Impact of Knowledge Management on Organizational Performance: An Empirical Study

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Abstract

The main objectives of this paper were to study Knowledge Management and Organizational Performance, to find the correlation between Knowledge Management and Organizational Performance, to find the correlation between Knowledge Management and sub dimensions of Organizational Performance, to see the association among subscales of Knowledge Management and to find out the impact of knowledge management on organizational performance. The scope of the study was service and manufacturing sector organizations in India. The sample comprised of 118 respondents drawn from eight service and manufacturing sector organizations in India. The results revealed a very significant positive correlation between Knowledge Management and Organizational Performance. The results further indicate that the knowledge management has significant moderate impact on organizational performance. Almost all null hypotheses concerning Knowledge Management and Organizational Performance and their sub-scales vis-à-vis failed to be rejected.

Keywords: Knowledge Management, Organization Performance and Service & Manufacturing Organizations.

Introduction

Knowledge Management is a very critical factor in the success and in providing a competitive advantage to organizations. In knowledge economy, it is an important element as well as land, labour and entrepreneurship. Knowledge Management capabilities (i.e. Knowledge Acquisition, Knowledge Conversion and Knowledge Application) are rooted in the operation of the firm and are derived from configuration of organizational structure and culture (Grant, 1996). Knowledge Management and Organizational Performance are essential for the success in any business. The different results in literature declare that Knowledge Management affects Organizational Performance positively. Now, Knowledge Management has become widely studied area of interest, individually and collectively, with other vital organizational factors predicting the success of an organization in the true sense. In today's business world knowledge is recognized as an important weapon for sustaining competitive advantage and many companies are beginning to manage organizational knowledge. Many researchers in their research studies have investigated

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knowledge management factors such as enablers, processes, and performance. In this study, the author attempts to study knowledge management and organizational performance in service and manufacturing sector organizations in India.

Literature Review

Knowledge Management (KM) comprises a range of practices used in an organization to identify, create, represent, distribute and enable adoption of insights and experiences. Such insights and experiences comprise knowledge, either embodied in individuals or embedded in organizational processes or practice (Silverstone, 1999) showed that US Corporations have four to eight times more knowledge assets and financial assets. Financial markets would find it profitable to reward companies that accumulate knowledge capital as compared to companies that do not. The application of the idea that knowledge capital must be seen as a definable asset would be driven by demand, not by advocacy or preaching. It is seen that most of the businesses take that knowledge can confer competitive advantage, but most are flooded with information, more than one can handle. Knowledge management (KM) tries to resolve this paradox. Anthes, 1998 and Gold, Malhotra, and Segars, 2001 examined the issue of effective knowledge management (KM) from the perspective of organizational capabilities. This perspective suggests that a knowledge infrastructure consisting of technology, structure, and culture along with knowledge process architecture of acquisition, conversion, application, and protection are essential organizational capabilities or preconditions for effective knowledge management.

Bose (2004) studied the current measures of knowledge assets or intellectual capital, as well as the methods that are popularly being followed by organizations to measure the performance of Knowledge Management strategies. It was found that the impact of Knowledge Management on an organization's performance is strongly tied to the ability of an organization to identify where Knowledge Management contributes most value to its market strength.

Knowledge Management capabilities consist of three interrelated processes: knowledge acquisition, knowledge conversion, and knowledge application (Gold, Malhotra, & Segars, 2001). Knowledge is an important resource for a firm and it also serves as a basic source of competitive advantage (Gold, Malhotra, and Segars 2001) Grant (1996); Jaworski and Kohli (1993) and Teece (2001)] highlighted that superior performance depends on the ability of firms to innovate, protect and use the intangible knowledge assets. Using knowledge assets conceals complicated processes that require management to refocus priorities, build organizations that are highly flexible to accommodate such activity and display a high level of entrepreneurial drive. Accordingly, Knowledge Management is taken as an important antecedent of organization performance or innovation (Darroch, 2005).

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard et al. 2009, organizational performance encompasses three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment, etc.), product market performance (sales, market share, etc.); and shareholder return (total shareholder return, economic value added, etc.). Organizational Performance is being discussed in most branches of management, and it is of interest to both academic scholars and practicing managers. The importance of the concept of Organizational performance is widely recognized. With the volume of literature on this topic continually increasing, there appears to be little hope of reaching any agreement on basic terminology and definitions. According to (Venkatrman & Ramanujam, 1986) performance should involve financial performance, operational performance, and organizational effectiveness. Dixon (1999); Smith, (2000) referred organizational performance as financial performance where considerations of budgets, assets, operations, products, services, markets and human resources are crucial in influencing the over-all bottom-line of an organization. Thus, organizational success is often associated with the financial benefits of organizational performance.

