



# KNOWLEDGE MANAGEMENT FOR VALUE CREATION: THE WAY FORWARD

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*“ Knowledge is information that changes something or somebody — either by becoming grounds for actions, or by making an individual (or an institution) capable of different or more effective action.”*

*Peter F. Drucker in The New Realities*

## 1. Introduction

Financial sector of Sri Lanka, most importantly the banking sector, has been undergoing tremendous changes over the years. Some of the critical factors, which influenced changes in the banking sector, include information and communication technology, changing stakeholder profile, regulatory requirements, redefinition of traditional boundaries and intense competitive industry structure. Embracing these changes, banks continue to explore techniques and best practices to create value for their stakeholders. Naturally, they look up to their human resource or simply the people to create organizational value.

Scope of this paper is to evaluate knowledge management (KM) as process of creating value in the individual employee. Basic logic here is that an employee who becomes value added through KM is motivated to create organizational value when conducive internal environment is developed, value creation is defined and rewards are linked to value creation.

## 2. Changing Financial Landscape

Banking sector in Sri Lanka is probably the single most sector that has undergone significant changes during the last decade or so and continues in the direction of accelerated changes. Information and communication technology significantly affected the way banks processed transactions, made business decisions, developed and delivered innovative products and created customer convenience. Competition intensified with banks entering new product and physical markets. Banking sector also faced competition from a few new entrants along with non-banking financial institutions offering traditional and non-traditional banking products. Structural changes in the form of mergers and acquisition, change of ownership/ stakeholder profile and diversification became prominent. Dimensions of regulatory and supervisory requirements , both local and international , changed and continue to change. Increased capital requirement, Emphasis on



corporate governance and Basle II could be cited as examples. External requirements such as these coupled with stakeholders' expectations are likely to influence further structural changes of the industry.

Whilst the banking sector landscape continues to change, broad critical issues facing banks are:

- Dynamic redefinition of business policy and strategies to cope with changes
- Delivery of desired results
- Continued redesign of business processes to become more customer focused without compromising control or risk management objectives
- Gaining competitive edge
- Seeking best people management practices that influence value creation

All these critical issues fundamentally revolve around two factors: *People and their ability to create value. People are the most dynamic resource and for a bank get the best out of any other resource including technology; it must be able to get the best of its people.*

We, therefore, now come to the most critical question: HOW DO WE INFLUENCE OUR EMPLOYEES TO CREATE VALUE? Before we look at this question in the modern context, it is appropriate to revisit the factors, which influence the behavior of employees, in the banking sector.

### **3. Shift In Attitudes Towards Banking Jobs**

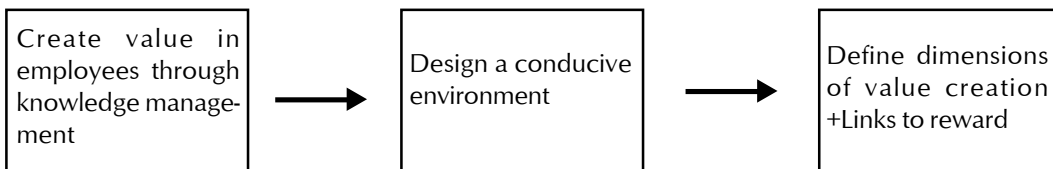
Banks increasingly now focus on developing the younger generation of bankers to take up higher responsibilities. Increased opportunities are now available for today's bankers to acquire qualifications in diverse fields including MBAs, both foreign and local. Arguments over acquiring qualifications and application or gaps in appropriate practical skills are not uncommon. But, the reality is that today's professional bankers are multifaceted in nature and receptive/amenable to changes. Traditional employment security largely influenced by retirement benefits, does not seem to be a major factor that aligns an employee to a job or organization. Today's younger generation of professional bankers tend to rely more on employability than on contractual guarantees of the employers. But in society like ours, stage in one's life cycle is a critical factor that influences the way an employee looks at his job. People today make continuous evaluation of the compensation they receive and potential opportunities for career growth, in relation to what they perceive to be their contribution. Employees whose skills stem from core banking areas, which are marketable also regularly scan the external environment for opportunities. As the landscape

of financial services market continues to change, people moving across different financial services and beyond industry's fading boundaries is not uncommon. Looking into the future where increased focus/emphasis will continue to be on young banking professionals, it is critical to understand that their attitude towards jobs will continue to change and traditional motivational strategies may not be adequate to promote value creation.

With changing industry environment and outlook of the present/future banking professionals, one way to strengthen the existing motivational strategies is probably to redefine the relationship between individual employee, motivation and value creation. Motivation is fundamentally an internal process or internal fire within an employee, Organizations/superiors need make an attempt to understand it as manifested by different behaviors and create an environment in which employees feel motivated to create value.

We will, in this short paper, look at only Knowledge Management (KM) as a value creation process in the individual employee. An organization then needs to design the conducive environment where the valued added individual is motivated to create organizational value. Obviously, creation of organizational value will be linked to reward systems.

