KNOWLEDGE MANAGEMENT AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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DECLARATION

This project is my original work and has not been presented for a degree in any other University.

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this work to my family and all those who supported me in the completion of this project.

ABSTRACT

Knowledge Management (KM) manages the corporation's knowledge through a systematically and organizationally specified process for acquiring, organizing, sustaining, applying, sharing and renewing both the tacit and explicit knowledge of employees to enhance organizational performance and create value. In contemporary economy, knowledge includes knowing about people, money, leverage, learning, flexibility, power and competitive advantage. Knowledge is more relevant to sustain business than capital labor or land. Knowledge provides the ability to respond to novel situation. Most organizations realized that knowledge is a source of competitive advantage and a primary factor in knowledge-based economy.The objective of the study was to determine the relationship between knowledge management and performance of commercial banks in Kenya.

The study adopted a descriptive research survey. The target population comprised of 43 commercial banks. Stratified random sampling technique was used since population of interest was not homogeneous. Primary data was collected using a questionnaire while secondary data was also collected from the journals, reports and periodicals of the banks. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. The information was then presented by use of bar charts, pie charts, tables and in prose-form.

The study found that knowledge management greatly affected performance of the commercial banks. Knowledge management enhanced product and service quality; increased productivity and innovative ability. Knowledge management improved performance of employees on their duties in the bank and enhanced employee competence. Knowledge management enhanced the ability of the bank to develop new innovative financial products for its customers, turnaround time of employees, communication process in the bank and profitability of the bank. In addition, effective knowledge management led to enhancement of organizational business performance in terms of responding faster to business key issues; creating new business opportunities easily; improving new product development and improving business processes.

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ABBREVIATIONS AND ACRONYMS

KM: Knowledge Management

CBK: Central Bank of Kenya

KBA: Kenya Bankers Association

MFC: Mortgage Finance Company

CRBs: Credit Reference Bureaus

DTMs: Deposit-Taking Microfinance Institutions

CAMELS: Capital adequacy, Asset quality, Management quality, Earnings, Liquidity and Sensitivity to Market Risk

KCB: Kenya Commercial Bank

BAT: British American Tobacco

OECD: Organization for Economic Co-operation and Development

IT: Information Technology

ROE: Return on Equity

ROS: Return on Sales

ROA: Return on Assets

CoP: Communities of Practice

SPSS: Statistical Package for Social Sciences

PMS: Performance Management System

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In contemporary economy, knowledge includes knowing about people, money, leverage, learning, flexibility, power and competitive advantage. Drucker (1993: 79-94) wrote that "Knowledge has become the key economic resource and the dominant and perhaps even the only –source of competitive advantage". In this said two concepts; knowledge as an economic resource and knowledge as a source of competitive advantage, made significant impact on the traditional management approach and demanded a paradigm shift. Knowledge is more relevant to sustain business than capital labor or land. Nevertheless, it remains the most neglected asset. It is more than justified that true believe and essential for action, performance and adoption, knowledge provides the ability to respond to novel situation. Most organizations realized that knowledge is a source of competitive advantage and a primary factors in knowledge- based economy. In other words, it is to deal astutely with knowledge, which has been stressed by (Drucker, 1993; Nonaka and Takeuchi, 1995). According to Nonaka and Takeuchi's (1995) understanding, knowledge transfer should be considered as a transfer of tacit or explicit knowledge in interaction between individuals. On the other hand, explicit knowledge is cognitive that can be expressed in formal speech and exchanged in the form of data.

Knowledge transfer linked knowledge to human interaction that is embedded in organizational contexts (Wilkesmann *et al.*, 2007). O' Dell Grayson (1998) state that knowledge transfer enablers include Technology, culture, leadership, and measurement. Davenport and Prusak (2000) suggest that knowledge transfer process involves two actions: transmission of knowledge to potential recipient and knowledge absorption by that recipient that could eventually lead to changes in behavior or the development of new knowledge. Also, Davenport and Prusak (1998) identify four knowledge processes in a centralized KM approach. They are; knowledge generation (knowledge creation and knowledge acquisition); knowledge codification (storing); knowledge transfer (sharing); and knowledge application. Presently, Knowledge transfer is considered the nerve of the knowledge management process within organization. Many organizations begin research about supporting knowledge transfer rather than controlling it. Many organizations begin their knowledge management efforts by trying to understand what, where support knowledge transfer and how support to knowledge transfer. In supporting knowledge transfer behavior in organization, the management must develop a mechanism which can support the favorable environment for knowledge transfer.

1.1.1 Knowledge Management

According to Alavi and Leidner (2001), Knowledge Management (KM) manages the corporation's knowledge through a systematically and organizationally specified process for acquiring, organizing, sustaining, applying, sharing and renewing both the tacit and explicit knowledge of employees to enhance organizational performance and create value. Jennex and Zyngier (2007, p. 493) define knowledge management as "the capturing of the knowledge from past decision-making for application to current decision-making with the express purpose of improving organizational performance." Many scholars have been interested in the effect of knowledge on the performance of organizations.

Knowledge Management practitioners argue that knowledge is a modern organization's most important resource, the only resource not readily replicated by rivals, and therefore the source of its uniqueness or competitive advantage. Modern KM practice emphasizes the creation of new knowledge and the timely application of organizational knowledge to maintain strategic advantage. It assumes that systems exist within an organization to support knowledge creation, and that relevant knowledge from internal and external sources has been recorded or indexed in such a way that it can be retrieved and used. Organizations have to be prepared to abandon knowledge that has become obsolete. Different aspects of these processes and their relevance to information professionals have been discussed in some detail by Broadbent (1997), Davenport and Prusak (1998) and Klobas (1997).

Global economy has shifted from an industrial manufacturing/product oriented economy to one based on knowledge and services, where the principle commodity is information or knowledge. Effective management of intellectual capital is a critical issue facing organizations in today's global and information-driven economy. Knowledge management is not really about managing knowledge, but rather managing and creating a corporate culture that facilitates and encourages the sharing, appropriate utilization, and creation of knowledge that enables a corporate strategic competitive advantage. Achieving a "knowledge culture" requires managerial focus in three areas: preparing the organization, managing knowledge assets, and leveraging knowledge for competitive advantage (Abell and Oxbrow, 1997).

Stewart (1997) indicates that intellectual capital is the sum of knowledge and an employee's ability to render a competitive advantage for an organization. He believes that any knowledge that can create fortune and information and become intellectual property and experience is called intellectual capital. The practice of knowledge management lies in building a mechanism to stimulate an employee's participation and to utilize knowledge system to cultivate corporate innovation and group creativeness. Stewart (1997) further suggests that knowledge economy will cause business from relying on the capital accumulation to the knowledge accumulation gradually, and the measurement of a successful business should be based on the construction of innovative ability and core competences. Thus, in order to succeed, a business must store intellectual capital and practice knowledge management thoroughly.

Tang (2000) points that the first step of knowledge management has to start knowledge innovation from an organization internally or externally; Internal organization knowledge can be built through learning, research and development, experience accumulation, learning by doing, and external organization knowledge can be sourced from suppliers, customers, and competitors. Thus, how to build innovative knowledge systematically is a big challenge. Knowledge management is intellectual capital which can be considered as a manageable asset. It can help an organization to innovate and adjust in the face of change and promote a corporate value. The mechanism of knowledge management can be separated into knowledge innovation, knowledge accumulation, knowledge diffusion, and knowledge transfer (Tan, Liu & Tsai, 1999).

