Knowledge Management Practices In The Banking Industry: Present And Future State - Case Study

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ABSTRACT:

Organizations are realizing that knowledge management (KM) is a valuable instrument in improving performance. Through the connection of people, processes, and technology, knowledge management focuses on leveraging corporate knowledge and operations. This research is an exploratory one, based on a survey of 72 managers working in the banking sector in Abu Dhabi Emirate, UAE. The participation rate was 80 percent. This paper investigates the functionalities under the purview of KM that support different sets of banking operations. In this paper, through a suggested model the researchers discuss how knowledge creation, knowledge sharing, and knowledge acquisition integration can enhance the competitive edge and operations quality of these institutions in the UAE. In this paper we shall study the practices and the progress of KM by banks' management of their banking operations. Due to the lack of research concerning KM in the UAE, and the KM practices in the banking industry, this paper hopes to contribute to the discussion of KM concepts in the services sector in general, and the banking sector in particular.

Keywords: *Knowledge management, Knowledge practices, Banking industry, Banking management, United Arab Emirates*

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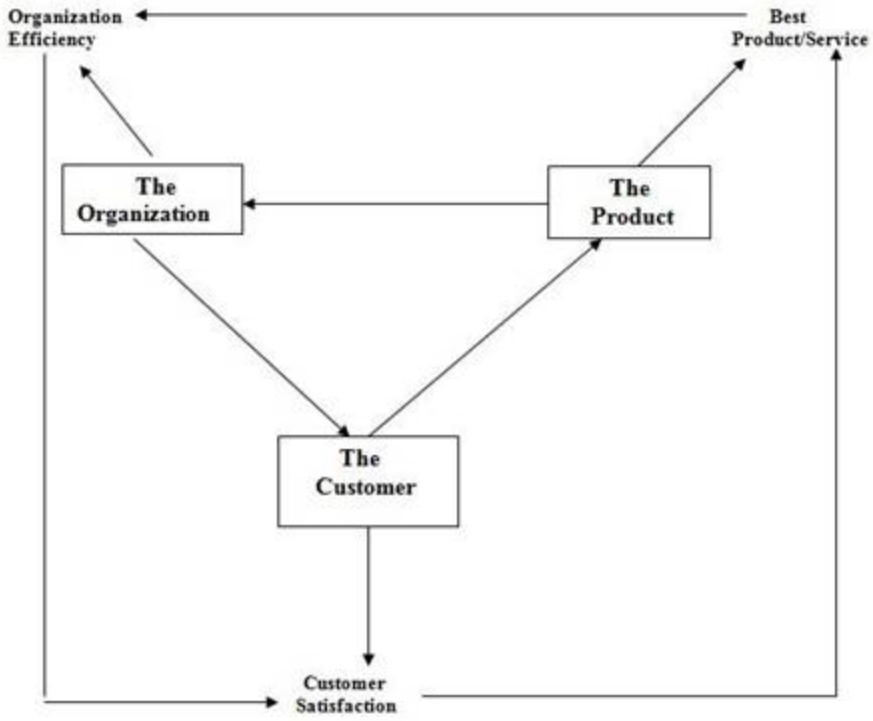
1. Introduction

The new concept of marketing is by concentrating on a firm's relationship with their customers in order to better understand their customers' needs and preferences and thus increase customer satisfaction and retention. Present day organizations concentrate on adapting the concept of knowledge sharing between the different departments, reducing cost and time, and improving their operation's efficiency. Such objective may be achieved by developing a KM strategy to help the organization to maintain or reestablish its competitive advantage. While any organization may find its own unique link between knowledge and a strategy, any such competitive knowledge can be classified as an innovative trial or effort to improve its operations (Davis, 1996).

Through the practices of KM, an organization focuses on the systematic exploitation and reuse of knowledge. The firm should identify the organization's competitive knowledge position in order to define the strategic gaps in its organization's knowledge. The focus areas for value discipline are depicted in Figure 1.

