ABSTRACT

The ability of an organization to effectively nurture, capture, leverage, and share its knowledge resources become the key that provides an enterprise with its strategic power advantage in the world. When an organization develops its ability to build, access and leverage its knowledge resources it is creating its knowledge advantage. In an era of knowledge economics, Knowledge Management (KM) and Intellectual Capital (IC) have emerged as major issues that managers must deal with, if the organizations want maintain their competitive advantage. The accumulation of IC and KM is closely related. The successful management of IC is linked to the efficiency of KM processes, which, in turn, implies that the successful implementation of KM ensures the growth and renewal of IC in an organization. There are relatively few discussions on the relationship between KM and IC, and even fewer studies on such relationship in the banking industry. For the banking sector, as one of the most knowledge-intensive industries, it is imperative to understand how to use techniques in KM to accumulate IC to cope with an increasingly changing environment. Based on previous studies, this article seeks to explore the links between IC and KM in Portuguese banks, by identifying the IC resources of importance and leveraging these resources through KM capability.

Keywords: Alignment, Banking Sector, Intellectual Capital, Knowledge Economy, Knowledge Management, Partial Least Squares (PLS)

1. INTRODUCTION

Knowledge is now recognized as the resource (Drucker, 1993), the main source of sustainable competitive advantage (Grant, 1991; OECD, 2009) and the most important property of an organization. It is not so surprising that Knowledge Management (KM) and Intellectual Capital (IC) discourse become top priorities of research and central issue for practitioners. They are links in a chain belonging to a paradigm where sustainable competitive advantage is tied to individual workers’ and organizational knowledge. It encompasses the intelligence

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found in human beings, organizational routines and network relationships. Although complementary concepts, KM and IC issues have been seen as two distinct areas (Bonfour, 2003). The scant literature that does link KM and IC has been produced purely on a theoretical basis. In practice, organizations have difficulty in connecting these two disciplines and, when implementing management systems, they seek separately their indicators. This difficulty results, very often, in redundant information, cost duplication and, ultimately, in loss of efficiency and effectiveness.

The banking industry is one of the most knowledge-intensive industries where IC generally represents the critical resource in the value creation process (Cabrita et al., 2010). The core competitiveness of the banking industry is highly reliant on the ability of management teams to systematically manage knowledge and experience. It also depends on whether they are able to create sophisticated skills catering to the IC of their organization to effectively manage risks and create profits. As few studies have dealt with the relationship between KM readiness and IC, the purpose of this paper is to determine whether or not there is a significant link between these two factors.

This study seeks to: i) evaluate the impact of IC components in business performance; ii) contribute to a better understanding of the link between KM and IC; iii) provide an approach to selecting indicators from integrating KM processes with IC components; iv) identify the IC critical resources in Portuguese banks and emphasize how they can be leveraged through KM capability. The study was carried out based on the administration of a questionnaire and semi-structured interviews with banking managers.

2. THEORETICAL BACKGROUND

The resource-based view (RBV) of the firm considers the sustainable competitive advantages of the firm to be dependent on the internal resources the firm has at its disposal (Barney, 1991; Wernerfelt, 1984). Many of these resources are characterized by an intangible quality. Actually, this may be the basis for their ability to create sustainable competitive advantage as they produce barriers to imitation through the causal ambiguity induced by their tacit, complex and specific nature (Reed & DeFillippi, 1990). As such, there has been a drive to develop an analysis of the intangible assets that make up these resources that are seen as key in determining the strategic management process of the firm (Barney, 1991; Hall, 1992). Knowledge-based view (KBV) identifies in knowledge, which is characterized by scarcity and difficult to transfer and replicate, a critical resource for achieving competitive advantage (Nonaka & Takeuchi, 1995).

2.1. Knowledge Management: A Process and Practical Approach

KM implies the development, transfer and application of knowledge within the organization so as to attain and maintain competitive advantage. Knowledge management relates to the processes and practice through which organizations create knowledge-based value.

There are two fundamental approaches to KM: the process approach and the practice approach. The process approach attempts to codify organizational knowledge through formalized controls, processes, and technologies (Hansen et al. 1999). In contrast, the practice approach to KM assumes that a great deal of organizational knowledge is tacit in nature, and that formal controls, processes, and technologies are not suitable for transmitting this type of understanding. The flow of knowledge depends on people and the social environment they operate in. This conceptual linkage between socio-cultural context (practical approach) and technological context (process approach) is illustrated in Figure 1.

Key KM activities are: knowledge acquisition (from customer, supplier, competitor and partner relations), knowledge development (directed toward creation of new skills and
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