Knowledge diffusion is that knowledge itself holds an exclusive characteristic, and it must be willingness and has ability to open publicly in order to diffuse effectively (Grant, 1996). Moreover, Tang (2000) stresses that new knowledge diffusion must have an incentive mechanism to make employees happy to use knowledge bank. It is useless for setting up knowledge bank, if employees do not want to use it at work. Knowledge transfer is an indispensable procedure in the process of knowledge management. It is not only important to create knowledge but also to transfer and internalize new knowledge to employees at every department in the organization. An organization should enact knowledge transfer mechanism to make its employees to share, absorb, and apply knowledge to increase their ability and performance.

1.1.2 Organizational Performance

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). An organization's performance includes multiple activities that help in establishing the goals and monitor the progress towards the target. It is used to make adjustments to accomplish goals more efficiently and effectively.

Organizational Performance, in the context of organization, is not only a broad concept which has been used synonymously with productivity, efficiency, effectiveness, and more recently competitiveness; it has also been a subject of study for social scientists from a wide range of disciplinary perspectives. Labour productivity, for example, has long been the concern of (labour) economists ever since Marx and Smith. Within this perspective, how to extract labour from labour power, one of Marx's most fundamental insights, is seen as a basic problem of management (Harrison, 1997, p364). More recently efforts have been made by theorists to try to establish a causal link between organizations and performance. This has led to a growing number of studies which examine the potential contribution that good human resource policy can make to improving organizational performance, so much so that 'the impact of human resource management on performance has become the dominant research issue in the field' (Guest, 1997, p263).

1.1.3 Overview of the Banking Industry

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

As at December 2008 there were forty six banking and non bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. The KBA serves a forum to address issues affecting members.

Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region; automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market.

The Kenyan banking sector remained resilient in 2011 despite a challenging macro-economic environment. The sector registered a 20.4 percent increase in the total net assets from Ksh. 1.68 trillion in December 2010 to Ksh. 2.02 trillion in December 2011. Similarly gross non-performing loans declined by 8.0 percent from Ksh. 57.6 billion in December 2010 to Ksh. 53.0 billion in December 2011. The sector faced challenges in 2011 from increasing levels of inflation, interest rates and exchange rate volatility. The inflation rate which increased from 3.97 percent in March 2010 to 12.05 percent in April 2011 stood at 18.93 percent in December 2011. This was mainly attributed to steep increases in food and fuel prices. The depreciation of the Kenya Shilling against most traded world currencies in the year was attributed to the Euro or 'smart' products which can command premium prices and be more beneficial to users. One example is the 'intelligent' oil drill that bends and weaves it way to extract more oil than ever from the pockets of oil in underground formations. Knowledge in People, wherein is Communication- is "Organizations most valuable asset", according to many company reports. Knowledge in Processes, which is the KM-Practices, in many companies; there are often differences in performance levels among different groups performing the same process. Closing such a gap saved Texas Instruments the cost of one new semi conductor fabrication plant (a $1billion investment) (Skyrme and Amidon, 1997). Companies can also create competitive advantage through knowledge but give a flavor of what is possible. Others include active management of intellectual property port folio of patents and licenses, and creating new businesses that exploit internally generated information and knowledge.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter described the methods that was used in collection or gathering of data pertinent in answering the research questions. The chapter comprises the following sub-topics; research design. target population. research instruments, the sample and sampling procedures, data collection procedures and data analysis procedures.

3.2 Research Design

The study adopted a descriptive cross sectional survey research design. Mugenda and Mugenda (2003) describes descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated. The research design was chosen because the study is not confined to the collection and description of the data, but sought to determine the existence of certain relationships among the research variables (Mugenda and Mugenda, 2003).

According to Malhotra & Birks (2007) a survey is a method of collecting data from people about who they are, how they think (motivations and beliefs) and what they do (behavior). A survey in form of standardized questions in a questionnaire was used to collect data.

3.3 Population of the study

The target population comprised of 43 commercial banks operating in Kenya as at 31st December, 2011. One questionnaire was administered to each bank addressed to knowledge/human resources department. These departments were chosen upon because of their key role in knowledge management in the commercial banks. Following the small number of commercial banks operating in Kenya by then, the study conducted a census where all members of the population were included in the study.

3.4 Data Collection

Primary data was collected using a questionnaire. The questionnaire comprised of open and closed ended questions. The close-ended questions provided more structured responses to facilitate tangible recommendations. The open-ended questions provided additional information that was not captured in the close-ended questions. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data to be collected for the study. The researcher administered a questionnaire to knowledge management/human resource departments in each bank. The questionnaire was administered using a drop and pick later method. Secondary data was also collected for this study.

3.5 Data Analysis

Prior to processing the responses, the completed questionnaires were edited for completeness and consistency. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. The data was broken down into different aspects of human resources practices and organizational competitiveness. This offered a systematic and qualitative of the study objectives. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of statistical package for social sciences (SPSS). Mugenda and Mugenda (1999), explains that SPSS is a comprehensive, integrated collection of computer programme for managing, analyzing and displaying data. The qualitative data was coded thematically and then analyzed statistically. Content analysis was used to data that was qualitative nature or aspect of the data collected from the open ended questions.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on the relationship between knowledge management and performance of commercial banks in Kenya.The study targeted 43 commercial banks out which 34 filled in and returned the questionnaire contributing to a response rate of 79%. This commendable response rate was made a reality after the researcher made personal visits to remind the respondent to fill-in and return the questionnaires.

This response rate was good and representative and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

4.2 Demographic Information

Respondents were asked to indicate the number of years their banks had been operational given the scale of less than 10 yrs, between 10-20 yrs, more than 40 yrs, between 30-40 yrs and between 20-30 yrs.The results are shown in Table 4.1.

Table 4. 1: No of Years in Operation

No of yrs	Frequency	Percentage
Btn 20-30 yrs	12	36
Btn 30-40 yrs	8	23
Over 40 yrs	7	22
Btn 10-20 yrs	5	14
less than 10 yrs	2	5
Total	34	100

Source: Research Data, 2012

From the findings in the table 4.1, 36% of the commercial banks had been in operation for between 20-30 years followed by 23% of commercial banks which had been in operation for between 30-40 years. 22% of the commercial banks had been in operation for over 40 years while 14% had been in operations between 10-20 years. Only 5% of commercial banks had been in operations for less than 10 years.

Further, the research sought to establish the number of employees in each bank. The findings were as indicated in the table 4.2.

Table 4. 2 No. of Employees

No of Employees	Frequency	Percentage
Between 1000-3000	18	53%
Less than 1000	11	32%
Over 3000	5	15%
Total	34	100%

Source: Research Data, 2012

From the findings in table 4.2, 53% of the commercial banks had between 1000 and 3000 employees followed by 32% who had less than 1000 employees. 15% of the respondents had over 3,000 employees.

Respondents were also asked to indicate the type of ownership of their bank. The findings indicated that 62% of the commercial banks operating in Kenya were local and privately owned, 29% were foreign owned while 9% were local public commercial banks. The findings were as shown in the table 4.3.