Figure (1): Focus Value Discipline



In general KM concentrates on processes such as creating, sharing, and acquiring knowledge, and the cultural and technical bases that support them. An understanding of the knowledge concept is crucial since this is what we are attempting to manage. As there are different dimensions of knowledge, it is difficult to identify precisely what knowledge is. Such understanding is now vitally important for the employees in any organization; especially for those interested in the services sector in general, and banking operations in particular (Pemberton et al, 2002).

In today's competitive business environment, an organization needs experience of how to deploy its corporate assets efficiently and effectively. Thus it is very hard for an organization to gain the advantage over its competitors. To achieve superiority, a firm needs a range of resources to be able to achieve success and competency in the marketplace (Borgonovo and Peccati, 2004).

For many organizations, their long-term prosperity now depends to a large extent on their KM capabilities. Thus in emerging business contexts our understanding of what creates a competitive edge or competitive value for commercial business has changed fundamentally. Such knowledge is used by the management to maintain leverage, renew, and develop its available resources and assets (Borgonovo, 2006).

Efforts are underway to make KM related approaches more practical and measurable, as the complexities of these topics have encouraged many sociological claims. However, such difficulties should not discourage organizations from experimenting with new ideas in KM and perform research so as to add a critical contribution and

provide the basis for engendering customer loyalty, building the level of trust, and the quality of relationships between businesses partners (Lee and Bruvold, 2003).

In Accounting and Finance, knowledge can be categorized as an intangible asset but organizations downplay the importance of their intangible assets. Highly competitive business organizations have found out that many types of sources (tangible and intangible), are needed to gain a competitive edge in order to maintain competition and superiority in the marketplace. This is shown by an increasing number of firms which give more emphasis to their intangible assets (Hafizi and Hayati, 2006). Managing this type of asset (knowledge) through organizing, creating, sharing, and acquisition between employees, such an organization will enhance its existence in the marketplace and probably maintain progress in its banking operations. Therefore for this paper KM supports the creation of knowledge as an essential basis for a quality of operations in the banking industry.

The purpose of this paper is to shed light on how far banking management in the UAE (within the financial system) have adopted the concept of KM in their operations. This objective of the paper will be investigated through the suggested model which encompasses the creation, sharing, and acquisition of knowledge. The paper shed light on how each of these organizations integrates these functions to determine the value added in building the level of trust to the business relationship spectrum. This paper attempts to illustrate how banking management can help in building frame strategy and implementation through managing knowledge.

2. The Knowledge Management Value And Concept

The ongoing knowledge sharing and continuous discussions between employees, management, and customers will enhance the convergence of a perspective which is required for effective partnering. This will enhance such mutual benefit working in the direction of creating value for all partners.

No universal definition for KM or knowledge exists. For the purpose of this paper, the following definition of KM is appropriate: Knowledge management is the planning, organizing, motivating and controlling of people, processes and systematic in the organization to ensure that its knowledge-related assets are continuously improved and effectively employed (King, 2007). What is important in this definition is that KM involves knowledge creation, refinement, sharing, acquisition, and utilization. Thus the KM function is the organization that facilitates these processes, and the development of a system that motives employees to participate (Storck and Hill, 2000).

In general KM is the generation, storage, distribution, and application of knowledge. For Van de Ven (2005), the success of KM in an organization depends on effective knowledge sharing practices, and classifying knowledge on the basis of its strategic benefits. To transform knowledge-incentive structure to knowledge-based structures it is necessary to make knowledge more visible and easily accessible to the employees. Sharing knowledge contributes to a more individual awareness of specific situations and contributions. Asocial constructionist considers that all individuals are constantly interacting with other individuals within the organization irrespective of the nature of

its business or the economic sector. Thus, there is a constant two-way exchange of knowledge and experience between individuals and collective knowledge with an interactive social process of creating and sharing knowledge. Nonaka (1994) argues that such new knowledge creation will benefit both employees and their organizations, of which they are an integral part. The dissemination of knowledge is dominated by the system used in the organization. In other words, the information technology uses the local network or the Internet. In collecting information not all of it is useful. This represents a setback of an information system due to the overload of information since we may need just part of it, not all of it. The organization then has to select the best information to use so as to achieve a effective respite, capturing and avoiding as much as possible inefficiency in the decision making process (Barney, 2002).