Darroch (2005) conducted a study to provide for important empirical evidence to support the role of knowledge management within firms. It was found that a firm with a knowledge management capability will use resources more efficiently and so will be more innovative and perform better. Choi and Lee (2000) found that Knowledge Management processes are significant predictors for both financial and nonfinancial performance of organization (Choi, Poon & Davis, 2008) explored the relationship between Knowledge Management strategies and Organizational Performance and found that combination of the tacit internal- oriented and explicit-external-oriented Knowledge Management strategies resulted in better performance than all other strategy combinations. Mckeen, Zack and Singh (2006) found that Knowledge Management practices have a direct relationship with intermediate measures of Organizational Performance and Organizational Performance also exhibited a significant and direct relationship to financial performance.

Objectives

The paper studies the impact of Knowledge Management on Organizational Performance. The main objectives of the study are as follows:

- To study Knowledge Management and Organizational Performance in selected Indian organizations.
- To find the correlation between Knowledge Management and Organizational Performance in few selected Indian organizations.
- To find out the correlation between sub-scales of Knowledge Management i.e. Knowledge Acquisition, Knowledge Conversion and Knowledge Application in few selected Indian organizations.
- To find the correlation between Knowledge Management and sub scales of Organizational Performance in few selected Indian organizations.
- Knowledge Management has significant impact on Organizational Performance in few selected Indian organizations.

Hypothesis

H1a. There is high level of Knowledge Management and Organizational Performance in selected Indian organizations.

H2a. There is a significant correlation between Knowledge Management and Organizational Performance in few selected Indian organizations.
H3a. There is a significant correlation between Knowledge Management and sub-scales of Organizational Performance in few selected Indian organizations.
H4a. There is a significant correlation between sub-scales of Knowledge Management in few selected Indian organizations.
H5a. Knowledge Management has significant impact on Organizational Performance in few selected Indian organizations.

Methodology

The above mentioned and other similar studies made the plot for the present study. The author attempts to study knowledge management and organizational performance in service and manufacturing sector organizations in India. In all, eight organizations were studied. Description of the organizations is as follows:

Exhibit 1: Targeted Organizations

SAP India
Amdocs
E and Y
Autodesk
Alstom India Projects
ITC
L and T
GMR

An Overview of the Indian Service Industry

The services sector has been a major and vital force steadily driving growth in the Indian economy for more than a decade. The economy has successfully navigated the turbulent years of the recent global economic crisis because of the vitality of this sector in the domestic economy and its prominent role in India's external economic interactions.

The services sector covers a wide range of activities from the most sophisticated information technology (IT) to simple services provided by the unorganized sector, such as the services of the barber and plumber. National Accounts classification of the services sector incorporates trade, hotels, and restaurants; transport, storage, and communication; financing, insurance, real estate, and business services; and community, social, and personal services.

Services GDP: International Comparison

In 2010, the share of services in the US$63 trillion world gross domestic product (GDP) was nearly 68 per cent, as in 2001. India's performance in terms of this indicator is not only above that of other emerging developing economies, but also very close to that of the top developed countries. Among the top 12 countries with highest overall GDP in 2010, India ranks 8 and 11 in overall GDP and services GDP respectively. While countries like the UK, USA, and France have the highest share of services in GDP at above 78 per cent, India's share of 57 per cent is much above that of China at 41.8 per cent. In 2010 compared to 2001, India is the topmost country in terms of increase in its services share in GDP (7 percentage points) followed by Spain and Canada (5.3 percentage points each), the UK (4.5 percentage points), and Italy (3.2 percentage points). In terms of compound annual growth rate (CAGR) for the period 2001-10, China at 11.3 per cent and India at 9.4 per cent show very high services sector growth. Russia at 5.5 percent and Brazil at 4.0 per cent are a distant third and fourth respectively. While India's growth rate of the services sector at 10.1 per cent in 2009 was higher than that of China at 9.6 per cent, in 2010 it has decelerated to 7.7 per cent while China's has remained constant. All this highlights the prominence of the services sector for India.

