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## *Knowledge Management and Firm Performance: A Descriptive Study*

**Rajneesh<sup>1</sup>**

Research Scholars  
Department of Commerce  
Kurukshetra University  
Kurukshetra - India

**Karamjit Kaur<sup>2</sup>**

Research Scholars  
Department of Commerce  
Kurukshetra University  
Kurukshetra - India

*Abstract: Knowledge has become one of the most important driving forces for business success. Knowledge management helps organizations to find, select, organize, distribute, and transfer vital information. Through a successful knowledge management (KM) organizations improve their effectiveness and gain competitive advantage. The development of KM has led to the need of identifying its critical success factors. This study identifies and discusses the critical success factors or enablers that determine the KM effectiveness within organizations, which in turn influence the total performance of the firm. This paper also describes the effect of knowledge management effectiveness on firm performance. The results of the study will help organizations to understand the impact that different enablers have on the Knowledge Management successful implementation and how the effectiveness of KM affect firm performance.*

*Keywords: Knowledge Management, Firm Performance, Key enablers.*

### I. INTRODUCTION

Organizations have experienced many changes to the ways they operate. The changes are a result of many factors, including the shift to a knowledge economy and the increased streamlining of work activities because of technological innovations. The shift in focus from products to services has encouraged greater recognition of the importance of the knowledge held within an organization. Knowledge is the process of translating information (such as data) and past experience into a meaningful set of relationship which are understood and applied by an individual. The twenty first century is the era of knowledge economy, in which most organizations possess knowledge that enables them to improve their performance. Knowledge, management is recognized as an important weapon for sustaining competitive advantage and improving performance. Knowledge management is a new method for thinking about the organization and sharing creative and intellectual resources of the organization and in the other words it consists of all the methods by which the organizations manages its knowledge-based assets including knowledge collection, storage, transmission, usage, updating and creation. The need of knowledge management based on the growth of business community perception stems from the fact that knowledge is regarded as an important element is organizational performance and access to sustainable competitive advantage. (Davenport 2001).

### II. KNOWLEDGE MANAGEMENT

Knowledge is the Process of translating information (such as data) and past experience into a meaningful set of relationships which are understood and applied by an individual. As the values of employees and organizational data have become more crucial to the organization's outcomes and competitiveness, the concept of knowledge management has emerged. Knowledge Management is the process of identifying, capturing, organizing, and disseminating the intellectual assets that are critical to the organization's long-term performance.

It is ultimate competitive advantage for today's firm. KM is about survival in a new business world – a world of competition that increases in complexity and uncertainly each day. Knowledge Management is the process of capturing and

making use of firm's collective expertise anywhere in the business - on papers, in documents, in database (called explicit knowledge), or in people's heads (called tacit knowledge). 95% of information is preserved as raw material for innovation – the only competitive advantage that can sustain a company in an unpredictable business environment.

Knowledge management (KM) has been defined in different ways in scientific literature;

“A group of clearly defined process or method used to search important knowledge among different knowledge management operations.” (Wig.)

“A process that helps organizations to find, selects, organize, disseminate and transfer important information and expertise necessary for activities.” (Gupta et al.)

“KM as the broad process of locating, organizing, transferring and using the information and expertise within an organization.” (Philemon and Uriarte.)

### **Knowledge as an Asset**

Each person possesses a unique knowledge set, drawn from experiences and sources encountered over the years. Individuals may also access additional evidence and data as required. (In organization, information may be drawn from such sources as personal records and experience, guidance from others, organizational database and information systems, professional resources information). Knowledge is generated as the various information sources are tested and combined with past experience and learning. Thus, knowledge is creative, dynamic and adaptable.

### **Types of Knowledge**

#### **Tacit Knowledge**

Tacit Knowledge is subjective (Moorey 2001) and refers to knowledge gained from experience. It is also known as analog knowledge. Tacit knowledge refers to the kind of knowledge that is personal, context specific and hence difficult to formalize or communicate. People carry knowledge in their minds and it is therefore, difficult to access it. An example of tacit knowledge includes the knowledge base of an expert. A majority of an expert's knowledge related to his expertise is tacit in nature.