Within any type of business, the management of an organization is very concerned about the availability of large amount of information and this in turn represents a problem. Therefore, banking management is trying with the utmost capacity to capture, manage and construct suitable information into its organizational knowledge to improve the quality of its operations. Eventually, this will enhance the rules of modern banking institutions in the economy (Kogut, 2000). The practices of KM in the banking industry will enable these institutions to implement appropriate strategies within the financial system. Expertise in the first level of management will leverage the available optimum capacity of their organization, and enhance and reshape their policy in the long-term. In service industries like banking, the application of knowledge KM concepts is not an easy task. Although the application of KM does not differ from other industries, the complexity of the banking environment makes KM implementation difficult. Even with the European banks, the application of KM is still in its infancy (Hafizi and Hayati, 2006). Information technology then will be regarded as a major driving factor in KM since it builds the infrastructure required to support the core activities of storing and distributing knowledge. Information technology will then give the banking management a new dimension in managing its knowledge and help in carrying out and maximizing the management's initiatives in harmonizing the appropriate strategies in the short and long-term (Edmondson, 2002).

Through managing available knowledge banking managements have benefiting from KM in supporting the creation of new knowledge, inventing new ideas and taking initiatives to enhance their development or success in the banking environment. The next section of this paper deals with the KM failure and success factors in services industries in general and banking in particular in the UAE.

3. The Critical Factors For Knowledge Success And Failure

From the above discussion one may say that KM is not a technology. However, technology is a basis to KM progress. Fundamentally, there has to be an acceptance that an organization is in a constant process of development and that success is dependent on practicing new ideas and experiences and taking initiatives to support such inventions within the banking management or business environment (Atkinson, 2000).

The success of KM implementation will not take place without the collective work of many enablers. These include the extent that the management believes in KM effects, the information technology used, human resource management, and the culture of the organization. In fact, any KM system will include these variables to make knowledge-related organizational functions workable. These variables reflect how much the suggested model is consistent with our study on one side, and how much these variables reflect the implementation and practices of KM in the banking management on others (Bieber, et.al, 2002) - this will be discussed in the next section.

Management or leadership is essential to stimulate employees' motivation to access the various sources of knowledge and encourage them of knowledge sharing. Again information technology is a vital factor to support the process of storing and distributing knowledge for sharing. An organizational structure reflects the organization's policy in discussing with its employees and in absorbing new ideas and experience within and outside its capacity.

Within the organization all employees need to develop related KM skills and experience; for example, retrieving knowledge for a situation so as to make a decision. Part of these skills is information technology skills and issues related to managerial issues such as time management (Gold et al, 2001).

The main goal of KM is to improve organizational achievement, therefore, defining the critical success factors is useful for structuring an environmental analysis because there is an important link between environmental analysis and critical success factors leading to organizational survival (Chong and Choi, 2005). In fact these factors will identify the core processes that are crucial to successful KM implementation, and enhancing the management of KM.

The factors contributing to KM success are what Davenport and Klahr (1998) identify as eight KM success factors: Technology infrastructure, Organizational infrastructure, Balance of flexibility, Ease-of-accessibility to knowledge, Shared knowledge, Knowledge-friendly culture, Motivated workers who develop, share, and use knowledge (Means of knowledge transfer using various information technology infrastructure), and Senior management support and commitment. As we shall see in the next section through the discussion of the suggested model, that all the above identified factors are mentioned in our model. Therefore we are able to assess how much banking management in the sample practicing the KM concept (Hansen, 2002). Any KM programme needs to identify indicators of success to judge the extent of KM practices and management performance accordingly.

Moffett et al (2003), identify another two factors for successful KM: Benchmarking and Performance measurements. In general no specific approach for successful KM applications in business organization has been generalized by all researchers and considerable effort must be made to remove constraints to ensure successful KM implementation and interrelationships. Such differences reflect different researchers' attitudes and a diversified and fragmentation of successful practices of KM. In fact little attempt is made to integrate these factors.