Exhibit 2: Performance in Services: International comparison

Country		Rank		Overall GDP (US$ billion)		Share of Services (% of GDP)			Services Growth Rate (%)			
		Overall GDP	Services GDP	At Current Prices 2010	At Constant Prices 2010	2001	2009	2010	2001	2009	2010	CAGR 2001-10
1	US	1	1	14447.1	13017.0	77.0	79.0	78.2	2.9	-1.4	1.2	1.8
2	Japan	2	2	5458.9	4578.5	69.8	71.7	70.0	2.0	-4.8	2.9	0.6
3	China	3	3	5739.4	3883.5	39.8	42.1	41.8	10.3	9.6	9.6	11.3
4	Germany	4	4	3280.3	2945.8	69.7	73.7	72.5	2.1	-1.6	2.3	1.4
5	France	6	5	2559.8	2208.6	76.5	78.9	78.1	1.7	-1.1	0.2	1.4
6	UK	5	6	2253.6	2330.0	73.9	78.8	78.4	3.5	-3.2	1.1	2.0
7	Italy	7	7	2051.3	1744.0	70.1	73.6	73.3	2.3	-2.9	1.2	0.6
8	Brazil	11	8	2089.0	1092.6	65.3	67.6	66.8	1.8	3.0	4.8	4.0
9	Spain	10	10	1407.3	1180.7	65.7	70.5	71.0	3.4	-1.0	0.7	2.7
10	Canada	9	9	1577.0	1203.9	64.9	70.7	70.2	3.6	0.1	2.5	2.8
11	India	8	11	1722.3	1251.6	50.0	56.5	57.0	7.5	10.1	7.7	9.4
12	Russia	12	12	1479.8	905.2	63.3	62.0	61.5	3.2	-5.6	2.9	5.5
	World			63064.0	51040.5	68.1	68.7	67.8	2.9	-0.9	2.5	2.6

Source : Computed from UN National Accounts Statistics accessed on 8 February 2012.
Note : Rank is based on current prices. Share is based on constant prices (US$). Growth rates are based on constant prices (US$). CAGR is estimated for 2001-2010. Construction sector is excluded in services GDP.

Despite the higher share of services in India's GDP and China's dominance in manufacturing over services, the hard fact, however, is that in terms of absolute value of services GDP and also in terms of growth of services, China is still ahead of India in 2010.

Research Design

The study is descriptive and empirical in nature. Eight Indian organizations were chosen. Then a sample of 118 respondents was chosen from a sample frame of eight organizations using random sampling.

Data Collection Tools

Primary data were collected through preliminary interviews and questionnaires ultimately. The Knowledge Management scale developed by [Gold, Malhotra and Segars (2001)] is used to undertake the study. The scale is multidimensional, suggesting three subscales as follows:

- Knowledge Acquisition is defined as the process to seek and acquire new knowledge, create new knowledge out of existing knowledge through collaboration between individuals and business partners.
- Knowledge Conversion is defined as the ability to make knowledge useful.
- Knowledge Application is defined as the process oriented toward the use of knowledge.

The second part of the questionnaire focused on Organizational Performance. The Organizational Performance scale developed by Jerez-Goomez (2005), was used to undertake the study. The scale is multidimensional, suggesting three subscales as follows:

- Financial Performance relate to the success of the business programs in relation to the resources employed in implementing them.
- Market Performance is the success of a business' product and program in existing business and in those related to the future positing of the firm.
- Partnership Performance relates to the achievement of organizational objectives concerning the firm's partners, in terms of strength, stability, and sustainability of their relationships.

Fig. 1: Performance Management

Source: Buchner, T. W. (2007) 'Performance management theory: A look from the performer's perspective with implications for HRD', Human Resource Development International, vol.10, pp.59

Reliability and Validity Analysis

Reliability can be defined to the extent to which a variable is consistent in what it is intended to measure. Since standardized questionnaires were modified to suit the present study reliability analysis was conducted. In the present research, the reliability of questionnaires was determined by using Cronbach's Coefficient alpha as shown in Table 1.