Table 4. 3: Type of Ownership

Bank Category	Frequency	Percentage
Local public	3	9
Local private	21	62
Foreign	10	29
Total	34	100

Source: Research Data, 2012

4.3 Knowledge Management and Performance

On whether knowledge management affected performance of the commercial banks, the findings revealed that most (94%) of the respondents agreed that knowledge management affected performance of the commercial banks while 6% felt that knowledge management didn't affect performance of the commercial banks.

The study further sought to establish the extent to which knowledge management affected the performance of the commercial banks in Kenya. The findings were as indicated in the table 4.4 below:

Table 4. 4: Extent to which Knowledge Management Affects Performance

	Frequency	Percent
Very great extent	9	26
Great extent	14	41
Moderate extent	6	18
Little extent	3	9
No extent	2	6
Total	**34**	**100**

Source: Research Data, 2012

From the findings, 41% of the respondents noted that knowledge management affected performance of the commercial banks to a great extent, 26% said to a very great extent, 18% said to a moderate extent while 9% and 6% cited to a little extent and no extent respectively as illustrated in table 4.4.

Table 4. 5: Measures of Knowledge Management Outcomes

	Mean	Std. deviation
Enhancement of product and service quality	4.632	0.3725
Increased productivity, innovative ability and activity	4.876	0.2134
Competitive capacity and position in the market	4.851	0.2160
Proximity to customers and increased customer satisfaction	4.549	0.4391
High employee satisfaction	4.566	0.4213
Enhanced communication and knowledge sharing	4.911	0.2017
Improved knowledge transparency and retention	4.908	0.2062

Research Data, 2012

The study aimed at establishing the respondents' level of agreement on measures of knowledge management outcomes in terms of organizational performance in the bank. From the findings in table 4.5, the respondents cited that knowledge management led to very great extent enhancement of product and service quality as shown by a mean of 4.632 and std. deviation of 0.3725; increased productivity, innovative ability and activity as indicated by a mean of 4.876 and std. deviation of 0.2134; competitive capacity and position in the market at a mean of 4.851 and std. deviation of 0.2160; proximity to customers and increased customer satisfaction as shown by a mean of 4.549 and std. deviation of 0.4391; high employee satisfaction as shown by a mean of 4.566 and std. deviation of 0.4213; enhanced communication and knowledge sharing as indicated by a mean of 4.911 and std. deviation of 0.2017; and improved knowledge transparency and retention as shown by a mean of 4.908 and std. deviation of 0.2062.

On whether knowledge management affected employee performance in the bank, it was evident most (88%) of the respondents agreed knowledge management affected employee performance in the bank while 12% disagreed

The study further sought to determine the extent to which knowledge management affected employee performance in the bank as illustrated in the table 4.6.

Table 4. 6: Extent Knowledge Management Affects Employee Performance

	Frequency	**Percent**
Very great extent	8	24
Great extent	15	44
Moderate extent	7	21
Little extent	2	6
No extent	2	6
Total	**34**	**100**

Source: Research Data, 2012

According to the findings 44% indicated knowledge management affected employee performance to a great extent, 24% said to a very great extent, 21% said to a moderate extent whereas those who cited little extent and no extent were 6% each as shown in table 4.6.

On the respondents' level agreement with statements on employee performance, the respondents gave the following findings as shown in table 4.7.

Table 4. 7: Statements on Employee Performance

Statements	Mean	Std. deviation
Knowledge management has improved performance of employees on their duties in the bank	4.864	0.2158
Knowledge management has enhanced employee competence in the bank	4.892	0.2117
Knowledge management practices actively encourage and engage people at many organizational levels in sharing with others what they know, and what they are learning	4.887	0.2120
Managing knowledge involves managers developing a set of practices to capture, collect and transfer of relevant knowledge within the organization of people to improve services, outcomes and performances	4.791	0.2209
Knowledge management not only can create the value of intellectual assets but also enhance an employee's productivity and performance	4.789	0.2218

Source: Research Data, 2012

The respondents strongly agreed that knowledge management had improved performance of employees on their duties in the bank as shown by a mean of 4.864 and std. deviation of 0.2158; knowledge management had enhanced employee competence in the bank as indicated by a mean of 4.892 and std. deviation of 0.2117; knowledge management practices actively encouraged and engaged people at many organizational levels in sharing with others what they knew, and what they were learning at a mean of 4.887 and std. deviation of 0.2120; managing knowledge involved managers developing a set of practices to capture, collect and transfer of relevant knowledge within the organization of people to improve services, outcomes and performances as shown by a mean of 4.791 and std. deviation of 0.2209; and knowledge management not only could create the value of intellectual assets but also enhanced an employee's productivity and performance as shown by a mean of 4.789 and std. deviation of 0.2218.

The study also sought to establish the respondents' level of agreement with the effect of knowledge management on business performance.

Table 4. 8: Effect of Knowledge Management on Business Performance

	Mean	Std. deviation
Ability of the bank to develop new innovative financial products for its customers	4.893	0.2119
Process flow in the bank	4.909	0.2058
Turnaround time of employees	4.879	0.2135
Employee accuracy	4.784	0.2229
Customer satisfaction in the bank	4.725	0.2276
Communication process in the bank	4.924	0.2011
Customer orientation	4.881	0.2121
Market performance	4.776	0.2258
Profitability of the bank	0.790	0.2207

Source: Research Data, 2012

According to the findings in table 4.8 above, the respondents strongly agreed that knowledge management enhanced that ability of the bank to develop new innovative financial products for its customers as shown by a mean of 4.893 and std. deviation of 0.2119; process flow in the bank as indicated by a mean of 4.909 and std. deviation of 0.2058; turnaround time of employees as shown by a mean of 4.879 and std. deviation of 0.2135; employee accuracy at a mean of 4.784 and std. deviation of 0.2229; customer satisfaction in the bank as shown by a mean of 4.725 and std. deviation of 0.2276; communication process in the bank at a mean of 4.924 and std. deviation of 0.2011; customer orientation at a mean of 4.881 and std. deviation of 0.2121; Market performance at a mean of 4.776 and std. deviation of 0.2121; and profitability of the bank as shown by a mean of 0.790 and std. deviation of 0.2207.

On the respondents' level of agreement regarding with the statements relating to knowledge management, respondents gave the findings as shown in the table 4.9.

Table 4. 9: Statements Relating to Knowledge Management

Statements	Mean	Std. deviation
Knowledge management practices enable employees and customers to get the information they need, when they need it, as well as to share it with others who may benefit from it and help to promote these processes that lead to more informed decision-making	4.764	0.2257
Effective knowledge management requires a balance between open and flexible organization system along with formality and discipline to ensure tangible output	4.712	0.2281
Rules and directives help sequencing problem solving and decision making, which in turn facilitate knowledge accumulation	4.697	0.3209
Effective knowledge management lead to enhancement of organizational business performance in terms of responding faster to business key issues; creating new business opportunities easily; improving new product development and improving business processes	4.831	0.2174
Knowledge must be effectively analyzed, stored and used through a suitable knowledge management, and it will help salespersons to intensify their ability to service quality and provide a customerized service	4.749	0.2273
Customer needs will differ according to products and customers themselves, and the more the employees interacts with a customer, the more knowledge can be obtained from customers	4.760	0.2265
Companies can also create competitive advantage through knowledge but give a flavor of what is possible, active management of intellectual property portfolio of patents and licenses, and creating new businesses that exploit internally generated information and knowledge	4.813	0.2186

Source: Research Data, 2012

It was strongly agreed that knowledge management practices enabled employees and customers to get the information they needed, when they needed it, as well as to share it with others who might benefit from it and helped to promote these processes that led to more informed decision-making as shown by a mean of 4.764 and std. deviation of 0.2257.

