

**THE INFLUENCE OF KNOWLEDGE MANAGEMENT ON
ORGANIZATIONAL PERFORMANCE**

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ABSTRACT

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The general objective of this study was to investigate the influence of knowledge management (KM) on organizational performance. Specifically, the purpose of this study was to examine the influence of knowledge acquisition, knowledge dissemination and responsiveness to knowledge on the performance of medium-sized manufacturing companies in small and medium-sized enterprises (SMEs) in Malaysia. 209 sets of data were collected from executive middle and above level of management by means of questionnaires. Data collected were analyzed using SPSS Version 17.0 and SmartPLS 2.0. Tests such as confirmatory factor analysis, convergent validity, discriminant validity and reliability were carried out to assess measurement model, whereas t-Value test used to assess structural model. The results showed that knowledge acquisition and responsiveness to knowledge were significantly related to organizational performance, whereas knowledge dissemination was not significantly related to organizational performance. This study may be useful for the executives to understand more clearly about the KM and have better strategy to achieve the organizational goals. This paper enhances both scholars' and practitioners' understanding about the influence of knowledge management on organizational performance.

ABSTRAK

PENGARUH PENGURUSAN PENGETAHUAN TERHADAP PRESTASI ORGANISASI

Oleh

Lau King Nim

Objektif umum kajian ini adalah mengaji pengaruh pengurusan pengetahuan terhadap prestasi organisasi. Secara khususnya, tujuan kajian ini ialah untuk mengaji pengaruh pengambilan pengetahuan, penyebaran pengetahuan dan tindak balas kepada pengetahuan terhadap prestasi firma-firma perkilangan menengah di syarikat kecil dan menengah di Malaysia. 209 set data dikumpul dari eksekutif peringkat menengah atas pengurusan dengan menggunakan kaedah soal selidik. Data dikumpul dianalisis dengan menggunakan *SPSS Version 17.0* dan *SmartPLS 2.0*. Ujian seperti analisis faktor konfirmatori, kesahihan konvergen, kesahihan diskriminan dan kebolehpercayaan dilakukan untuk menilai model pengukuran, sedangkan ujian *t-Value* digunakan untuk menilai model struktur. Keputusan menunjukkan bahawa pengetahuan pengambilalihan dan tindak balas terhadap pengetahuan berkaitan secara signifikan dengan prestasi organisasi, sedangkan penyebaran pengetahuan tidak berkaitan secara signifikan dengan prestasi organisasi. Hasil kajian membantu para eksekutif lebih memahami tentang pengurusan pengetahuan dan mempunyai strategi yang lebih baik untuk mencapai objektif organisasi. Kajian ini membantu meningkatkan tahap pemahaman penyelidik dan eksekutif syarikat tentang pengaruh pengurusan pengetahuan terhadap prestasi organisasi.

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CHAPTER ONE

INTRODUCTION

1.1 Background

During the last part of the twentieth century, the field of marketing has changed considerably with the emergence of services marketing (Bateson, 1992; Lovelock, 1992; Zeithaml & Bitner, 1996, 2000), relationship marketing (Berry, 1983; Grönroos, 1996; Gummesson, 1995; Palmer, 1996), business-to-business marketing (Ford, 1997; Mudambi, 2002), retail marketing (Gilbert, 2003; Mulhern, 1997), social marketing (Andreasen, 2006; Kotler, Roberto, & Lee, 2002), and brand management (Aaker & Joachimsthaler, 2002; Kapferer, 2004; Keller, 2003). Vargo and Lusch (2004) carried out an analysis about the evolution of marketing thought in the literature and got the result: “marketing has moved from a goods-dominant view, in which tangible output and discrete transactions were central, to a service-dominant view, in which intangibility, exchange processes and relationships are central”. Besides that, some other researchers have also redefined the focus of marketing towards a value-based logic. For example, Prahalad and Ramaswamy (2004) posited that an organization needs to change the “boredom” of product and process orientation (including reengineering and efficiency management) in favour of a model in order to have a radical re-evaluation of the long-term value of traditional approaches to markets and customers. This is because it can encourage firms to identify and seize future value based market opportunities. In

addition to that, the value of redefining markets in terms of customer value creation is more important than seeing them from the confines of traditional conceptualizations of the market (Kim & Mauborgne, 1997, 2005). Furthermore, companies need to eradicate the conventional competitive-goods mindset and adopt a collaborative value-innovation mindset (Davenport, Leibold, & Voelpel, 2006).

