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Knowledge Management and Organizational Performance in Nepalese Commercial Banks

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ABSTRACT

Knowledge is taken as the most important resource by modern organizations. Hence, it should be managed properly to bring results. In relation to the above issue, this study aims to explore the relationship between Knowledge Management (KM) and Organizational Performance (OP) in commercial banks in Nepal. A survey research strategy has been adopted to achieve the research objective. This study is based on the population of 27 commercial banks in Nepal. Data has been gathered through structured questionnaires. The eight commercial banks were selected randomly, and the respondents were 107 officer-level employees. The statistical tools CFA and SEM were used for data analysis. CFA was used to develop and validate the model of KM, and OP and SEM were adopted to show their relationship. The finding of this study revealed that KM significantly affected OP, which opens a new avenue to management in commercial banks. This study highlights the contribution to understanding the importance of KM for the enhanced OP. The banks should emphasize knowledge as a key asset and formulate policies and systems accordingly.

1. INTRODUCTION

Knowledge is becoming the most valuable asset for modern organizations operating in a rapidly changing environment. The most common objective of an organization is to use its resources effectively and efficiently for a sustainable competitive advantage. For this, organizations emphasize employees' knowledge, experiences and skills. Knowledge is the most valuable asset for organizations operating in a dynamic as well as turbulent business environment (Mufudza, 2018).

The main aim of KM is to develop people for innovation, collaboration, and effective decision-making. According to June (2005), KM enables people to work by focusing on enriched knowledge. Jantunen (2005) further opines that knowledge-based asset helps maintain organizations' competitive ability in an unstable business environment. The competitive capability of modern business organizations is mostly dependent on unique and intangible resources. The assets based on knowledge are important for innovation. Choi & Shepherd (2004) concludes that knowledge is an organization's strategic asset. The sustainability of the Nepalese banking sector is likely to depend on innovative products to a greater extent. They require improving and innovating tirelessly for sustainability by utilizing their human resource by building knowledge assets.

In the above context, this study aims to analyze KM's impact on the performance of Nepal commercial banks. The competitive capability of commercial banks is largely based on their knowledge-based assets, which is the main reason for selecting them for this study. The respondents of this study are the managerial level employees expecting that they have better knowledge about the KM practices and performance of their respective organizations. An effective KM is crucial for the most productive decision-making and better organizational performance. According to Zack et al. (2009), organizations good at creating new knowledge and using it effectively and efficiently create competitive advantages. KM greatly influences innovation, product quality, and employee morale (Sireteanu and Grigoruta, 2007).

Wu and Chen (2014) created, transferred, and integrated an application to assess the relationship between KM and OP. AbdRahman et al. (2013) used the acquisition of knowledge, application of knowledge, its conversion and protection. Lin and Kuo (2007) applied learning, improving, sharing, creating and capturing knowledge to measure KM's capability. Acquisition and dissemination of knowledge were adopted by Hsiao et al. (2011). Ho (2009)used learning and obtaining, sharing knowledge and creating and improving as the components of knowledge management capability. Theriou and Chatzoglou (2009) used knowledge creation, knowledge sharing and utilization as the components of knowledge management capability.

Based on the above discussion, KM has been classified into two factors or dimensions, including knowledge creation and knowledge utilization, for this study. Delaney and Huselid (1996) used the market share and profit ratio to measure market performance. Lee and Lee (2007) divided KM into five components: intellectual capital, financial measures, a balanced scorecard and tangible and intangible benefits. Ho (2008) used financial and market performance to measure organizational performance. Theriou and Chatzoglou (2009) used three constructs: market performance, corporate profitability and organizational commitment. Hanvanich et al. (2006) integrated overall organizational performance and innovativeness to ascertain OP. Lin and Kuo (2007) classified organizational performance as market performance and human resource performance.

This study has adopted subjective market performance measures such as net profit, market share, and market growth since there is no meaningful slippage across performance dimensions. Based on the above literature, OP can be classified into two factors, including financial and non-financial performance. Employee commitment has been taken as the non-financial measure for this study.

As stated above, knowledge is probably the most important critical factor for modern organizations to compete and sustain success in the market. This is rather more important in Nepal, where most firms compete with domestic and foreign companies. However, Nepalese firms tend to give less importance to knowledge as a source of competitive advantage. There is scant research showing the relationship between KM and OP in Nepal. The present study aims to shed light on how KM strategies may be applied for the enhanced OP. The tested concept is expected to help recognize the link between their KM policies with

OP. Based on the above issues and subsequent literature, Table 1 presents the items of variables under this study.