Effective knowledge management required a balance between open and flexible organization system along with formality and discipline to ensure tangible output as indicated by a mean of 4.712 and std. deviation of 0.2281; rules and directives helped sequencing problem solving and decision making, which in turn facilitated knowledge accumulation at a mean of 4.697 and std. deviation of 0.3209.

Effective knowledge management led to enhancement of organizational business performance in terms of responding faster to business key issues; creating new business opportunities easily; improving new product development and improving business processes as shown by a mean of 4.831 and std. deviation of 0.2174.

Knowledge must be effectively analyzed, stored and used through a suitable knowledge management, and it would help salespersons to intensify their ability to service quality and provide a customerized service as shown by a mean of 4.749 and std. deviation of 0.2273; customer needs will differ according to products and customers themselves, and the more the employees interacts with a customer, the more knowledge can be obtained from customers at a mean of 4.760 and std. deviation of 0.2265.

Companies could also create competitive advantage through knowledge but gave a flavor of what was possible, active management of intellectual property portfolio of patents and licenses, and creating new businesses that exploited internally generated information and knowledge as shown by a mean of 4.813 and std. deviation of 0.2186.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made thereof. The conclusions and recommendations drawn were in quest of addressing research objective of determining the relationship between Knowledge management and performance of commercial banks in Kenya.

5.2 Summary of the Findings

The study found most (94%) of the respondents agreed that knowledge management affected performance of the commercial banks to a great extent. The study also established knowledge management led to a very great extent enhancement of product and service quality, increased productivity, innovative ability and activity. Competitive capacity and position in the market at improved with adoption of knowledge management. Knowledge management also led to a high employee satisfaction and enhanced communication and knowledge sharing among commercial banks. The study further established that knowledge management improved knowledge transparency and retention of employees.

Knowledge management had improved performance of employees on their duties in the bank besides enhancing employee competence. Knowledge management practices actively encouraged and engaged people at many organizational levels in sharing with others what they knew, and what they were learning. Managing knowledge involved managers developing a set of practices to capture, collect and transfer of relevant knowledge within the organization of people to improve services, outcomes and performances. Knowledge management not only created the value of intellectual assets but also enhanced an employee's productivity and performance among commercial banks.

Further, the study establishes that knowledge management enhanced that ability of the bank to develop new innovative financial products for its customers, process flow in the bank, turnaround time of employees and improve employee accuracy. Knowledge management also improved customer satisfaction in the bank through improving the communication process hence leading to increased customer retention.

The study also found that knowledge management practices enabled employees and customers to get the information they needed, when they needed it, as well as to share it with others who might benefit from it and helped to promote these processes that led to more informed decision-making. Effective knowledge management required a balance between open and flexible organization system along with formality and discipline to ensure tangible output. To accomplish this, rules and directives helped sequencing problem solving and decision making, which in turn facilitated knowledge accumulation. Effective knowledge management led to enhancement of organizational business performance in terms of responding faster to business key issues; creating new business opportunities easily; improving new product development and improving business processes.

5.3 Conclusion

From the findings, the study concludes that knowledge management greatly affects performance of the commercial banks. Knowledge management enhances product and service quality; increases productivity, innovative ability and activity; competitive capacity and position in the market; proximity to customers and increased customer satisfaction; high employee satisfaction;

enhances communication and knowledge sharing; and improves knowledge transparency and retention.

In addition, the study concludes that knowledge management affects employee performance in the bank. Knowledge management improves performance of employees on their duties in the bank; enhances employee competence in the bank; knowledge management practices actively encourages and engages people at many organizational levels in sharing with others what they know, and what they are learning; managing knowledge involves managers developing a set of practices to capture, collect and transfer of relevant knowledge within the organization of people to improve services, outcomes and performances; and knowledge management not only creates the value of intellectual assets but also enhances an employee's productivity and performance.

Further, the study concludes that knowledge management enhances that ability of the bank to develop new innovative financial products for its customers; process flow in the bank; turnaround time of employees; employee accuracy; customer satisfaction in the bank; communication process in the bank; customer orientation; Market performance; and profitability of the bank.

5.4 Recommendations

From the findings and conclusions, the study makes recommendation based on those with policy implications as well as suggestions for further research.

5.4.1 Recommendations with Policy Implications

The study established that knowledge management is an important component on the performance of commercial banks as it greatly influences customer satisfaction and employee delivery. Following this revelation, the study recommends that commercial banks in Kenya wholesomely adopt knowledge management practices in order to make the life of employees easier and delight customers hence increasing shareholders' value.

The study also recommends that through proper knowledge management, commercial banks are able to gain competitive advantage over their competitors. This is achieved through quick, accurate and satisfying services delivered to the customers and all other stakeholders hence leading to smooth operations of the Bank. Proper knowledge management also ensures the bank is protected from reputational risk which would lead to huge litigation charges. Therefore it is important that commercial banks adopt knowledge management owing to their sensitive operations and information they control.

5.4.2 Recommendations for Further Research

This study focused on the relationship between Knowledge management and performance of commercial banks in Kenya. The study recommends that another study should be done to investigate the effect of knowledge management on organizational performance in both public and private sector in Kenya. This will allow for generalization of the findings on the effect of knowledge management on organizational performance.

5.5 Implications on Policy, Theory and Practice

The study should be important not only to the management of commercial banks in Kenya but also to all other managers in other organization because they are all required to management their information and knowledge efficiently to ensure their firms use this knowledge to outperform their competitors. As noted, knowledge management is important in promoting employee productivity and customer satisfaction and reduce employee turnover. This study therefore recommends that organizations in Kenya and worldwide implement knowledge management to improve the productivity of their employees and increase customer satisfaction levels.

The study would be a source of reference material for future researchers on other related topics; it should also help other academicians who undertake the same topic in their studies. The study should also highlight other important relationships that required further research; this might be in the areas of relationship between Knowledge management and performance of commercial banks in Kenya.

On policy, the findings of this study should be important to policy makers in establishing the relationship between Knowledge management and performance of commercial banks in Kenya. This will provide important information in the development of policies regulating knowledge management in Kenya.

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APPENDICES

Appendix I: Questionnaire

Kindly answer the questionnaire by ticking in the appropriate box

SECTION A: GENERAL INFORMATION

1. Name of the bank...(Optional)
2. How long has the bank been operational?

   Less than 10 yrs ( ) Between 10-20 yrs ( )

   Between 20-30 yrs ( ) Between 30-40 yrs ( )

   More than 40 yrs ( )
3. How many employees does the bank have?

