

## BENEFITS OF KNOWLEDGE MANAGEMENT SYSTEM FOR BANKING SECTOR

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### ABSTRACT

The globalization of financial markets forced bankers to be knowledge-based and be more efficient in managing knowledge in their banking operations. In this paper, a research model called: Banking Knowledge Management Model (BKMM), which encompasses knowledge creation, knowledge retention and knowledge sharing and more importantly, how each of these elements can be integrated in enhancing the quality of banking operations. The various components of BKMM are described in detail so as to explain the progress of knowledge management in banking operations. The contribution of the BKMM is expected to create a culture that promotes and encourages knowledge management to flourish in the banking sector. I have tried convey what exactly is the term Knowledge Management in general terms and in the banks perspective, its importance to banks, the problems faced and the technological aspect of knowledge management.

**Keywords:** Knowledge Management, Knowledge Progress, Knowledge Creation, Knowledge Retention, Knowledge Sharing.

### 1. INTRODUCTION

In a highly demanding business world today, an organization's competitive edge almost wholly depends on how well it can manage and deploy its corporate assets. These assets can be categorized into tangible and intangible assets. Traditionally, tangible assets like plant, equipment, inventory and financial capital are considered the most fundamental corporate assets. Intangible assets play a very little or vague role in any organization regardless from which industry it comes from (Vorbeck, Heisig, Martin and Schutt, 2001).

To compete and become successful in their own market, organizations must now learn to manage their intangible asset, that is "Knowledge" and this practice is generally known as Knowledge Management or sometimes is referred to as business intelligence.

"Knowledge management is the concept in which an enterprise consciously and comprehensively gathers, organizes, shares, and analyzes its knowledge in term of resources, documents, and people skills", (Lyons, 2000).

"Knowledge management is framework , a management mind-set, that includes building on past experience (libraries, data banks, smart people) and creating new vehicles for exchanging knowledge ( knowledge- enables intranets, sites, communities of practice, network)" - O. Dell et.al. (2000)

The emergence of this "knowledge era" is radically changing what creates value in organizations (Carlisle, 2002), whereby the long-term viability and prosperity of an organization increasingly depends on its ability to leverage the hidden value of its intangible assets.

Therefore, knowledge management is now becoming an undeniably important component in an organization's intangible asset. The continuous change in market expectations and the demands for new products have been gradually replacing the capital and labor-intensive firms by knowledge intensive firms, and routine work by knowledge worker.

### 2. CONCEPTUAL REVIEW

Knowledge is the main element that inspired the knowledge management initiatives in any sector. The knowledge-based era forced the banking institutions, to put knowledge as one of the main competitive advantages. The issues discussed in corporation are somehow relevant to banking institutions although "it gets tougher in financial landscape because it is such a knowledge-oriented environment" (Davenport, 1998; ISIS, 2002).

There are researchers who define knowledge in the context of know-why, know-what, know-how, know-who, know-where and know-when, in order to relate it with managing knowledge concepts. For instance, Van den Bosch and Van Wijk (2001) present a conceptual framework of managerial knowledge integration. Know-what can be defined as something people carry around in their head and pass between each other but in contrast, know-how embraces the ability to put know-what into practice (Brown & Duguid, 2002). On the other hand, Japanese researchers like Nonaka, Toyomo and Konno (2002) defines knowledge by emphasizing on the relative, dynamic and humanistic dimension rather than traditional Western epistemology (the theory of knowledge) that focus on absolute, static and non-human view of knowledge.

Quintas (2002) discusses three different priorities that bring to different responses by firms in their knowledge management initiatives. Most of firms in the West give priorities to capturing employees' knowledge, exploitation of existing knowledge resources or assets, and improved access to expertise. Others mainly focus on "capturing and re-using past experience, after-action reviews to capture learning, and building and mining knowledge stores" (Quintas, 2002). The third priority, which is focused on generic knowledge management initiatives that promote better communication, learning and knowledge sharing. In addition, the organizations recognize the importance of knowledge creation and seek to create a culture that supports knowledge creation.

**3. OBJECTIVES OF THE STUDY**

1. To study the conceptual framework of Knowledge Management System.
2. To Study benefits of KMS in Banking sector.
3. To study the carrier opportunities and generate the model of KMS for banks.

**4. BENEFITS OF KNOWLEDGE MANAGEMENT**

In an organizational setting, benefits can occur at two levels; individual and organizational (Cong & Pandya, 2003). At the individual level, knowledge management provides employees opportunities to enhance skills and experience by working together and sharing other people's knowledge and learn from one another, thereby improving personal performance, which leads to better career advancement.