Highlighting the main factors that reduce the chance of successful KM practices or the barriers to sharing knowledge is also important. Knowledge sharing is regarded as a barrier for much management. This is due, as mentioned previously in our discussion, to its intangible nature. Since knowledge is information in action, this makes it difficult to know who knows what (King and Marks, 2008).

On the employees' or even the management side, sharing knowledge or information may not be encouraged by both sides until/unless they recognize its benefits or effects in solving problems or its use within the decision making process. The problem may be exacerbated depending upon the organizational structure and the willingness of departments to cooperate and contribute in knowledge sharing, either individually or collectively.

Employees' skills or experience represents the other side of the coin in exploiting creating and benefiting from the new knowledge developed within the organization. When both sides (i.e., employees and management) underestimate knowledge effects, knowledge becomes a second priority, and such situation is a barrier in sharing (King and Lekse, 2006).

People believe that knowledge is power and the hoarding of knowledge leads to gaining control over power. This type of preconceived notion also acts as a barrier to knowledge sharing. The researchers' belief that encouraging employees by their organization for knowledge sharing is the starting point in building a strategy and achieving objectives, although performance may be differ from one organization to another. In practice, the hierarchical structure may be used as an enabler in locating acceptable practices in the organization. Collective participation by employees will encourage and strengthen relationships and trust between employees and their organizations in problem solving, and such practices will serve in creating ongoing best organizational practices for knowledge and the role of KM. Such participation reflects the organizational culture and employees' motivation (Cramton, 2001).

From the above discussion, one may conclude that within a particular business environment the practice of KM needs interaction between employees, information technology, and transforming knowledge within the departments in a firm's organizational structure.

4. Research Model And Analysis

The suggested model in Figure 2 reflects the purpose of this paper in that it contains the generally accepted terminology of KM. It is important to make distinctions between knowledge creation, knowledge sharing, and knowledge acquisition by the organization.

Figure (2): Knowledge Management Practices Model

The Model shows that the initiation of the KM cycle involves the creation of new knowledge by replacing old knowledge with new content within the effects of both the internal and external environments. Creating new knowledge depends upon the culture and the management behavior regarding knowledge as an enabler and contributor for building strategies in the long-run.

The bullet points under knowledge (i.e., creation sharing, and acquisition) refer to Nonaka's (1994) four modes of new knowledge creation. These four modes are: apprenticeship, lessons learned, repositories and individual or group learning through discussions.

Knowledge acquisition involves search for recognition of and assimilation of potentially valuable knowledge often from outside the organization (Menon and Pfeffer, 2003).

In practice, organizational preferences improvement is what KM ultimately all about. Anticipated improvements are the primary basis that organizations use to judge the value of KM initiatives. This may be achieved, for example, by embedding knowledge, knowledge reuse, and creating dynamic capabilities (King and Malhotra, 2001).

The end (right side) of the model is utilization. After new knowledge is created or acquired, then utilization takes place. Utilization refers to the processes and mechanisms that are used to select and purify and maximize knowledge for inclusion within the KM systems that are in use. It may be utilized through elaboration and thoroughness, in order to be helpful in facilitating innovation, collective learning, individual learning and problem solving (King, 2005).

We mentioned in the previous section that management, information technology, cultural organization and human resource management are the main enabling factors with respect to implementing KM. The field study is classified as exploratory research, and the qualitative data was collected through interaction with managers of these banks in the sample. Information was also gathered at informal sessions. In the first stage of the field study, interviews were held with most team leaders, and managers (Oliver and Kandadi, 2006).

5. Discussion

The development of KM and such knowledge richness will optimize information collection, organization and retrieval. Such richness in knowledge features will support, in turn, interoperability and the flow of information and new forms of resources. To assess KM practices in the sample, Table (1) shows the present and future state (For the next 7 years). Our results show that the concept of KM in general and knowledge is in the early stage of development.