Table 1
Measurement of KM and OP

	Knowledge Management		*Organizational Performance*	
	Knowledge Creation	Knowledge Utilization	Market Performance	Organizational Commitment
1.	Market research	Systematic decision-making by the leaders	Operating income	Feeling of proudness to be a part of the organization
2.	Recognition and reward for new ideas and knowledge	Teamwork for utilizing organization-wide information and knowledge	Increase in income	Happy to spend the rest of my career in the organization
3.	Interaction with customers and other stakeholders	Use of electronic data	Net profit	Enjoy discussing the organization with the people outside of it.
4.	Innovative capability	Existence of reward	Profit Margin	Taking the problems of the organization as being own.
5.	Promotion of teamwork and quality circles	Culture of knowledge sharing	Return on equity	Difficulty in leaving the organization.
6.			Market share	Belief that the employees must be loyal to their organization
7.			Increase in market share	Put effort into achieving the objectives of the organization.

2. RESEARCH METHODS

Sample and Data

A survey research strategy has been adopted to achieve the research objective. The population of this study is comprised of all 27 commercial banks in Nepal. A survey has been undertaken to gather the data by use of a structured questionnaire. The sample frame for this study includes8 Nepalese commercial banks. The banking industry is selected for this study since it is expected to have comparatively better KM practices.

The informants of this study are the officer-level employees of the sample banks. The officer-level employees are expected to have better knowledge and understanding of KM in their respective organizations than non-officer employees. Altogether 250 questionnaires were distributed, and out of this,119 questionnaires were returned. All the questionnaire items were on a Likert scale ranging from 1, indicating strongly dissatisfactory, to 7, indicating strongly satisfactory. Based on the discussion method, the questionnaire was pretested with ten senior-level employees selected randomly from the sample banks to enrich the face validity of the questionnaire. Altogether,12 questions were removed as they were not in usable forms due to multiple non-responses. Finally, 107 questionnaires were

used for analysis. CFA was used to test whether the data fit a hypothesized measurement model of KM. SEM was adopted to show the relationship between KM and OP.

Theoretical Perspectives

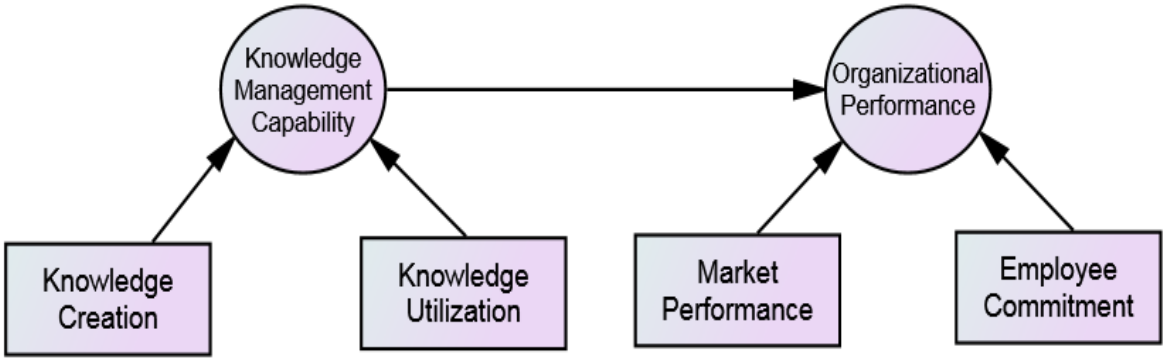
OP is an outcome of capabilities specific to the firm that emerge from the practices at both the top strategic and functional levels. KM promotes unique qualities in human resources is promoted by KM (Pfeiffer, 1998; Barney, 1991; Redman and Wilkinson, 2001). Such qualities are the products of the KM (Khandekar and Sharma, 2005). KM is a set of strategies to sustain and build knowledge base assets (Loermans, 2002). KM results in the creation of knowledge-based assets leading to better OP.

Choi et al. (2008) reveal that companies could benefit from KM by implementing external and internally oriented strategies. Afiouni (2007) concludes that KM will help improve OP by combining human resource management initiatives. The three components of KM are the ability to generate new knowledge, build on that knowledge, and effectively capture a high fraction of subsequent spin-offs that influence firm performance (Bogner and Bansal, 2007). KM practices were directly related to organizational performance and, in turn, financial performance (Zack et al., 2009). However, a study by Zack et al. (2009) showed no significant relationship between KM practices and financial performance.

Based on the above theoretical perspective, the following hypothesized model is developed to link the relationship between KM and OP.