At the organizational level, knowledge management provides two major benefits for an organization:

- Improving the organization's performance through increased efficiency, productivity, quality and innovation.
- Increasing the financial value of the organization by treating people's knowledge as an asset.
- Knowledge is the only input that can help in coping the radical changes and take corrective measures before it is too late. Knowledge alone can accelerate product innovation and boost revenues.
- Knowledge provides effective decision support. Effective knowledge sharing of past successes, failures, projects, initiatives enables better decisions creating more economic value for the organization.

**KEY BENEFITS TO ORGANIZATION:**

- Cost reduction
- Increasing flexibility to accept and change
- Reducing the time-market for new products/services
- Increasing sales
- Reducing process cycle times
- Improved decision making
- Increased responsiveness to customers
- Improved efficiency of people and operations
- Improved innovation

**5. KNOWLEDGE MANAGEMENT IN THE BANKING SECTOR**

For the past 20 over years, banks have been actively automating their manual processes. This has resulted in the creation of many information systems even within one bank. While these information systems were able to help banks to better manage their processes and resources, they also have created a number of setbacks. One major setback of past information system is that it has resulted in the creation of huge volumes of data and information, resulting in a phenomenon like information explosion or information overload.

The scenario, however, has changed. More efforts and resources are employed to make it successful since in today's modern banking, information and knowledge are treasured assets.

Banks have realized the crucial role of knowledge management in gaining an edge in this competitive field, but there have been laggards in the adoption of knowledge management usually due to wait and see attitude of what will be the true benefits and pitfalls from early adopters. According to an International Data Corporation's (IDC) survey conducted across more than 600 banks in Western Europe, only 20% of banks are currently apply a knowledge management principles (Blesio & Mognani, 2000). This trend is actually more prevalent among large banks. With greater awareness of the importance of knowledge management, IDC expects this situation to change in the near future, and knowledge management will become a priority for the banking sector.

Apart from large volumes of knowledge, the use of information technology (IT) in managing knowledge has given knowledge management a new dimension. It is important that the use of technology and the "social process of technology use" are harmonized (DeSanctis & Poole, 1994). With appropriate strategies, IT could help to carry out and maximize the benefits of many of the management initiatives, including knowledge management.

|   |  |   |  |
|---|--|---|--|
| Global knowledge source acquisition.<br><i>Internet Access, Commercial Database</i> |  | Knowledge management in organization.<br><br>Direct, Real time, Continuous learning |  |
| Knowledge Sharing in Banks.<br><i>"EDMS", Data collection and Knowledge Godown</i>  |  | Give value to individual knowledge.<br><br>Corporate Register                       |  |
| Integrated communication network.<br><br>E-mail                                     | Multi-function working group.<br><br>Virtual discussion room | Inter-departmental knowledge sharing.<br><br>Intranet internal page                 |  |
| <u>The Process of Knowledge Management Progress</u>                                 |  |   |  |

Figure 1: Knowledge Management Progress [KMPs]

Therefore, based on KMPs above, it can be fairly said that knowledge management is not a technology. In contrast, technology is fundamental to the knowledge management progress.

## 6. PROCESS OF INITIATION OF KM

1. The first step for banks would be to create the required mindset among employees in this regard
2. To identify the areas in respect of which knowledge is required
3. To acquire desired knowledge by induction of desired quality of manpower or outsourcing on continuous basis
4. To develop, knowledge pool, knowledge bank within the organization and update the same from time to time
5. To make available the appropriate updated knowledge to employees (the users) anytime, anywhere and reuse the same.
6. To define knowledge pools by adding fresh knowledge and getting rid of absolute knowledge.

## 7. RESEARCH MODEL - BANKING KNOWLEDGE MANAGEMENT MODEL (BKMM)

Based on the literature review, we have come up with a model to describe the knowledge management progress. The model is as shown in Figure. The environment forces such as the importance for an organization to maintain its competitive advantage by managing knowledge well or the requirement of the organization to distribute its knowledge among its geographically dispersed human resources may compel the organization to initiate a knowledge management programme. Through a combination of people and technology, information and energy are transformed into knowledge progress and structures that produce products and services. There are mainly three components in the knowledge progress. They are knowledge creation, knowledge retention and knowledge sharing. BKMM contains different sub components are as follows:

**Internal Environment:** Director, CEO, Manager, Supervisor, Clerk, Peon

**External Environment:** Government society, Media, Competitors, Customer

**Technology:** Internet, Intranet, e-mail, Video conferencing, Internet Relay Chat (IRC), Mobile, Telephone, Discussion, Meeting