   Less than 1000 ( ) Between 1000-3000 ( )

   More than 3000 ( )
4. Indicate the ownership of the bank

   Local public commercial bank ( )

   Local private bank commercial ( )

   Foreign commercial bank ( )

SECTION B: KNOWLEDGE MANAGEMENT AND PERFORMANCE

5. Does knowledge management affect performance of the commercial banks?

   Yes ( ) No ( )
6. If yes, to what extent does knowledge management affect performance of the commercial banks?

   Very great extent ( ) Great extent ( )

   Moderate extent ( ) Little extent ( )

   No extent ( )

7. To what extent do you agree with the following measures of knowledge management outcomes in terms of organizational performance in the bank? Use a scale of 1-5 where 1=no extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

	1	2	3	4	5
Enhancement of product and service quality					
Increased productivity, innovative ability and activity					
Competitive capacity and position in the market					
Proximity to customers and increased customer satisfaction					
High employee satisfaction					
Enhanced communication and knowledge sharing					
Improved knowledge transparency and retention					

8. Highlight the importance of knowledge management to the bank

....

....

....

9. Has knowledge management affected employee performance in the bank?

Yes ( ) No ( )

10. To what extent has knowledge management affected employee performance in the bank?

Very great extent ( ) Great extent ( )

Moderate extent ( ) Little extent ( )

No extent ( )

11. Rate your level agreement with the following statements on employee performance. Use a scale where 5 strongly agrees, 4 agree, 3 neutral. 2 disagree, 1 strongly disagree

	1	2	3	4	5
Knowledge management has improved performance of employees on their duties in the bank					
Knowledge management has enhanced employee competence in the bank					
knowledge management practices actively encourage and engage people at many organizational levels in sharing with others what they know, and what they are learning					
Managing knowledge involves managers developing a set of practices to capture, collect and transfer of relevant knowledge within the organization of people to improve services, outcomes and performances					
Knowledge management not only can create the value of intellectual assets but also enhance an employee's productivity and performance					

12. What is your level of agreement with the effect of knowledge management on aspect of business performance in the bank? Use a scale where 5 strongly agrees, 4 agree, 3 neutral, 2 disagree, 1 strongly disagree

	1	2	3	4	5
Ability of the bank to develop new innovative financial products for its customers					
Process flow in the bank					
Turnaround time of employees					
Employee accuracy					
Customer satisfaction in the bank					
Communication process in the bank					
Customer orientation					
Market performance					
Profitability of the bank					

13. In general, in what ways has knowledge management affected business performance of the bank?

....

....

....

14. Indicate the extent to which you agree with the statements relating to knowledge management. Use a scale where 5 strongly agrees, 4 agree, 3 neutral, 2 disagree, 1 strongly disagree

	1	2	3	4	5
Knowledge management practices enable employees and customers to get the information they need, when they need it, as well as to share it with others who may benefit from it and help to promote these processes that lead to more informed decision-making					
Effective knowledge management requires a balance between open and flexible organization system along with formality and discipline to ensure tangible output					
Rules and directives help sequencing problem solving and decision making, which in turn facilitate knowledge accumulation					
Effective knowledge management lead to enhancement of organizational business performance in terms of responding faster to business key issues; creating new business opportunities easily; improving new product development and improving business processes					
knowledge must be effectively analyzed, stored and used through a					

suitable knowledge management, and it will help salespersons to intensify their ability to service quality and provide a customerized service					
Customer needs will differ according to products and customers themselves, and the more the employees interacts with a customer, the more knowledge can be obtained from customers.					
Companies can also create competitive advantage through knowledge but give a flavor of what is possible, active management of intellectual property port folio of patents and licenses, and creating new businesses that exploit internally generated information and knowledge					

15. On overall, how has knowledge management in the bank enhanced the financial performance of the bank?

....

....

....

16. What areas would you recommend that the bank improves in order to realize maximum benefits from the knowledge management?

....

....

....

Thanks for Your Participation!!

sovereign debt crisis that led to increased demand for US dollars and a widening current account deficit.

Due to the persistent inflationary pressures and weakening of the shilling, the Monetary Policy Committee adopted a tight monetary stance to tame their effects on the economy. Towards the end of 2011, the Central Bank in collaboration with the Ministry of Finance and Kenya Bankers Association developed a package of measures to be implemented by banks as part of initiatives to mitigate the impact of the sharp increase in interest rates on the borrowers and ensure stability of the banking sector. These measures required banks to: extend loan repayment periods to ease the sudden increase in loan repayment burden on the part of the borrowers; cap the increase in the installment repayment on existing loans to a maximum of 20 percent; absorb some of the additional costs from changes in the macroeconomic environment to the maximum extent possible without threatening their viability; and waive penalties for borrowers who chose to repay the outstanding loan balance in full or in part without being subjected to early repayment penalties (www.centralbank.go.ke).

1.1.4 Commercial Banks in Kenya

As at 31st December 2011, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance company - MFC), 4 representative offices of foreign banks, 6 Deposit-Taking Microfinance Institutions (DTMs), 118 Forex Bureaus and 2 Credit Reference Bureaus (CRBs). Out of the 44 banking institutions, 31 locally owned banks comprise 3 with public shareholding and 28 privately owned while 13 are foreign owned. The 6 DTMs, 2 CRBs and 118 Forex bureaus are privately owned. The foreign owned financial institutions comprise of 9 locally incorporated foreign banks and 4 branches of foreign incorporated banks (www.centralbank.go.ke).

According to the latest Bank Supervision annual report 2011, Central Bank of Kenya (CBK) has re-categorized four banks to the 'fair' status after evaluating their operations against internationally laid down benchmarks of operations also known as CAMELS. Eighteen banks—with a market share of 54 per cent and assets worth Sh1.2 trillion remain in the 'strong' category—meaning that their operations are above satisfactory. Last year, 20 banks controlling 64 per cent of the market share were in that category. "Some banks dropped to satisfactory because of reduced liquidity occasioned by increased lending," stated the report. "Four banks were rated as fair compared to three in 2010.

Kenya Commercial Bank dominated Kenya's banking market share in 2011 followed by Equity Bank which pushed down Barclays Bank to the number three slot according to the Bank Supervision Survey 2011 report. Out of the total 44 banks in Kenya, KCB, Equity, Barclays, Standard Chartered, and CFC Stanbic accounted for 54 per cent of total assets, 53 per cent of customer deposits, 55 per cent of capital & reserves and 62 per cent of industry pre-tax profit which stood at 89.5 billion in 2011.

1.2 Research Problem

The use of knowledge is regarded as an important way to accomplish better organizational performance and effectiveness in modern society (Kalling, 2003). Knowledge is more relevant to sustain business than capital labor or land. Knowledge provides the ability to respond to novel situation. Despite this area being very important, few studies have been done to explain the various concepts, both locally as well as globally.

