, the findings were interpreted with correlation and regression analysis.

(a) The effectiveness and reliability of the research scales: The most widespread method of assessing reliability – the Cronbach Alpha Test – was used in order to test the reliability (internal consistency) of the scales (Ravichandran and Rai, 1999: 136-137; Jansson, 2000: 1452-11453). The Alpha values of the variables are presented in Table 3 below. A value above 0.70 for the Cronbach Alpha coefficient is considered necessary in social sciences in order to have internal reliability (Baum and Wally, 2003:1107-1129). The Alpha coefficient is above 0.70 in all scales used and varies between 0.78 and 0.88, thereby, indicating that these values are reliable. Besides, the Alpha value is 0.9567 for all variables. Therefore, the scale is highly reliable.

Table 3: The Reliability Values of the Factors

Variables	# of questions	Cronbach Alpha (a) Values
Obtainment of tacit knowledge	3	0.8223
Development of Tacit Knowledge	3	0.8878
Spread of Tacit Knowledge	3	0.8294
Innovation	5	0.7834
Business Performance	4	0.8181
The Cronbach Alpha Values (a) for all Variables	18	0.9567

In order to apply the factor analysis, first of all, the KMO (Kaise-Meyer-Olkin) Measure of Sampling Adequacy and Barlett's Test of Aphericity are supposed to be at an adequate level. For the scale in our research, a value of KMO above 0.60 and the Test of Aphericity to be significant at the 0.000 level shall denote that significant factors could be acquired from the research (Nakip, 2003: 409). The KMO value varied between 0 and 1, and when the KMO takes the value of 1, it indicates that the variables can be guessed perfectly without error. In our research, since the KMO value is 0.887, it is possible to state that the adequacy of the variables for factor analysis is at almost a perfect level. Besides, the value of Measures of Sampling Adequacy (MSA) assesses the relevance of each question to factor analysis when evaluating the coherence of factor analysis. When the MSA value is below 0.50, the questions are discarded from analysis and the factor analysis is reapplied (Sipahi and others, 2006: 80-81). The Anti-Image Correlation matrix was

reviewed in our study and it is evident that no MSA value is below the 0.50 level. Therefore, no question was discarded from the questionnaire.

(b) The Results of the Factor Analysis

Table 4: The Results of the Factor Analysis

Variables	Factor Loads	Core Values	Variance Dis-closd%	Total Variance %
Factor 1: Obtainment of tacit knowledge		10.922	32.744	32.744
The attempt to change within the business is improved by tacit knowledge accumulation, with new product development and marketing directories comprising learning stories.	0.846			
The employees shall improve their knowledge by considering the aftermath of their behavior and the impact of their behavior on other employees.	0.642			
The employees improve their knowledge accumulation by observ-ing the incidents and getting involved with them.	0.694			
Factor 2: Developing Tacit Knowledge		2.714	8.147	40.891
The current and new employees at the same location are involved in order to facilitate knowledge flow.	0.770			
The development of tacit knowledge is facilitated by means of face-to-face dialogues, phone calls, formal knowledge flow and etc.	0.921			
Effort is spent in order to transform current knowledge into ad-vantage and improve communication among employees.	0.888			
Factor 3: Spread of Tacit Knowledge		1.966	7.773	48.664
Employees acquire abilities and experience by means of training and applications as well as share them with each other.	0.834			
Employees benefit from communication channels in order to de-bate their experiences and exchange ideas.	0.730			
Employees know where the knowledge is and who holds it.	0.940			
Factor 4: Innovation		1.814	6.795	55.459
The business frequently tests new ideas.	0.601			
The business is the developer of process methods.	0.580			
The business pioneers to penetrate markets with new goods and services	0.594			
Innovation is not considered a risk in the business and risk is not avoided.	0.872			
Innovation is a part of basic values of the business.	0.855			
Factor 5: Business Performance		1.399	4.249	59.708
Our market share is better in comparison with our competitors.	0.853			
Our profit per client is better in comparison with our competitors.	0.711			
Our client portfolio is better in comparison with our competitors.	0.933			
Our sales volume is better in comparison with our competitors.	0.568			
KMO=0.887 **Barlett's Test of Aphericity**				**2462,453** **,000**

In order to determine the basic dimensions, varimax rotation factor analysis was applied to 18 variables with the fundamental components method and 5 factors were acquired. The 5 factors acquired disclose 59.708% of the total variance. The results of factor analysis are presented in Table 4 below.

The variables qualify the first factor as a result of the analysis is comprised of 3 variables determining the obtainment of tacit knowledge. It core value is 10.922 and defines 32.744% of the total variance.

The second variable qualifying the development of tacit knowledge is comprised of 3 variables. Its core value is 2.714 and defines 8.174% of the total variance.

The third factor qualifying the spread of tacit knowledge is comprised of 3 variables. Its core value is 1.966 and defines 7.773% of the total variance.