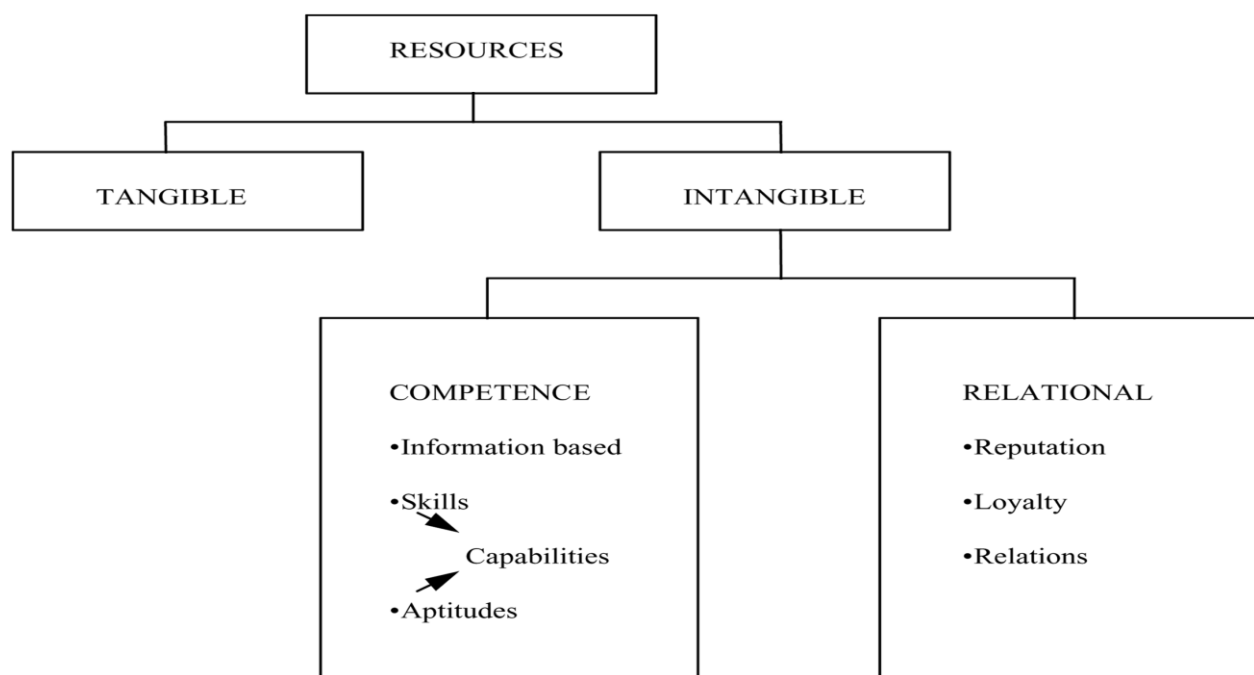
Tacit knowledge is the kind of knowledge that is difficult to transfer to another person by means of writing it down or verbalizing it. In a work setting, many staff will have high levels of tacit knowledge which they have developed through their experience, learning and ongoing investigation of sources. The difficulty of translating this knowledge into a tangible product or process raises to issues for organization: How to identify who holds such knowledge, and how to enable others to access it when they need it. This is a key concern of knowledge management.

#### **Explicit Knowledge**

Explicit Knowledge also referred to as codified knowledge or digital knowledge. It refers to the knowledge that is transmittable in a formal, systematic format. Explicit knowledge can be codified and stored in certain media. It can be readily transmitted to others. The most common forms of explicit knowledge are manuals, documents, procedures or audio-visual. The information contained in encyclopedias are good examples of explicit knowledge. Explicit knowledge is a key resource for such workers and the organization, in that it has the capacity to be distributed, shared and adapted. However, it is only one element of the knowledge which supports organizations.