Figure 1

Research Model



3. RESULT AND DISCUSSION

Model of Knowledge Management Capability

In this study, two dimensions of KM are used. The main construct is the KM, and the sub-constructs are knowledge creation and utilization. Here, the main construct KM is a second-order construct, while the sub-constructs (knowledge creation and utilization) are the first-order constructs. CFA was done to test the model validity with these dimensions, namely knowledge creation and utilization.

The composite reliability (CR) of all the latent variables is greater than 0.70 (Carmines and Zeller, 1988). The average variance extracted for both factors is acceptable (< 0.5) (Fornell and Larcker, 1981). The loadings of the dimensions are signed onto the latent constructs at $p<0.001$ (0.716 and 0.789). Furthermore, the AVE is > 0.50, supporting the convergent validity (0.513 and 0.621). Hence, the KM dimensions may be regarded as having good convergent validity. Both the square root of the AVE values (0.716 and 0.788) of both the organizational performance dimensions (diagonal values) are greater than the inter-construct correlation (0.559). It supports the discriminant validity of the constructs.

Table 2
Measures of Validity

	CR	AVE	MaxR (H)	Knowledge utilization	Knowledge creation
Knowledge utilization	0.840	0.513	0.847	0.716	
Knowledge creation	0.867	0.621	0.878	0.559	0.788

The model validity measures are within acceptable limits. The CFI (0.960), CMIN/DF (2.560), SRMR (0.093) and RMSEA (0.079) are above the acceptable limits. Hence, the second-order CFA analysis indicates a good fit between the data and the model.

Table 3
Final Measurement Model of KM

Path		Standardize loading	AVE	CR
Knowledge utilization	KM	.709	.510	.838
Knowledge creation	KM	.786	.615	.864

Model of Organizational Performance

In this study, two dimensions of OP are used. The OP is the main construct, and the sub-constructs are market performance and employee commitment. Here, the main construct (OP) is a second-order construct, while the sub-constructs (market performance and employee commitment) are the first-order constructs.

The composite reliability (CR) and average variance extracted are within acceptable limits, as suggested by Fornell and Larcker (1981). The dimensions had significant loadings with the values 0.780 and 0.801. Further, the AVE for market performance and employee commitment is > 0.50, supporting the convergent validity of OP (0.609 and 0.641). Hence, the organizational performance dimensions may be regarded as having good convergent validity. All the square roots of the AVE values (0.78 to 0.801) of the organizational performance dimensions are bigger than their correlation (0.494), supporting the discriminant validity.

Table 4
Measures of Validity

	CR	AVE	MSV	MaxR(H)	Market Performance	Employee commitment
Market Performance	0.886	0.609	0.244	0.889	0.780	
Employee commitment	0.897	0.641	0.244	0.931	0.494***	0.801