The reliability coefficient indicated that the scale for measuring Knowledge Management is quite reliable as the alpha value is 0.923. For the purpose of measuring Organizational Performance the reliability coefficient is 0.878. An alpha value of 0.60 and 0.70 or above is considered to be the criterion for demonstrating internal consistency of new scales and established scales respectively. As the value exceeded the minimum requirement, it is thereby demonstrated that the measures are reliable. 'Validity' represents the extent to which a measure correctly represents the concept of study. As standardized questionnaires were used for the purpose of collecting data Validity testing has already been performed by the respective authors.

Data Analysis

Preliminary Analysis: Data were examined for outliers and possible errors prior analysis, and none were detected. The data also were screened for possible violations to assumptions of normality and all the variables were found to be significantly deviating from Normal Distribution at 95% level of Confidence. It was done to determine if the data was suited for parametric or non-parametric tests. Kolmogrov-Smirnov test was conducted to meet these objectives. The table 1 presents the statistic of Kolmogrov-Smirnov Test for Knowledge Management and Organizational Performance.

The p value for both the variables was found to be p (km) = .029 and P (op) = .047. These results indicated that the data was not normally distributed. Based on these results it was decided that the data was suitable for non- parametric tests and therefore, Spearman's correlation was used to test the relationship between the two variables.

Hypothesis Testing

H1a-There is high level of knowledge management and organizational performance.

The results in table 3 indicate that means of both knowledge management (4.6699) and organizational performance (4.2881) are above the scale mean (3). The sub dimensions of knowledge management and organizational performance also score more than the scale mean. It shows that there is high level of knowledge management and organizational performance. Therefore the hypothesis (H1a) that there is high level of knowledge management and organizational performance is not rejected or may be accepted.

H2a - There is a significant correlation between knowledge management and organizational performance.

H3a - There is a significant correlation between knowledge management and sub-scales of organizational performance.

H4a - There is a significant correlation between sub-scales of knowledge management.

The results are presented in the Table 4 below.

Results of Spearman's Correlation (Correlation between Knowledge Management and Organisational Performance)

The results of spearman's correlation (table 4) suggested that there is a very significant positive correlation between Knowledge Management and Organizational Performance (r= .367, p= .000). Therefore the 2nd null hypothesis (H2a) that there is significant correlation between Knowledge Management and Organizational Performance is not rejected or may be accepted.

Results of Spearman's Correlation (Correlation between sub-dimensions of Organisational Performance and Knowledge Management)

The results of spearman's correlation (table 4) suggested that there is a very significant positive correlation between Knowledge Management and all sub-dimensions of Organizational Performance i.e. financial performance (r= .413, p= .001), market performance (r=.412, p=.000) and partnership performance (r=.203, p= .000). Therefore the 3rd null hypothesis (H3a) that there is significant correlation between Knowledge Management and all sub-scales of Organizational Performance are not rejected or may be accepted.

Results of Spearman's Correlation (Correlation between sub-dimensions of Knowledge Management)

The results of spearman's correlation (table 4) suggested that there is a very significant strong correlation between Knowledge acquisition and knowledge conversion (r= .759, p= .001), Knowledge acquisition and knowledge application (r=.656, p=.000) and Knowledge application and knowledge conversion (r=.630, p= .000). Therefore the 4th null hypothesis (H4a) that there is significant correlation between sub-scales of knowledge management is not rejected or may be accepted.

H5a Knowledge Management has significant impact on Organisational Performance.

The results are presented in the Table 5, 6 & 7 below. The result of Simple Linear Regression test suggests that knowledge management has significant moderate impact (Result of ANOVA in Table 6, with p-value= .000) on organizational performance with R=.367 (Table 5), slope of regression line= .538 and intercept=1.776 (Table 7). This indicates that when Knowledge Management variables have high values, the Organizational Performance is likely to be greater. Therefore the 5th null hypothesis (H5a) that Knowledge Management has significant impact on Organisational Performance is accepted.

Findings and Discussion

The findings of this study indicate that there is a significant positive correlation between Knowledge Management and Organizational Performance. This indicates that when Knowledge Management variables have high values, the Organizational Performance is likely to be greater. The findings approve the assertion of previous studies (Mckeen et al., 2006, Choi et al., 2005) conducted on Knowledge Management and Organizational Performance. Organizational Performance factors: financial performance, market performance and partnership performance were found to be significantly correlated with Knowledge Management and Knowledge Management has significant impact on Organisational Performance. It was also found that there is a very significant strong correlation between Knowledge Management and its various sub- dimensions. There are some limitations of the study, like our current sample was obtained from large and profitable companies; small or venture firms were not included. This bias may enable some Knowledge Management and Organizational Performance variables to perform above the norm. Including small or venture companies could lead to more robust results. Second limitation is about demographic variables of employees. More emphatic results could have been achieved for effect of demographic variable on level of Knowledge Management. (e.g. Difference in the level of Knowledge Management according to gender, age, educational background, experience etc.) Finally, the validity of the results may be limited to Indian organizations only. The generalizability from Indian settings to other countries may be questionable.