**Knowledge Management as an Information Handling Tool**

Within the field of KM knowledge is often regarded as an information handling problem. It deals with the creation, management and exploitation of knowledge. As the first step in the process of Knowledge Management, there is acquisition of information. In the second stage, the information is entered into a storage system and organized logically. Almost every definition of knowledge management includes the storage of knowledge. KM is about acquisition and storage of workers' knowledge and making information accessible to other employees within the organization. This is often achieved by using various technologies such as Internet and databases, and is a conversion of tacit knowledge to explicit knowledge (Papows, 1998). Once the information is stored in the various databases, the third stage is initiated. In this stage, the stored information is made accessible to as many employees as possible within the organization (LaPlante, 1997). It is about distributing it into the hands of the right end users at the right time (Ostro, 1997) and it can be of best use (Nerney, 1997). Where The final stage is about utilization of information. This process begins with people sharing knowledge by talking and socializing with one another or by exchanging information in digital or analogue form (Laberis, 1998). Thus knowledge management is as an information handling tool.



**Source:** Haanes & Løwendahl, 1997

A firm's tangible and intangible resources, which are under the control of the firm's administrative organ, may be grouped into two main categories: firm resources and firm capabilities (Grant, 1991). According to Grant (1991), this designation implies that resources are inputs into the production process and the capability of a firm is the capacity, what it can do, as a result of teams of resources working together. Intangibles can be studied from at least three perspectives (e.g. accounting, statistics, and managerial).

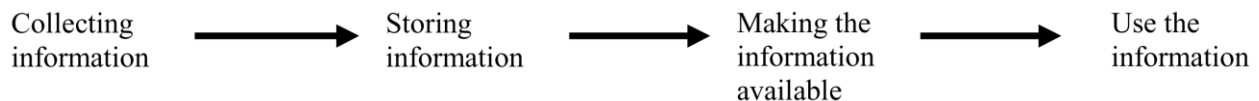
Haanes and Løwendahl categorize intangible resources into competence and relational resources. The latter term refers to such intangibles as reputation, relations, and client loyalty, which are conceived of as being fundamental to the performance of the firm. Competence is defined as the ability to perform a given task and exists at both the individual and organizational level. Within the individual sphere, it includes knowledge, skills, and aptitudes; within the organizational sphere, it includes client-specific databases, technology, routines, methods, procedures, and organizational culture.

A firm's distinctive competence is based on the specialized resources, assets, and skills it possesses, and focuses attention on their optimum utilization to build competitive advantage and economic wealth (Penrose in Rutiinda, 1996). From the theory of the firm, two basic theories have emerged: resource-based theory and knowledge-based theory. Knowledge based theory of

the firm postulates that knowledge is the only resource that provides sustainable competitive advantage, and, therefore, the firm's attention and decision making should focus primarily on knowledge and the competitive capabilities derived from it (Roberts, 1998).

The firm is considered being a knowledge integrating institution. Its role is neither the acquisition nor the creation of organizational knowledge; this is the role and prerequisite of the individual. Knowledge resides in and with individual people; the firm merely integrates the individually owned knowledge by providing structural arrangements of coordination and cooperation of specialized knowledge workers. That is, the firm focuses on the organizational processes flowing through these structural arrangements, through which individuals engage in knowledge creation, storage, and deployment (Roberts, 1998; see also Grant, 1991).

### The stages of knowledge management



Most organizations would utilize five processes for knowledge management in order to:

- (1) Create;
- (2) Capture;
- (3) Organize;
- (4) Access; and
- (5) Use knowledge.

These five processes cover almost the entire scope of human resources functions and they are usually used to obtain the details of human resources "employees" knowledge.

### Knowledge Management Enabler Factors

Knowledge Management is a driving force of critical importance for business success or failure. Knowledge management is a new but complex process with many factors influencing its implementation. These factors, also known as knowledge management enablers, should be clear in an organization, because not only they create knowledge but they also prompt people to share their knowledge and experiences with others (Yeh, Lai, & Ho, 2006).

Nowadays the great objective of many organizations is to identify a suitable knowledge management system and manage their knowledge successfully. A broad range of success factors for a knowledge management implementation have been identified in the literature. One of the earliest studies of knowledge management critical factors was presented by Skyrme and Amidon in 1997. They highlighted seven key success factors, including a strong link to business imperative, a compelling vision and architecture, knowledge leadership, knowledge creating and sharing culture, continuous learning, a well-developed technology infrastructure and systematic organizational knowledge processes (Wong & Aspinwall, 2005).