"To motivate, Create value in the individual through Knowledge Management, Design the conducive environment and Define value creation + Link Rewards





#### 4. Knowledge Management (KM) and its Impact on Individual Value

Managing knowledge is nothing new and has been practiced since the inception of human lives. But, knowledge management (KM) as a focused management discipline to promote organizational effectiveness in the information age emerged almost a decade ago in the west. Organizations like the World Bank, IBM, General Motors, 3M and majority of Fortune 500 companies practice KM by blending technology and knowledge. KM need not remain purely a western management concept and could be more formally adopted by us, who still manage knowledge our own way. We will examine some of the key concepts of knowledge management (KM) and explore means of using them to create value in people.

What is knowledge management (KM)? “Knowledge Management caters to the critical issues of organizational adaptation, survival, and competence in face of increasingly discontinuous environmental change. Essentially, it embodies organizational processes that seek synergistic combination of data and information processing capacity of information technologies, and the creative and innovative capacity of human beings”

According to Brookings (1999) KM is defined, as “the discipline that aims at capturing, integrating and using existing organizational knowledge and consequently creating a knowledge asset that can be a source of sustained competitive advantage in the long run. He further states that the revolution in KM came with the rise of technology and there has been a misconception of linking IT with KM. These descriptions and definitions stem from the fact that organizations including banks need to know what they know to succeed in the information age. Current literature on KM has divided knowledge into two major categories depending on the nature to be codified for the use in a knowledge management system. Structured and systematic knowledge that can be described in formal language and easily communicated and shared through formal mean qualify for the explicit knowledge type (Elizabeth, 2001). Such knowledge is easy to codify in the form of databases and is seen as a base resource because of its inherent nature of easy imitation by other organizations.

In the context of our analysis of creation of value in individuals through KM, the other form of knowledge called tacit knowledge becomes critical in developing and mentoring young banking professionals. According to Richard (2001) tacit knowledge is the automatic collective behavior. It comprises mental models, values, beliefs, assumptions and perceptions that are deeply entrenched into the intellectual capital of the organization. Tacit aspect of knowledge, basically residing in the minds of people or experienced/senior banking professionals within our context cannot be codified but only can be transmitted via training or gained through experience. We now look at a model for “ understanding “ as gateway to KM:

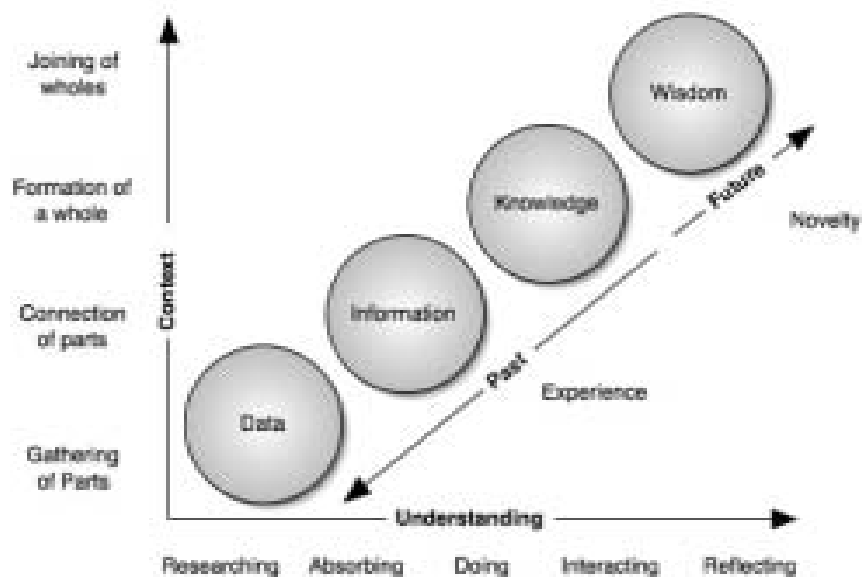
Current Literature divides knowledge into two types:

- (01) Tacit
- (02) Explicit

One gains **knowledge** through context (experiences) and understanding. When one has **context**, one can weave the various relationships of the experiences. The greater the context, the greater the variety of experiences that one is able to pull from. The greater one **understands** the subject matter, the more one is able to weave past experiences (context) into new knowledge by absorbing, doing, interacting, and reflecting.

Thus, understanding is a continuum (Cleveland, 1982), as illustrated in Figure 1 below.

**Figure 1: The Continuum of Understanding**



- **Data** comes about through research, creation, gathering, and discovery.
- **Information** has context. Data is turned into information by organizing it so that we can easily draw conclusions. Data is also turned into information by “presenting” it, such as making it visual or auditory.
- **Knowledge** has the complexity of experience, which comes about by seeing it from different perspectives. This is why training and education is difficult - one cannot count on one person’s knowledge transferring to another. Knowledge is built from scratch by the learner through experience. Information is static, but knowledge is dynamic as it lives within us.
- **Wisdom** is the ultimate level of understanding. As with knowledge, wisdom operates within us. We can share our experiences that create the building blocks for wisdom. However, it need to be communicated with even more understanding of the personal contexts of our audience than with knowledge sharing. Often, the distinctions between data, information, knowledge, and wisdom continuum are not very discrete. Thus the distinctions between each term often seem more like shades of gray, rather than black and white.