The context for the intervention of developing countries into the world economy has been altered due to the rapid pace of technological change and economic globalization (Cardoza, 1996). Nowadays, we are in an era of global business-a-one world market, so the traditional orientation of companies working just within national boundaries is declining worldwide (Brake, Walker, & Walker, 1995). As there appears to be an increasing speed, frequency, and large number of competitors entering a broader and more diverse set of markets, the business environment need to be upgraded in response to the continued globalization of world markets (Wolf, 2000).

With the inevitable change in the area of marketing, there are increased requirements for better knowledge in the workplace to deliver competitive knowledge-intensive work. The demands have increased for customized and more sophisticated products and services (Wiig, 1999). Globalization pressures have changed worldwide business and correspondingly work. Nations which earlier supplied manual labor have started to compete with Europe, Japan, and North America by offering competent intellectually-based work (Wiig, 1999). In order to maintain viability, organization that has been accustomed to be intellectual leaders will need to build and apply intellectual capital much better and must increasing manage knowledge systematically (Wiig, 1999).

Furthermore, the capital of an organization is increasingly based on intangibles (Beijerse, 2000), such as the ideas, insights and information in the heads of their employees and in the data banks and the patents that these organizations control. This is because the real value of organizations depends more on these intangibles compared to the trucks, assembly lines, and other physical assets they may have. Since knowledge and learning are essential to obtaining and sustaining a competitive advantage in today's business environment, leaders of progressive organizations and nations are encouraged to create and generate value from knowledge assets within their organization (Liebowitz, 1999). According to Rowley (2000), only those organizations that can identify, value, create and evolve their knowledge assets will succeed in the global information society. Thus, the proper management of knowledge is the main power of all core competencies and capabilities (Lei, Hitt, & Bettis, 1996).

Knowledge can be considered as the nucleus of global economic transformation (Bell, 1978) and competitive advantage of an organization (Mayo & Lank, 1994), as well as country. This is because nowadays competitive advantage of an organization is not based on its market position, but based on the "difficult to replicate" knowledge assets and the manner in which they are deployed. According to Economic Co-operation and Development (1996), contemporary society is an information society, and that the contemporary economy is a knowledge-based economy (K-economy). The K-economy mostly focuses on the human talents (abilities and intellect of its people and skills) than merely focuses on acquiring and converting raw materials (Silva, 2002).

Due to these changes, knowledge management (KM) has arrived at a new stage of its life cycle. After the technological euphoria and the KM hype, followed by the

disillusion, KM is now on the way to a better understanding of its success factors and KM approaches are more focused to address particular challenges like securing knowledge from leaving experts (Weber, Krieghoff, & Katzung, 2007). Furthermore, the general goal of KM is to improve the systematic handling of knowledge and potential knowledge within the organization (Heisig, 2009). The systematic handling of knowledge at the operational level of an organization is a core element of KM. Handling knowledge is actually nothing new. However, its arrangement and increased orientation towards organization goals demands more systematic handling of knowledge in organizational practice in order to achieve better results (Heisig, 2009).

1.1.1 The Malaysian Scenario

In Malaysia, KM is still in the infant stage compared to other countries. The extent of KM practices is still worryingly low and most of the organizations are still lagging behind their foreign counterparts from leading economies (Economic Planning Unit, 2009). According to Malhotra (2002), organizations in Malaysia believed that reliance on technology is more important and most of them are unable to grasp the commitment of knowledge workers towards the KM system. Besides that, simply allowing access to a technologically advanced KM system will not create a change in behavior (Smith, Blackman, & Good, 2003). Thus, organizations should focus on knowledge workers, who hold the key to improve the extent of KM practices in organizations through knowledge creation, sharing, and application (Malhotra, 2002).