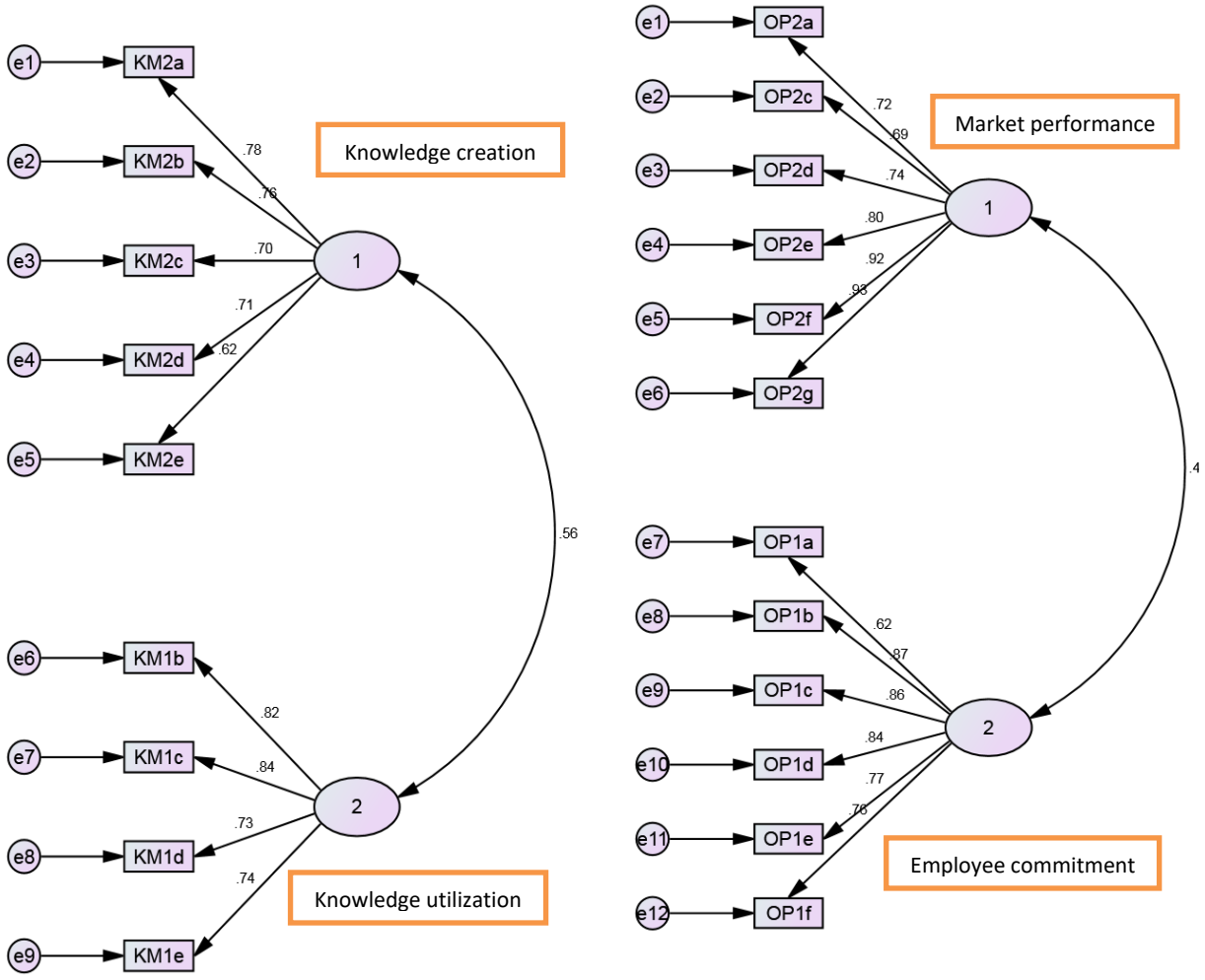
The measures of the model are within acceptable limits. The indices CFI (0.986), CMIN/DF (1.823), SRMR (0.053) and RMSEA (0.058) are within the prescribed limits. Hence, the outputs of the second-order CFA analysis show a good fit. The model fit indices reveal that the ten items model of OP is satisfactory for further structural analysis.

Table 5
Final Measurement Model of OP

Path		Standardize Loading	AVE	CR
Market performance	OP	.709	0.609	0.886
Employee commitment	OP	.786	0.641	0.897

Based on the above analysis, figure 2 presents the final model of KM and OP.

Figure 2
Final Models of KM and OP



Testing the Relationship between KM and OP

Based on SEM, the relationship between KM and OP in Nepalese commercial banks was assessed. The outcome of SEM shows that the path coefficient of KM to OP is 0.182, p is 0.054 showing the relationship between KM and OP significant, which is consistent with the previous study by Theriou and Chatzoglou (2009) and Lin and Kuo (2007). As with previous research, the findings of this study are consistent with the output that effective knowledge management affects performance.

4. CONCLUSION AND IMPLICATIONS

This study assessed the relationship between KM and OP in Nepalese commercial banks. The models of KM and OP were tested using CFA. The structural model was evaluated using various model fit indices that evidenced that the final model was suitable to test the impact of KM on OP. This study showed that KM is influential in the performance of commercial banks. The findings are similar to Bogner and Bansal (2007), Theriou and Chatzoglou (2014Mills and Smith (2011), Gharakhani and Mousakhani (2012), and Shehata (2015), who confirmed the significant impact of KM on OP.

The positive relationship between KM and OP, as shown by this study, opens a new avenue to management in commercial banks. They should emphasize leveraging knowledge by building knowledge infrastructures such as human resource development, technological

advancement and policies, and system improvements. When organizations confront turbulent business environments, knowledge remains a strategic asset for strategic advantage (Shahzad et al., 2016). The present study is expected to make a valuable contribution to recognizing the relationship between KM strategies and performance in Nepalese scenarios where organizations tend to emphasize hard resources for improved organizational performance.

Some limitations of this study exist that future researchers should take into consideration. Firstly, causality is not inferred due to the use of cross-sectional data. Using a subjective measure of organizational performance is another limitation of this study. However, Wall et al. (2004) concluded that subjective measures showed stronger validities than objective measures, which can be improved using both measures. Furthermore, future studies can collect data from diverse organizations to replicate the outcomes of this study. This study is based on the responses of the managerial level employees only. Hence, future research may be conducted by collecting data from multiple levels of employees.

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