	Present %	Future %
Current Practicing	**10**	**15**
Implementing	**8**	**10**
Pilot Project	**-**	**-**
Planning	**30**	**45**
Evaluating	**10**	**15**
Not Considering	**-**	**-**

Table 1: Present And Future State of KM

The results in Table 1 show that management in the sample was attempting in the next several years of developing its resources into knowledge and awareness within the organizational management systems. (15%) of the respondents in the sample will optimize information collection, but only (10%) of the respondents claim that they are already using their resources to provide contextual information for maximizing KM effects. (30-45%) of the respondents use or attempt to use knowledge in the future respectively will develop ad-hoc resources into comprehensive knowledge awareness. (10-15%) of the respondents reported that they are evaluating their knowledge now or will continue in the future. The researchers' belief that evaluating KM and knowledge sharing with such a percentage is just to show that they are aware and recognizing what knowledge competitive effect is. The basis for this conclusion is the low percentage of the present state of KM practices which is (10%). Also (30%) they intend to use knowledge in the future represent a gloomy temptation.

Managers in the sample realize that knowledge capital or organizational knowledge is a valuable element that can be managed efficiently and effectively so as to improve their operational performance.

Knowledge management means connecting whose employees, sharing ideas collectively or individually and using technology to facilitate the achievement of such purposes. To construct a clear picture concerning KM achievement practices, we asked

the managers in the sample to identify the organizational purposes of KM from a list provided to them. Table 2 shows the managers' opinions.

No.	Purpose of KM	Percentage %
1	To provide new knowledge	40
2	To enhance collaboration	45
3	To achieve effective practices	30
4	To build customer relationship management	20
5	Competitive edge	25
6	To enhance bank's Webpage	15
7	To provide project workplace	10
8	Improving operations quality	15
9	Improving network communications	5
10	To manage intellectual assets legally	6
11	Others	3

Table 2: Organizational Purposes Of KM

The above purposes relate to the purposes that are the core of the paper (i.e., knowledge creating, sharing, and acquisition) that improve the quality of operations, reflect the organizational culture, and develop trust and the sharing of knowledge between employees and with their management or organization, and building strategies in the long-term that are based on knowledge.

The above results are not encouraging. The majority of the respondents claim that KM rules exist to create new knowledge, to enhance trust, and better employees' relationships within the organization. Although this is true to achieve these objectives the bank needs leadership and skillful people, which does not exist at the required level (i.e., professional expertise). Such management capabilities are needed for decision-making process in problem solving, codification strategies, efficiency of new knowledge and operations based on a knowledge basis.

No manager mentioned other purposes such as taking initiatives to measure the impact of their organization or individual performance, or to record efficiency improvement between its different departments. Such a conclusion shows that management is still not proactive in changing the work environment.

The above discussion reveals that some enabling factors such as the environment, employees, and the required technology is needed for KM practices. A healthy environment to present high quality services and service knowledge is crucial to maintaining customer knowledge so as to enhance relationships between the management and its customers. This may need skillful employees who experience knowledge individually or collectively for problem solving.

The bank's management needs new information to improve its website, and to improve communication contacts with its customers and other organizations within its business

environment. Thus updated technology is needed to keep them competitive and to improve the management's image with different types of clients. Such initiatives taken by the management in the sample were not enough, or put the management in a position to judge positively towards KM practices.

6. Conclusions

The purpose of this study was to understand the banking management practices of KM through the creation, sharing, and acquisition of knowledge in their operations. Knowledge sharing individually or collectively, by the banking management adds value when new KM is practiced in a knowledge-intensive organization.

Knowledge management practices were found to be in its infancy stage and are not very effective. The close observation in this study revealed the existence of barriers that a banking management has to overcome. Accordingly, managerial implications were drawn to minimize the same. In this study, a model is suggested to show the extent that this model has been applied by banking management in the sample in the UAE. Evidence suggests that practices of KM are still at the beginning stage and are still not effective in their operations. We found that although management in the sample is concentrating on a personalized method the benefits derived from sharing between employees is not developed within their operations.

This study sheds light on the extent of KM concepts in the banking industry in the UAE, and may be regarded as a guide to encourage banking management to implement these concepts through the integration of knowledge creation, sharing and acquisition, and integration between management and employees.

For top management in the sample, it is necessary to improve their human capital and their employees' participation in solving problems by improving their knowledge and experience so as to achieve strategic objectives in the long-term. Such improvement may be achieved through the restructuring of both their human resources and their organizational hierarchy.

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