Data and information deal with the past. They are based on the gathering of facts and adding context. Knowledge deals with the present. It becomes a part of us and enables to perform. However, when we gain wisdom, we start dealing with the future as we are now able to vision and design for what will be, rather than for what is or was.

## 5. Tacit Knowledge and its Relevance in Our Banking Scenario to Create Individual Value

Personal knowledge is embedded in individual experience and involves intangible factors, such as personal beliefs, perspective, and the value system. Tacit knowledge is hard to articulate with formal language (hard, but not impossible). It contains subjective insights, intuitions, and hunches. Before tacit knowledge can be communicated, it must be converted into words, models, or numbers that can be understood. In addition, there are two dimensions to tacit knowledge:


- **Technical Dimension (procedural):** This encompasses the kind of informal and skills often captured in the term *know-how*. For example, a banker develops a wealth of expertise after years of experience. But he or she may experience difficulty in articulating the technical or theoretical concepts of his or her expertise. Highly subjective and personal insights, intuitions, hunches and inspirations derived from bodily experience fall into this dimension.
- **Cognitive Dimension:** This consists of beliefs, perceptions, ideals, values, emotions and mental models so ingrained in us that we take them for granted. Though they cannot be articulated very easily, this dimension of tacit knowledge shapes the way we perceive the world around us.

Knowledge creation or conversion, from the two kinds of knowledge (Tacit and Explicit) are based on four modes according to Nonaka & Takeuchi (1995): This model has practical implications as to how the senior or mature bankers could pass on their valuable knowledge to the next generation of bankers.

Figure 2: Knowledge Creation / Conversion

	To tacit knowledge	To explicit knowledge
From tacit knowledge	Socialization	Externalization
From explicit knowledge	Internalization	Combination

Source: Nonaka & Takeuchi (1995)

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- **Socialization:** from tacit to tacit – Sharing experiences to create tacit knowledge, such as shared mental models and technical skills. This also includes observation, imitation, and practice. However, “experience” is the key, which is why the mere “transfer of information” often makes little sense to the receiver.
  - **Internalization:** from explicit to tacit – Embodying explicit knowledge into tacit knowledge. Closely related to “learning by doing.” Normally, knowledge is verbalized or diagrammed into documents or oral stories.
  - **Externalization:** from tacit to explicit – The quintessential process of articulating tacit knowledge into explicit concepts through metaphors, analogies, concepts, hypothesis, or models. Note that when we conceptualize an image, we express its essence mostly in language.
  - **Combination:** from explicit to explicit – A process of systemizing concepts into a knowledge system. Individuals exchange and combine knowledge through media, such as documents, meetings, and conversations. Information is reconfigured by such means as sorting, combining, and categorizing. Formal education and many training programs work this way.

Results derived from knowledge creation are facts, concepts, processes, procedures and principles. These, in turn, are used to help create knowledge in others enabling them to create organizational value.

Let us attempt to use a scenario common to seasoned bankers and see how such knowledge can be passed down to the younger generation as concepts, personal philosophies or theories backed by solid experience and personal judgment.

“Create concepts, theories, philosophies out of experience and personal knowledge- Distribute them backed by stories and create value in others”

Banks usually experience additional difficulties in recovering non-performing loans, as these loans get older and older. Recovery gradually becomes complex and there is wealth of experience/personal knowledge in this area. Can we pass this down as a concept such as “*There is an inverse relationship between prospects of recovery and age of a delinquent advance*”, supported by stories, scenarios and case studies. Such approach could help to convey the rich personal knowledge/experience in an organized way, even though it is difficult to pass down what has been gained over a number of years through different situations. But it is not impossible when a concerted effort is made in the right direction with the right attitude.

According to Diane E.K (1999), knowing how to find valuable information and understanding how to turn it into knowledge may be an organization’s next big challenge – and its best accomplishment. But such accomplishment would prove to be the best way we could enrich our young banking professionals and make them an incomparable source of organizational value creation.



## 6. Conclusion

Given the benefit of KM, it creates a formal and structured way of learning to share knowledge. In the information age where knowledge is a critical asset, young banking professional can gain immense value through knowledge shared by the experienced professional. No doubt experience has been and is being shared. A focused approach to sharing the tacit knowledge could prove to be of immense value to younger banking professionals. Senior bankers among our banking community are a source of rich banking, finance and management knowledge second to none in the world.

A knowledge sharing culture where formal processes or approaches are available to distribute implicit and more importantly, tacit knowledge residing in the intellectual capital will no doubt create value in individual employees. Within an appropriately designed internal environment, employees, who are value added through a formal knowledge management system, will be motivated to create organizational value.

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