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Table 1: Reliability Coefficients

	Knowledge Management	**Organizational Performance**
Number of items	21	10
Cronbach Alpha (∨)	0.923	0.878

Table 2: One-Sample Kolmogorov-Smirnov Test

		Knowledge Management	**Organization Performance**
N		118	118
Normal Parameters (a,b)	Mean	4.6699	4.2881
	Std. Deviation	.29779	.43617
Most Extreme Differences	Absolute	.134	.126
	Positive	.134	.102
	Negative	-.130	-.126
Kolmogorov-Smirnov Z		1.454	1.369
Asymp. Sig. (2-tailed)		.029	.047

Table 3: Descriptive Statistics

Dimensions	N	Mean	Std. Deviation
Knowledge Management	118	4.6699	.29779
Knowledge Acquisition	118	4.6822	.34655
Knowledge Conversion	118	4.6441	.32315
Knowledge Application	118	4.6780	.33159
Organization Performance	118	4.2881	.43617
Financial Performance	118	4.4682	.49306
Market Performance	118	4.4181	.48956
Partnership Performance	118	4.1582	.58261

Table 4: Spearman's Correlation (Knowledge Management and Organisational Performance)

Dimensions		knowledge Management	Knowledge Acquisition	Knowledge Conversion	Knowledge Application	organization performance	Financial Performance	Market Performance	Partnership Performance
knowledge Management	Pearson Correlation	1	.922(**)	.881(**)	.857(**)	.367(**)	.413(**)	.412(**)	.203(*)
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000	.027
	N	118	118	118	118	118	118	118	118
Knowledge Acquisition	Pearson Correlation	.922(**)	1	.759(**)	.656(**)	.295(**)	.351(**)	.322(**)	.172
	Sig. (2-tailed)	.000		.000	.000	.001	.000	.000	.063
	N	118	118	118	118	118	118	118	118
Knowledge Conversion	Pearson Correlation	.881(**)	.759(**)	1	.630(**)	.378(**)	.349(**)	.378(**)	.249(**)
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.000	.007
	N	118	118	118	118	118	118	118	118
Knowledge Application	Pearson Correlation	.857(**)	.656(**)	.630(**)	1	.321(**)	.402(**)	.410(**)	.135
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.000	.144
	N	118	118	118	118	118	118	118	118
Organization Performance	Pearson Correlation	.367(**)	.295(**)	.378(**)	.321(**)	1	.695(**)	.774(**)	.847(**)
	Sig. (2-tailed)	.000	.001	.000	.000		.000	.000	.000
	N	118	118	118	118	118	118	118	118
Financial Performance	Pearson Correlation	.413(**)	.351(**)	.349(**)	.402(**)	.695(**)	1	.702(**)	.452(**)
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.000	.000
	N	118	118	118	118	118	118	118	118
Market Performance	Pearson Correlation	.412(**)	.322(**)	.378(**)	.410(**)	.774(**)	.702(**)	1	.319(**)
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000		.000
	N	118	118	118	118	118	118	118	118
Partnership Performance	Pearson Correlation	.203(*)	.172	.249(**)	.135	.847(**)	.452(**)	.319(**)	1
	Sig. (2-tailed)	.027	.063	.007	.144	.000	.000	.000	
	N	118	118	118	118	118	118	118	118

***Correlation is significant at the 0.01 level (2-tailed).*
**Correlation is significant at the 0.05 level (2-tailed).*

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.367(a)	.135	.127	.40744

a. Predictors: (Constant), knowledge Management

Table 6: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.002	1	3.002	18.082	.000(a)
	Residual	19.257	116	.166		
	Total	22.259	117			

a. Predictors: (Constant), knowledge Management
b Dependent Variable: organization performance

Table 7: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	1.776	.592		3.001	.003
	knowledge Management	.538	.126	.367	4.252	.000

a. Dependent Variable: Organization Performance