The study takes following Knowledge Management key enablers;

- Strategy and leadership
- Organizational culture
- Organizational incentive system
- Information technology

## Knowledge Management and Firm Performance

An effective knowledge management implementation will add more value to the overall performance of the organization (Toften and Olsen, 2003). Hlupic *et al.* (2002) argue that knowledge management is a vehicle for organizations' effectiveness and competitiveness. Moreover, Gold *et al.* (2001) states that the successful application of knowledge management enables a firm to become innovative, harmonize its efforts better, commercialize new products quickly, foresee surprises, and become more responsive to market change.

Organizations nowadays have realized that in order to succeed they have to view knowledge as an asset and manage it effectively. Knowledge management facilitates companies to be faster, more efficient, and more innovative. The effective knowledge management is a valuable activity due to its consequences to firm performance (Lim *et al.* 1999). Several organizations establish knowledge management in order to improve performance. Improving organization performance by using knowledge management initiatives is a kind of an investment. Knowledge management is of great importance to firm performance due to its contribution on innovation improvement, enhancement of coordination of efforts, better decision making, and ultimately better financial results (Holsapple and Wu, 2008). Thus, most organizations today have identified knowledge management as a critical success factor for companies.

Effective knowledge management means that there is an accurate use of resources which will result to better outcomes such as innovation, and better financial performance (Darroch, 2005). Ernest Young's Center for business innovation survey suggested that measuring the value and performance of knowledge asset is the second most important activity that organizations should adapt after the activity of changing people's behaviours (Van Buren, 1999). Gloet and Barrell (2003) believe that organizations see knowledge management as a way to provide competitive advantage and contribution to their bottom line. A study conducted in USA of 40 top management consultancies, revealed that over 60 per cent of them believed that knowledge management is a key success factor of their business (Ofek and Saravay, 2001).

Managing knowledge is significant because knowledge is a strategic weapon that can lead to sustained increase in profits. Organizations achieve the competitive advantage only when accurate and important knowledge is transformed, distributed, and intergraded (Probst, Buchel and Ruab, 1998). Companies that generate new knowledge and distribute it broadly throughout the organization and rapidly embody it into new technologies and products are considered successful. Skyrme (1997) also believe that the successful knowledge management programs provide competitive advantage, reduced costs, customer focus, employee relations development, and accelerate innovation.

### III. REVIEW LITERATURE

The goal of KM is to deliver the right knowledge to the right members at the right time, which can help members, take the right actions and further improve the performance of circulation processes in an organization (O'Dell and Grayson, 1999; Milton *et al.*, 1999). **Drucker (1993)** states that KM is different from general management activities since it focuses on the perspective of knowledge, and is eventually aimed at applying this knowledge in a systematic and organized manner to further create knowledge. Arthur Anderson Business Consulting (1999) notes the KM also improves the quality and quantity of innovative knowledge in an organization. **Razaghi, Fazelidinan & Safania (2013)** examined the relationship between knowledge management and organizational development from the perspective of sports and youth department staff. It consisted of a statistical population of all employees of the office of youth and sports in Mazandarian province. It analyzed data using descriptive statistics and inferential statistics (Pearson correlation test and Multivariate Regression). The results indicated that there is a significant relationship between knowledge management and organizational development. It observed that among the four dimensions of knowledge management i.e. knowledge acquisition, knowledge transfer, knowledge utilization, knowledge recording; only there was a relation between the knowledge management utilization and organizational development. **Rasula, Vuksic and Stemberger (2012)** examined the impact of knowledge management on organizational performance. The study