The fourth factor defines variables relative to innovation and is comprised of 5 variables. Its core value is 1.814 and defines 6.795% of the total variance.

The fifth factor is comprised of 4 variables that define the business performance. Its core value is 1.399 and defines 4.249% of the total variance.

(c) Results of the Correlation Analysis

In Table 5 below, the results related to correlation analysis are presented.

Table 5: Correlation Among Variables

Components	$\bar{X}$	**S.S**	**1**	**2**	**3**
1. Tacit Knowledge	3,71	0.952	1	(r=,871)** ,000	(r=,857)** ,000
2. Innovation	3,77	0.847	(r=,871)** ,000	1	(r=,860)** ,000
3. Business Performance	3,73	0.912	(r=,857)** ,000	(r=,860)** ,000	1

** Significant at the 0.01 level

When the correlation between tacit knowledge and innovation is analyzed, it is observed that there is a (r = 0.871) positive and relatively very strong correlation.

Furthermore, there is a (r = 0.857) positive and relatively very strong correlation between tacit knowledge and business performance.

Consequently, there is a (r = 0.860) positive and relatively very strong correlation between innovation and business performance. With regards to these, the *H1,H2 and H3 hypothesis* were accepted.

(d) The Results of the Regression Analysis

The results of the regression analysis are presented in tables below.

Table 6: The Regression Analysis Result Showing the Impact of Tacit Knowledge on Innovation

Factor	Dependent Variable=Innovation				
	B	**t**	**R²**	**D.R²**	**F**
Tacit Knowledge	0.871 **,000**	17.731	0.758	0.756	307,353 **,000*** **

When innovation is considered as a dependent variable and regression analysis is made, the beta coefficient related to tacit knowledge is presented in Table 6 above. The tacit knowledge management defines 76% (R^2=0,758) of the total variance. The beta value is (β=0,871) and the significance level of the t value is (t=17,731) (p<,000). Furthermore, the value of F is (F=307,353) and this value is significant at the level of p<0.001. The *H3* hypothesis, supported with the correlation analysis, is accepted.

Table 7: Result of the Regression Analysis Showing the Impact of Tacit Knowledge on Business Performance

Factor	Dependent Variable=Business Performance				
	β	**t**	**R²**	**D.R²**	**F**
Tacit Knowledge	0.857 **,000**	16,443	0.734	0.731	270,361 **,000*** **

When business performance is considered as a dependent variable and regression analysis is made, tacit knowledge defines 73% (R^2 = 0.734) of the total variance. The beta value is (β = 0.734) and this value is significant at the level of (p<0.000). Moreover, the value of F is (F = 270,361) and this value is significant at the level of p<0.001. The *H1* hypothesis, supported with the correlation analysis, is accepted.

Table 8: Result of the Regression Analysis Showing the Impact of Innovation on Business Performance

Factor	Dependent Variable=Business Performance				
	β	**t**	**R²**	**D.R²**	**F**
Innovation	,860 **,000**	16,696	0.740	0.737	278,745 **,000*** **

When business performance is considered as a dependent variable as shown in Table 8 above and the regression analysis is made, innovation defines 74% (R^2=0.740) of the total variance. The beta value is (β=0.860), the t value is (t = 16,696) and its level of significance is (p<,000). Furthermore, the value of F is (F = 278,745) and this value is significant at the level of p<0.001. Thereby, the *H2* hypothesis, supported with the correlation analysis, is accepted.

6. Conclusion

There are many studies in the literature indicating that businesses implementing tacit knowledge practices successfully are accomplished in improving innovation and business performance as well (Pathirage and others, 2007: 115-126; Cavuşgil and others, 2003: 6-21; Darroch, 2005: 101-115). The correlation between tacit knowledge, innovation and business performance is analyzed empirically in this study.

The study is composed of theoretical definitions and empirical research. According to the findings acquired from the questionnaires and questionnaire analysis, there is an acute, positive and statistically significant correlation between tacit knowledge, innovation and business performance.

With respect to the results of the findings and statistical analysis, it is possible to state that tacit knowledge has a positive, significant and important impact on innovation and business performance. Moreover, it is evident that innovation has a positive, significant and important effect on business performance. When the averages of tacit knowledge, innovation and business performance are examined, it is determined that the average of tacit knowledge is ($\bar{X}$ =3.71), innovation is ($\bar{X}$ =3.77) and business performance is ($\bar{X}$ =3.73). Regarding these results, it is possible to state that the importance referred to these variables by the employees is high. Therefore, this indicates that businesses considering tacit knowledge significantly manage to improve their innovation and business performance as well.

As a result of the analysis, the model being significant indicates the importance of tacit knowledge with respect to innovation and business performance. However, although the implementation of the study in one business limits the generalization of the results, it is noteworthy to consider that a more homogenous sampling might lead to different results.

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