In order to develop the nation through the knowledge economy, Government of Malaysia encouraged the organizations in Malaysia to develop a more knowledgeable organization, especially in terms of managing resources and providing services to the public. During the official opening of a K-Economy Conference on 17 October 2000, the previous Prime Minister of Malaysia, Tun Dr. Mahathir bin Mohamed emphasized that knowledge is real and showed on a graph “that productivity growth doubled in knowledge-rich economies” (Mohamed, 2000). Besides that, Tun Dr. Mahathir bin Mohamed also stressed that knowledge nowadays is refers more to the speed of communication, information and data. The skill and the speed of using information in decision making need a depth of knowledge that one has of the different elements and technological capacities in order to have desired result (Mohamed, 2000). Also, in the 2001 Budget Speech presented on 27 October 2000, the Finance Minister of Malaysia, Daim Zainuddin urged Malaysian citizens to be well prepared for the emergence of the K-economy because survival in a borderless global economy based on knowledge requires everyone to be equipped with new skills and assimilate the culture of high technology and dynamic entrepreneurship (Zainuddin, 2000).

As one of the ways to achieve sustainable economic growth and to remain globally competitive, Malaysia invested in K-economy in the mid-1990s with the launching of the Multimedia Super Corridor, which offers an excellent and conducive information and communications technology (ICT) environment to spearhead the development of a K-economy nation (Chong, 2006a, 2006b). Besides that, other efforts such as human resource development, science and technology, research and development, infrastructure, incentives and financing have also been taken in the

development of K-economy. The move towards K-economy is in fact part of Malaysia's wider plan to become a fully developed and knowledge-rich nation by the year 2020. As one of the ways to develop K-economy in Malaysia, the Malaysian government has developed policies to channel the telecommunication industry to cultivate the creation of an information rich and intelligent nation through telecommunication facilities and networks. So, KM can be important and necessary components for the telecommunication organizations to survive and maintain their competitiveness in this era of k-economy (Chong, Chong & Wong, 2009).

Furthermore, due to the stiff competition and pressure to face globalization, the higher education institutions (HEIs) in Malaysia have an extreme need to gain competitive edge and become the regional education hub of Asia. These HEIs play an important role in the development of the nation's workforce and the economy in general by providing more opportunities for Malaysians to pursue higher education. In order to gain competitive edge, the Malaysian HEIs have a need to implement the KM within the organizations. This is because HEIs by nature are knowledge-intensive organizations where they are recognized to be in the knowledge business (Cronin & Davenport, 2000; Goddard, 1998). Besides that, knowledge production, distribution and application are ingrained in the institution (Ho, Cheng, & Lau, 2008). According to Goddard (1998), knowledge is both main production factor and final product. Furthermore, KM is important due to the extraordinary growth of HEIs, in which the numbers have more than doubled after 1996 and driven stiff competition among them for academics and students, both locally and abroad. Also, KM is important because the quality of courses offered by various HEIs have become a great concern issue. Hence, by considering both

the resource- and knowledge-based views, proper KM can be a strategic tool for these HEIs to remain and gain competitive advantage (Ramachandran, Chong, & Ismail, 2009).

1.2 Problem Statement

Human capital is the source of innovation and strategic renewal (Bontis, 1999); training and satisfaction are employees' performance measurement because employees are the people who generate skills and ideas to deal with products and meet customer needs. In Malaysia, the economy is moving towards knowledge-based economy, which is emphasizing on knowledge workers, but the process for Malaysia to move towards a knowledge-based economy is still in the early stages. This is because skills sets in most organizations are mainly at senior management level and it is a challenge for Malaysian manufacturing sector to have engineering and technical as well as marketing skills. Furthermore, some Malaysian manufacturers are facing problem in using the sophisticated and advanced manufacturing technologies. Hence, if compared to counterparts in the West in terms of new product developments, high value-added and high-tech products, Malaysian firms are still left behind (Jusoh & Parnell, 2008).