described that through creating, accumulating, organizing and utilizing knowledge, organizations can enhance organizational performance. The sample included in the study, 329 companies both in Slovenia and Croatia with more than 50 employees. The result showed that knowledge practices measured through information technology, organization and knowledge positively affect organizational performance. **Daud & Yusoff (2010)** examined knowledge management, social capital and firm performance. It used a questionnaire directed to small and medium sized enterprises – all the firms situated within the Multimedia Super Corridor in the Klang Valley of Malaysia. The results showed that knowledge management processes influence social capital positively and social capital enhances firm performance and social capital is a mediator between knowledge management processes and firm performance. The study described that the survival and performance of a firm are influenced by the firm's ability to use its social capital through knowledge management processes. When SMEs acquire new knowledge, convert it and apply it to their daily business activities, the value of social capital is renewed and refreshed. Thus, knowledge processes and social capital can be integrated to enhance firm performance. **Zack, Mckeen & Singh (2009)** examined the relationship between knowledge management and organizational performance. The study linked knowledge management practices to three indicators of strategic organizational performance, these are, customer intimacy, product development and operational excellence. The study described direct relationship between knowledge management and organizational performance. But there was no significant relationship found between Knowledge Management practices and financial performance. **Alhashmi, Siddiqi & Akhgar (2004)** described that competitive organizations must be able to locate, Capture, store, share and leverage not only data and information but also the knowledge of firms. If the majority of information needed for decision making exists in the minds of employees, a system is needed to capture and codify this knowledge. It suggested that emergence of new technologies has increased the ability of organizations to share knowledge, not just internally, but with external stakeholders. E-knowledge networks allow their participants to create, share and utilize strategic knowledge to improve operational and strategic efficiency and effectiveness.

#### IV. OBJECTIVES OF THE STUDY

Followings are the main objectives of the study

- To identify the Key Enablers for Implementation of Knowledge Management in organizations.
- To study the impact of Knowledge Management on Organizational Performance.

#### V. RESEARCH METHODOLOGY

This study is descriptive and exploratory in nature. A descriptive research is a type of conclusive research that has as its major objective the description of something- usually market characteristics or functions. Descriptive Research assumes that the researcher has much prior knowledge about the problem situation. It is characterized by the prior formulation of specific hypotheses. Thus, the information needed is clearly defined. It is preplanned and structured. The present study is purely theoretical in nature and based on the findings of other researchers.

#### Relevance of the study

Knowledge Management has been defined as the process of identifying/creating, capturing, and applying knowledge to exploit new opportunities and enhance organizational performance (Bassi, 1997; Lank, 1997; Zack, 1999a). Organizations have, in the recent past, focused their attention on Knowledge Management because they have realized that as free natural resources and cheap labor are exhausted, the last untapped source of competitive advantage is the knowledge of people in organizations. In the future, the only sustainable competitive advantage will be the creation of organizational knowledge, and its proper management (Drucker, 1993; Grant, 1996; Teece, 1998). Thus Knowledge Management plays a very important role in the development of a business.

Because of the increasing interests on Knowledge Management, various researches have been accomplished. Organizations and researcher have turned their attention to knowledge management in the recent past. Despite the growing interest and investment of resources in Knowledge Management, there is little research on the relationship between knowledge management and performance. That's why the need of the study of Impact of Knowledge Management on organizational performance is arises.

## VI. CONCLUSION

The purpose of the present research is firstly to gain a better understanding of which factors are critical for the successful implementation of knowledge management and secondly to test the strong positive impact of knowledge management effectiveness on firm performance proposed by many KM theory developers covered on the literature review section. The study reveals culture as the most vital factor of knowledge management effectiveness. Thus, building and supporting a culture which rewards and encourages employees for seeking, sharing and creating knowledge attributes will most probably lead to the successful implementation of knowledge management. The second most important key factor is leadership. Top management team (TMT) plays a critical role in successful knowledge management initiatives. They should first believe and then support, wholeheartedly, a strategy leading to an internal environment where knowledge capture, creation, sharing, and transfer of knowledge could flourish.

In conclusion, the need of knowledge management begins when knowledge is created and subsequently shared. The study will help organizations to understand the effect that different enablers have on the knowledge management success and how the effectiveness of knowledge management influence firm performance. The identification of these core sets of factors will facilitate organizations to evaluate the statues of knowledge management implementation and identify areas for improvements. Organizations that facilitate knowledge management and promote effective knowledge transfer today will have competitive advantage tomorrow.

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