Globally, Schehar, Kashif and Muhammad (2010) did a study on factors that impact knowledge management fit in corporate sector of Pakistan. They focused on essential factors of knowledge management processes and implications of it on dynamic capabilities, social capital, organizational process alignment, and innovation and found those factors have a significant impact on knowledge management fit. Khaled (2011) studied on the knowledge enablers of knowledge transfer in Telecommunications Companies. His findings show that Knowledge transfer is an integral part of knowledge sharing. In order to build on the knowledge asset, organizations need to share knowledge and transfer this knowledge within organizational networks. Locally, Nyawade (2005) studied on employee perception of knowledge management practices using a case study of BAT Kenya and established that employees perceived knowledge management practices to be restrictive and prohibitive of employee creativity and innovation; and Osano (2007) did on knowledge management within publicly quoted firms in Kenya and established the above, it is clear that a few issues remain unstudied. As indicated above there seems to be no study done on knowledge management in commercial banks in Kenya. This study therefore sought to fill the research gap by establishing the relationship between knowledge management and performance. What is the relationship between knowledge management and performance of commercial banks in Kenya?

1.3 Objectives of the Study

The objective of the study was to determine the relationship between Knowledge management and performance of commercial banks in Kenya.

1.4 Value of the Study

This study would contribute to the theory on knowledge management. In particular, the study would be useful to researchers and academia in the field of knowledge management as it would be a source of reference in forming their future research topics and studies. They would be able to identify the relationship between knowledge management and organization performance. The study also contributed to the practice of knowledge management and in particular demonstrated the ability of organizations to use knowledge management in gaining competitive advantage for their firms. It therefore provided a framework upon which firms could gain competitive advantage from knowledge management.

This study would be of importance to the management of commercial banks in Kenya in enabling them to understand the importance of knowledge management in improving organization performance. Through the findings of the study, management would equip themselves with the relevant skills and knowledge necessary to ensure proper organization knowledge management.

The study would also benefit policy makers in Government as such an insight on the relationship between knowledge management and organizational performance would lead to the formulation of policies and procedures that create an enabling environment for proper management of knowledge in organizations.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter covered available and relevant literature on the variables of this study. It comprised of introduction, empirical review, knowledge management outcomes in terms of organizational performance and the conceptual framework.

2.2 Performance Management

Performance management is a set of practices through which work is defined, reviewed and rewarded, and employee's capabilities are developed (Butteries, 2000). Performance management may be defined as a formal and systematic process, by means of which the job-relevant strengths and weaknesses of employees are identified, observed, measured, recorded and developed. Performance management provides the opportunity for the organization to evaluate and take stock of its human resources. It also provides information so that important decisions can be taken and gives feedback for further development of staff (Doris, 1994). It gives management the opportunity for communication with staff, to clarify expectations and to take part in the development of each staff member. For the employer, it gives the opportunity to discuss with employees their performance and career goals for the future (Doris, 1994). The effective management of individual performance is the central requirement for the attainment of organizational goals. If line managers are to achieve strategic objectives, accurate information regarding the performance levels of their members is essential. This is the reason why most organizations insist on a formal and systematic process whereby such information may be gathered and recorded (Swanepoel et al, 2000).

Performance management is the day-to-day management of employees in terms of the goals of the organization. A performance management system is an orderly process that properly documents the goals and objectives of each employee, with a built-in review process. Having a good performance management system means that each person will have goals and measures that are linked directly to the organization's strategy. The process of developing individual measures starts by taking the strategy of the organization and cascading the strategic objectives down through the diverse departments. Once managers of the different departments have set their goals and objectives, each person in the department should be assisted by means, of a co-operative goal setting session to set his or her goals and the associate measures. This process is often known as goal alignment. In effect, everyone's efforts are directed towards the same goal and there is no wasted effort with employees going off at a tangent (Shultz, et al. 2003).

Armstrong (1994) observes that effective performance management must direct the vision and efforts of all managers towards a common goal. It must ensure that the individual manager understands what results are demanded from him or her. It must ensure that the superior understands what is to be expected of each of his subordinate's managers. It must motivate each manager to maximum efforts in the right direction. Authors such as Furnham (2004), Graham (2004), Buchner (2007) and Helm et al. (2007) have noted that PMS is crucial to organizational performance for reasons such as: Facilitates the organization achieving its vision and business objective; Prerequisite to developing a performance culture within the organization; Aligning the employees' performance goals with the organization's strategic goals; Ensure the individual has clarity regarding performance expectations; Improves employee performance and identifies talented individuals for promotion (succession planning); and Reinforces linkage between pay and performance. Kaplan and Norton (1996) cite that the Balanced Scorecard provides senior executives with a comprehensive framework that translate an organization's vision and strategy into a coherent set of performance measures. Many organizations have adopted mission statements to communicate fundamental values and beliefs to all employees. The mission statement addresses core beliefs to all employees and identifies target markets and core products. Nair (2004) believes that only when employees at all levels of management wake up in the morning and know why they are going to work and what they have to do to advance the purpose of the organization, then strategy is realized.

Kaplan and Norton (1992) have also observed and worked with many companies and have found that senior executives do not rely on one set of measures to the exclusion of the others. They realized that no single measure can provide a clear performance target or focus attention on the critical areas of the organization. Managers want a balanced presentation of both financial and operational measures. Kaplan and Norton identified four perspectives each representing an important face of the organization. These were: financial; external customer; internal process; and learning and growth. Niven (2005) notes that one of the important components of the Balanced Scorecard is financial measures; in a for-profit domain, the measures in this perspective indicate whether an organization's strategy execution is leading to improve bottom-line results. In a non-profit sector, financial measures ensure that organizations are achieving their results, but doing so in an efficient manner that minimizes cost. They normally encounter classic lagging indicators in the financial perspective. Typical examples include revenue, profitability, and asset utilization.

Niven (2005) asserts Michael Porter suggested that organizations not focusing on their customers will prevent an organization from differentiating itself from their competitors. Choosing an appropriate value proposition poses no less of a challenge to most organizations. Many will choose one of three disciplines: Operational Excellence-Organizations pursuing an operational discipline focus on low price, convenience, and often 'no frills'; Product leadership-Product leadership pushes the envelope of their firm's products. Constantly innovating, they strive to offer simply the best product in the market; or Customer intimacy-Doing whatever it takes to provide solutions for unique customers needs helps define customer-intimate companies. They do not look for one-time transactions but instead focus on long-term relationship building through their deep knowledge of customer needs.

Niven (2005) has identified within the internal process perspective the key processes at which organizations must excel in order to continue adding value for customers. As outlined previously, each of the customer disciplines entailed efficient operation of specific internal process in order to serve customers and fulfill their value proposition. Within this perspective organizations must identify those processes and develop the best possible measures with which to track their progress. The measures in the learning and growth perspective of the Balanced Scorecard serve as the enablers of the other three perspectives. In essence they are the foundation on which this entire house of the Balanced Scorecard is built. Once organizations have identified measures and related initiatives in their customer and internal perspectives, they can be certain to discover some gaps between their current organizational infrastructure of employee skills, information systems, and climate and the level necessary to achieve the results they desire. The measures developed within this perspective should close these gaps and ensure sustainable performance in the future (Niven, 2005). Niven (2005) claims that many organizations struggle in the development of learning and growth measures being normally the last perspective to be developed; the measures developed in this perspective are really the enablers of all the other measures on the Balanced Scorecard.