**Explicit Knowledge:** Documents, Reports, Letters, etc.

**Implicit Knowledge:** Views, Ideas, Thoughts, Plans, Experience, Oral Communication, Interview, Guest speakers etc.

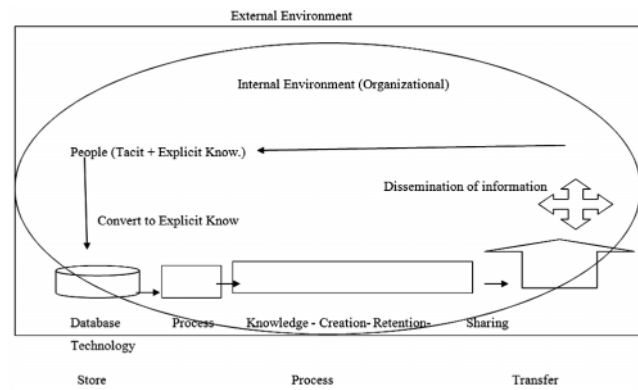


Figure 2: Banking Knowledge Management Model (BKMM)

### 7.1 Environment

In any work environment most jobs are imprecise: best decisions depend on circumstances and available knowledge, which drive the need to rethink current approaches to problem solving and decision-making. It is therefore a learning organization that is skilled at creating, acquiring, organizing and sharing knowledge that can gain competitive advantage.

### 7.2 People

A challenge for knowledge management is managing and training people to embrace a knowledge management oriented culture. Communication, reward systems, and leadership are important cultural factors in implementing knowledge management.

### 7.3 Technology

Knowledge in today's organizations can be characterized as "fragmented" (Duffy, 1999). There are extremely large volumes of knowledge dispersed in organizations with ever-increasing size. Accompanied with mergers, acquisition and alliances, banks are becoming more and more diversified in the type of businesses they operate. Information technology is only effective if used properly in data management. To allow knowledge sharing anytime anywhere, several types of technological tools are available. Mobile technology, portable hardware and software, networks, email, teleconferencing and intranets are some of the commonly used technologies for knowledge creation and sharing. Knowledge repositories and data warehouse are some of the technologies used for data retention.

### 7.4 Knowledge Progress

Three major components are involved in knowledge progress: Knowledge creation, knowledge retention and knowledge sharing. The essence of knowledge management is to manage those components for organizational effectiveness.

### 7.4.1 Knowledge Creation

This is the progress in which knowledge is captured and defined. Explicit knowledge can be easily captured and put in the form of a manual, booklet, or document. On the other hand, tacit knowledge is imbedded in social structures, and therefore, it needs to be extracted, codified, and made explicit. Through this codification process, tacit knowledge is transformed into explicit knowledge.

### 7.4.2 Knowledge Retention

Another important knowledge progress component is the retention of knowledge. The main purpose of retention is to allow reuse of knowledge. Knowledge retained can be readily shared. Protection of knowledge is equally important. Without security measure, the integrity of the knowledge could be at stake. Erroneous knowledge is just as damaging as inaccessible knowledge if not more.

### 7.4.3 Knowledge Sharing

When we communicate knowledge, it is the process of sharing. Both explicit and tacit knowledge can be shared. However, explicit knowledge can be shared more easily and will have little risk of creating error in the process. Tacit knowledge, which is hard to articulate, is the challenging part of knowledge sharing. In any case, sharing should be as direct as possible with few intermediaries (Buckman, 1998).

## 8. EMPLOYMENT GENERATED BY KM IN FUTURE

As the KM field expands, organizations increasing rely on "knowledge workers" to generate, classify, manage and distribute tacit and explicit knowledge. Today in the knowledge enabled organizations, many other levels of knowledge workers from different backgrounds contribute to the KM systems in pave or being developed and the harnessing of the organizational knowledge capital to accelerate organizations corporate image.

Following are the opportunities in new knowledge organizations:

#### Managerial:

1. Knowledge Manager
2. Chief Knowledge Officer (CKO)
3. Knowledge Initiative Manager
4. Knowledge Management Experts
5. Knowledge Transfer Experts
6. Knowledge Engineers
7. Knowledge Strategist

#### Technical:

1. Knowledge Analyst
2. Knowledge Mapping Specialists
3. Knowledge Content Creators
4. Knowledge Base Architects and Administrators

#### Non Management:

1. Librarians
2. Cybrarians
3. Information Brokers

## 9. CONCLUSION

The future role of knowledge management in the banking industry, like every other management concept, depends upon its ability to contribute to stakeholder value. Little quantitative data exists on how managing something as intangible as knowledge directly impacts on the bottom line. However, a large body subjective evidence suggests that managing knowledge systematical matters. It will continue to matter as long as banks rely on the ability of their employees to make good decisions; on the ability of the banks to meet customers need more efficiently; and on the ability to continuously innovate for the benefit of shareholder value.

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