In addition to that, local small and medium-sized enterprises (SMEs) nowadays are facing the threat of global competition such as free trading and penetration of retailers to both remote and underdeveloped markets (Singh, Garg, & Deshmukh, 2010). SMEs are unable to meet the demand for different technological competencies (Narula,

2004), reduce gaps between marketing and production functions and implement software such as enterprise resource planning (ERP) systems (Xiong, Tor, Bhatnagar, Khoo, & Venkat, 2006). This is due to the reason that factors that caused SME's managers were weak in management skill, unable to reflect strategically on current business position (Vos, 2005) and SMEs operate under flat organizational structure with scarce resources such as intellectual capital, technical expertise, innovation and so on (Singh, et al., 2010). Therefore, SMEs are difficult to survive and maintain their current business position in respective markets (Singh, et al., 2010).

Although changes such as economic, social, political and technological are taking place in the external business environment, managers are still unwilling to redesign the work place. This is due to various factors such as distrust on employees, economic issues, investment of extra effort and greater levels of doubt and ambiguity (Vroom, 1990). The management teams in an organization are unwilling and unable to dedicate attention and allocate resources to directions unless they promise to deliver clear and important benefits. Hence, they now and will continue doubt whether active KM will allow them to deliver a more competitive service paradigm, create more competitive products, improve the effectiveness of work, reduce operating costs, be more responsive, improve their market image, and otherwise become more successful (Wiig, 1999).

In a nutshell, the problem statement of this research is: Will knowledge management influence organizational performance? Thus, this research aims to investigate the influence of knowledge management on organizational performance. The

result can provide valuable insight for the organizations in Malaysia to have better strategies to improve the organizational performance and achieve their goal.

1.3 Research Objectives

This study attempts to meet the following objectives:

1. To investigate the influence of knowledge acquisition on organizational performance.
2. To find out the influence of knowledge dissemination on organizational performance.
3. To investigate the influence of responsiveness to knowledge on organizational performance.

This study attempts to establish an empirical relationship between knowledge management (KM) and organizational performance (OP). In other words, this study aims to find the empirical evidence on the relationship between KM and OP in a single framework. It is believed that application of KM can enhance OP. Therefore, executive managers who desire to achieve better performance can apply KM in their management.

1.4 Research Questions

The fundamental purpose of this study is to examine the influence of knowledge management on organizational performance. Hence, furthering the study on the knowledge management would attempt to answer the following controversies:

- (i) Will knowledge acquisition influence organizational performance?
- (ii) Will knowledge dissemination influence organizational performance?
- (iii) Will responsiveness to knowledge influence organizational performance?

1.5 Definition of Key Terms

This section provides definition of the important terms used in this study.

- i) **Knowledge management** refers to “the process of gaining company's collective expertise wherever it resides and transferring it to wherever it can in order to produce the biggest payoffs” (Blake, 1998).
- ii) **Knowledge acquisition** refers to the process by which knowledge is obtained (Huber, 1991).
- iii) **Knowledge dissemination** refers to the process by which knowledge is shared (Huber, 1991).

- iv) **Responsiveness** refers to the ability and speed to respond reactively or proactively to the information that gathered from their commercial environment (Sharifi & Zhang, 1999).
- v) **Organizational performance** refers to “the organization’s ability to attain its goals by using resources in an efficient and effective manner” (Daft, 2000).
- vi) **Financial performance** is the measurement of financial profitability, which includes profit margin, return on equity, return on investment, return on asset and return on sales (Galbraith & Schendel, 1983; Robinson, 1982).
- vii) **Innovation performance** refers as “the implementation of both discoveries and inventions and the process by which new outcomes, whether products, systems or processes, come into being” (Williams, 1999).
- viii) **Relational performance** is the measurement of the genuine, quality, satisfaction and relationship with employees, customers and suppliers (Barnes & Howlett, 1998).