Kaplan & Norton (1992) argue that the balanced scorecard, on the other hand, is well suited to the kind of organization many companies are trying to become. It places strategy and vision, not control, at the center and establishes goals, but assumes that people will adopt whatever behaviors and take whatever actions are necessary to arrive at those goals. The measures are designed to pull people toward the overall vision of the organization. Senior managers may know what the end result should be, but they cannot tell employees exactly how to achieve that result, if only because the conditions in which employees operate are constantly changing. Kaplan & Norton (1992) cite that this Balanced Scorecard approach to performance measurement is consistent with the initiatives under way in many companies: cross-functional integration, customer-supplier partnerships, global scale, continuous improvement, and team rather than individual accountability. By combining the financial, customer, internal process and innovation, and organizational learning perspectives, the balanced scorecard helps managers understand, at least implicitly, many interrelationships. This understanding can help managers transcend traditional notions about functional barriers and ultimately lead to improved decision making and problem solving.

2.3 Knowledge Management

Knowledge Management (KM) consists of a range of practices used in an organization to create, capture, collect, transfer and apply of what people in the organization know, and how they know what people in the organization know. It has been an established discipline since 1995 with a body of university courses and both professional and academic journals dedicated to it (Stankosky, 2005). Knowledge Management began in the corporate sector and many large companies are adopting it. Knowledge Management practices are typically tied to organizational objectives such as improved performance, competitive advantage, innovation, developmental processes, lessons learnt transfer and the general development of collaborative practices. Knowledge Management focuses on the management of knowledge as an asset and the development and cultivation of the channels through which knowledge and information flow. Within an organization, such as a commercial company, a hospital or an educational institution, knowledge management can be understood as the management of its intellectual capital, of knowledge as a form of capital that, like physical or financial capital, has to be managed to achieve the aims of the organization. The aims could be in the enhancement of organizational learning and performance (Stankosky, 2005).

The Organization for Economic Co-Operation and Development (OECD) defines the knowledge management processes as "involving in the production, mediation and use of knowledge" (OECD, 2000: 70). Alavi & Tiwana, (2003) identified that there are four knowledge management processes: knowledge creation, knowledge storage and retrieval, knowledge transfer, and knowledge application. Franco & Mariano (2007) defined knowledge management processes simply as knowledge storage and retrieval. There are two dimensions of knowledge, namely, the explicit and tacit aspects. Knowledge management (KM) in organizations is for supporting creation, capture, storage and dissemination of information. The idea of a KM system is to enable employees to have ready access to the organization's documented facts, sources of information, and solutions. Some of the advantages claimed for KM systems are the sharing of valuable organizational knowledge, the avoidance of re-inventing the wheel, reduction of training time for new employees, and the retention of Intellectual Property after the employee leaves the organization (provided such knowledge can be codified) (Alavi & Tiwana, 2003). Knowledge management systems provide users with great access to knowledge. However, equally important is the users' ability to use the knowledge once it is accessed and to subsequently share it with others.

There are basically two categories of knowledge management enablers, namely, the technological and organizational enablers. These enablers are systems and infrastructures which ensure knowledge is created, captured, transferred and shared. Technological enablers include expert systems, knowledge bases; various types of Information Management, software help desk tools, document management systems and other Information Technology (IT) systems supporting organizational knowledge flows (Franco & Mariano, 2007). The advent of the Internet brought further enabling technologies, including e-learning, web conferencing, collaborative software, content management systems, corporate 'Yellow pages' directories, email lists, wikis, blogs, etc. Organizational enablers for knowledge management programs include Communities of Practice, Networks of Practice, before-, after- and during- action reviews, peer assists, information taxonomies, coaching and mentoring, etc. In this thesis, we will focus on e-learning as the technological and communities of practice as the organizational enablers (OECD, 2000). Jennex *et al.* (2008) define typical measures of knowledge management outcomes in terms of organizational performance as enhancement of: product and service quality, productivity, innovative ability and activity, competitive capacity and position in the market, proximity to customers and customer satisfaction, employee satisfaction, communication and knowledge sharing, and knowledge transparency and retention), measuring financial performance of an organization (typically used are ROS, ROA, ROE (return on equity), profitability and Tobin's q) or combining measures of general organizational performance (market, employee, intellectual capital and business performance).

2.4 Knowledge Management and Performance

Even though organizations should not expect to see a significant return on investment from knowledge management too quickly (Vestal, 2002), as organizations are turning to management of knowledge and skills their employees possess as a mean of survival and success in today's knowledge economy, knowledge management can and should be recognized as a tool to gain competitive advantage, achieve long-term success on the market and consequently receive benefits in terms of financial performance.

The link between knowledge management and organizational performance has been empirically explored, but rarely through assessing the state of knowledge management practice per se, and comparing it with direct indicators of financial performance. Namely, some empirical studies focus only on specific aspect of knowledge management, not the whole knowledge management system (Lee *et al.*, 2005) was assessing the performance of an organization with respect to its knowledge, and Harlow (2008) was assessing the level of tacit knowledge within organizations and its effect on organizational performance). On the other hand, as Kalling (2003) annotates, the empirical studies that focus on the links between knowledge management and performance often stop with proxies of performance; not at profit, but at proxies of profit, such as productivity (for example Choi and Lee (2003) calculated corporate performance based on five items: overall success, market share, growth rate, profitability and innovativeness – four out of five of those items are proxies of profit, while Lin and Tseng (2005) calculated corporate performance using seven items: productivity, cost performance, competitiveness, sales growth, profitability, market share and innovativeness – out of which four are proxies of profit).

Maja (2010) did a study to investigate the link between knowledge management and organizational performance by looking at the link between knowledge management success factors and two financial indicators – ROS (return on sales) and ROA (return on assets). This link was investigated in Croatian environment, which is at the beginning of accepting a market-based economy and where majority of organizations are only beginning to integrate knowledge management into their business philosophy. From the findings of his study, the correlation analysis focused on five knowledge management success factors and two financial indicators, therefore investigating ten possible links, proved three out of ten links to be significant, two links to be insignificant although indicative of definite but small relationship, and five links to be insignificant with slight, almost negligible relationship (Lam, 2005).

Maja research confirmed the significant link between two out of five knowledge management success factors and financial indicators: knowledge culture and financial indicators ROS and ROA, and measuring knowledge management and financial indicator ROS, it supports the view that knowledge management is related to the financial performance of organizations (Nahm *et al.*, 2004). Specifically, by confirming the significant link between knowledge management success factor "knowledge culture" and financial indicators (both ROS and ROA), his research proved the importance of knowledge culture for managing knowledge, which should not be a surprise since the presence of knowledge culture is considered to be the most important among critical success factors for knowledge management (Alavi & Leidner, 1999; Gold *et al.*, 2001).

Furthermore, Maja research found the significant link between knowledge management success factor "measuring knowledge management" and financial indicator ROS, which could be interpreted that measuring knowledge management is essentially the distinguishing factor between thoroughly developed knowledge management system and a partial one, since measuring of knowledge management is the activity mainly performed in organizations with fully developed knowledge management system. Based on further results of the correlation analysis conducted by Maja (2010) knowledge management success factor "information technology for managing knowledge", which is also perceived as a necessary precondition that is nowadays easily available and usually exploited by organizations no matter of the quality of their knowledge management. As for the knowledge management success factor "knowledge management holders", the research results indicate an insignificant although definite but small relationship with the financial indicator ROS. This result suggests that knowledge management holders are important knowledge management success factor, and that they are connected with financial performance of the organization (Walczak, 2005).

It is people who manage knowledge. Moreover, people are the originator of knowledge. According to Davenport & Volpel (2001), managing knowledge is managing people; managing people is managing knowledge. Managing knowledge involves managers developing a set of practices to capture, collect and transfer of relevant knowledge within the organization of people to improve services, outcomes and performances. Thus, through collegial and professional teamwork, knowledge management practices actively encourage and engage people at many organizational levels in sharing with others what they know, and what they are learning. To make jobs more rewarding and work more effective, working groups of employees from across departments are persuaded to come together as teams by common need and exchange information to address concerns of organizations, institutions, stakeholders and customer expectations, etc. In this process, the teams also build relationships, trust, and expertise and create a shared repertoire of resources, tools, and artifacts that support future learning. In many organizations, these kinds of informal, self sustaining collegial bodies have been around for a long time. They are called "communities of practice" (CoPs) (Lave & Wenger, 1991) and have been found to be one of the effective means in managing tacit knowledge within organizations. These CoPs are often at the centre of innovation and energy and have been identified as one of the knowledge management enablers.

Job performance means the value of one's contribution to his or her work (i.e., an individual's productivity). The basic concepts of knowledge management are the accumulation, store, retrieve, pass, feedback, and update of an organization's internal data and transfers data into usable knowledge to reduce relearning and searching costs. It also means to keep and share an individual's best professional knowledge and experience with other members in order to raise job performance. Thus, knowledge management not only can create the value of intellectual assets but also enhance an employee's productivity and performance. Cheng (1999) and Wu (2004) discover that the higher the operation performance of knowledge management is the higher job performance. Lin (2001), Wang (2002) and Huang (2002) suggest that the applications of knowledge management include knowledge creativeness, knowledge application, and knowledge transfer and all of these can increase an organization performance. In a study to examination of accounting departments in governments, workers in police offices, and emergency medical technicians in fire departments, Wu (2003), Yang (2004), and Kong (2004) find that knowledge management and job performance are positively and significantly correlated.

An organization is said to be performing better business wise if it has the ability to: respond faster to key business issues; create new business opportunities easily; improve new product development and improve business processes easily. Many work practice processes affect information flow within every organization. These processes include administrative procedures, business processes, information sharing patterns, information silos, salary incentives (Petrides & Nodine, 2003). Similarly, knowledge management practices enable people to get the information they need, when they need it, as well as to share it with others who may benefit from it and help to promote these processes that lead to more informed decision-making. Business performance of an organization is closely influenced by the organizational culture. According to Wen-bao

(2007) organizational culture is the common belief, conduct rules and values shared by all organizational members.

Deshpande and Webster (1989) define organizational culture as the set of shared values that help organizational members understand organizational functioning and thus guide their thinking and behavior. Researchers argued that culture is a complex system of norms and values that is shaped over time and affects the types and variance of organizational processes and behaviors (Barney, 1986). Organizational culture as a concept is considered to be a key element of managing organizational change and renewal (Pettigrew, 1990). Thus, culture is a sort of glue that bonds the social structure of an organization together. Hofstede, (1991) called culture the "Software of the mind". In the competitive environment the organizations have to change its culture in order to survive otherwise, it may be even counterproductive (Jex, 2003). Four types of culture are found in organizations i.e. power culture, role culture, support culture and achievement culture (McKenna, 2000).

Knowledge management processes are embedded in social settings which heavily influence these processes (Alavi, Kayworth & Leidner, 2006). Many scholars and practitioners (Lopez *et al.*, 2004; Kulkarni, Ravindran & Freeze, 2007), believe that an organizational culture that is supportive and or adaptive can enable the successful implementation of knowledge management technologies as well as practices. Alavi, Kayworth & Leidner (2005) cite expertise, formalization, innovativeness, collaboration and autonomy as the values of organizational culture that lead to effective knowledge management. In work setup formalization refers to rules, procedure and written documentation such as policy manuals and job descriptions (Daft, 2001). Graham and Pizzo (1996) argued that effective knowledge management requires a balance between open and flexible organization system along with formality and discipline to ensure tangible output. According to Keiser, Beck and Tainio (2001), the formal rules enable organizational learning and knowledge and increase the effectiveness of organizational communication. Rules and directives help sequencing problem solving and decision making, which in turn facilitate knowledge accumulation (Gold *et al.*, 2001). Formalization is also manifested by uncertainty avoidance practices of establishment and enforcement of rules, procedures and regulations (House *et al.*, 2004). All these lead to enhancement of organizational business performance in terms of responding faster to business key issues; creating new business opportunities easily; improving new product development and improving business processes.

Collaboration is the degree of active support and help in the organization. Collaboration is defined as human behavior sharing of meaning and completion of activities with respect to a mutually-shared goal and taking place in a particular social or work setting (Sonnenwald & Pierce, 2000). Delong and Fahey (2000) cited interactivity, collaboration, sharing and teaching, dealing with mistakes, orientation to existing knowledge as the cultural characteristics, shaping social interaction in the context of knowledge management. Lopez et al., (2004) empirically identify collaborative culture as a means to leverage knowledge through organizational learning. A culture of collaboration helps in knowledge creation by increasing knowledge exchange which in turn increases the organizational business performance. Kotler (1980) suggests that customer orientation can be regarded as the application of marketing concepts in salespersons service and customer interaction. A professional salesperson needs expertise to meet with a customer's expectation and requirement, and he or she should not doubt what she or she is going to sell? Instead, he or she has to ask what the best way to solve a customer's question is. This is so called customer orientation. Saxe and Weitz (1982) pinpoints that customer orientation is salespersons perform marketing concepts in the process of customer interaction. That is to say, when an exchange between a salesperson and a customer occurs, a salesperson can utilize marketing concepts to help customer to make a satisfaction decision.

Customer orientation will make salespersons to adjust their selling methods as the environment changes. As a result, when salespersons encounter different customers and different selling situation, they can act with an appropriate response (Spiro & Weitz, 1990). Manning and Thorne (2002) maintains that it is not enough only to satisfy a customer needs, and salespersons nowadays require using technological equipments to understand customer experiences. In other words, knowledge must be effectively analyzed, stored and used through a suitable knowledge management, and it will help salespersons to intensify their ability to service quality and provide a customerized service. Moreover, a customer needs will differ according to products and customers themselves, and the more a salesperson interacts with a customer, the more knowledge can be obtained from customers. After knowledge is stored, shared and uses, a salesperson can be better to provide and satisfy customer needs. Furthermore, other researches show that customer orientation is positively correlated with customer relationship (Williams & Attaway, 1996) and is affected to salesperson performance (Sweson & Herche, 1994; Dunlap, Dotson & Chamber, 1988; Hsieh, 1999). Frankwick, Poter, and Crosby (2001) also point out that if a salesperson makes more contact service, it will promote, maintain or improve customers' feelings and increase purchase intention, market size; market share; enhanced product or service quality; creation of more value to customers; ease of entry to different market type and better customer handling which adds up to improved organizational market performance.

Further, companies use knowledge to secure a strategic advantage. Concisely, it is about generating greater value through the knowledge in products, people, and processes. That is, Knowledge in Technology or Products implies Tools and infrastructure, leading to 'Intelligent'