Knowledge Risks of Social Media in the Financial Industry

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ABSTRACT

The financial sector is characterized as knowledge intensive with knowledge as the key source of competitive advantage. The introduction of social media within the organizational environment has raised the number of knowledge risks that can lead to knowledge leakage and thus to a loss of competitive edge. The authors investigated knowledge risks arising from the use of social media within the financial sector. They interviewed twelve employees from ten different European financial institutions to identify strategies how financial institutions currently deal with knowledge risks. The authors identified three major knowledge risks induced by social media and it appears that financial institutions are skeptical towards social media adoption. However, competition forces financial institutions to adopt social media and to change their attitude. As a consequence, financial institutions need to find different strategies for the management of knowledge risks. The authors identified such strategies and they show which strategies link to the major knowledge risks.

Keywords: Financial Industry, Knowledge Protection, Knowledge Risk, Social Media

INTRODUCTION

The knowledge-based era has forced the financial sector to consider knowledge as one of the main resources of competitive advantage (Ali & Ahmad, 2006). Due to the increasing importance of intellectual property, the financial sector has been widely characterized as a knowledge intensive sector (Cross & Weller, 2001; Danish, Asghar, & Asghar; Jayasundara, 2008). In service industries such as consulting or investment banking, knowledge is increasingly the key competitive differentiator (Gratton & Ghoshal, 2003). Thus, by managing their organizational knowledge, financial institutions enhance their presence in the marketplace to maintain progress in their operations (Alrawi & Elkhatib, 2009). Furthermore, sharing and transferring knowledge creates transparency, which in turn helps financial institutions to reduce their operational risks (Cross & Weller, 2001).

DOI: 10.4018/IJKM.2015100102
The financial sector is confronted with an increasing amount of data and information (Jayasundara, 2008). It is also a very complex sector that requires continuous collaboration and knowledge sharing but at the same time has to cope with strict security, privacy and compliance regulations (Ali & Ahmad, 2006). The culture of the financial industry, along with a vast amount of knowledge and a highly regulatory environment, makes the implementation of knowledge management more difficult than in other industries (Chatzoglou & Vraimaki, 2009). As knowledge is the key source of competitive advantage, knowledge related risks also need to be managed seriously and in coordination with the overall organizational risk management (Thalmann, Manhart, Ceravolo, & Azzini, 2014).

The introduction of social media facilitated knowledge diffusion and sharing across the organizational boundaries and created new knowledge risks. Social media provided additional channels for communication and collaboration, knowledge creation, sharing and publication for identifying experts and getting access to experts’ opinions (Avram, 2005). By using social media, financial organizations can reduce high inefficiencies, raise employees’ motivation and sustain a competitive edge (Bughin, 2008). However, the utilization of social media raised knowledge risks at the security, the reputational, and the managerial level (Väyrynen, Hekkala, & Liias, 2013). Like any other industry, the financial sector cannot remain indifferent towards such risks. Social media implementation within the financial sector can turn into a double-edged sword. Following the call from Väyrynen et al. (2013) and Pawlowski et al. (2014) we conducted semi-structured interviews to investigate whether the risks arising from the use of social media highlighted in the literature also concern financial institutions. And if so, which strategies are implemented by the financial institutions to address these risks?

BACKGROUND

Knowledge is an important productive resource for an organization’s competitive advantage (Grant, 1997). Therefore, the superior ability of an organization to generate, capture and disseminate knowledge, results in a competitive edge (Sharkie, 2003). Especially in an environment of high uncertainties and looming crises, the management of organizational knowledge is important for the financial institutions to sustain their competitive advantage (Shih, Chang, & Lin, 2010).

To take full advantage of their organizational knowledge, organizations increasingly pay attention to knowledge management, which can be defined as the process of identifying, capturing and leveraging the collective knowledge in an organization (Alavi & Leidner, 2001). Researchers argue, however, that the culture of the financial industry, along with a vast amount of knowledge and a highly regulatory environment, makes the implementation of knowledge management more difficult than in any other industry (Ali & Ahmad, 2006; Tanaji, 2012). Even though knowledge management became a core focus for a number of industries, only a few financial institutions established efficient knowledge management strategies (Chatzoglou & Vraimaki, 2009; Cross & Weller, 2001; Jayasundara, 2008). The financial sector has been laggard in the adoption of knowledge management until the organizations observe true benefits and pitfalls from the early adopters (Ali & Ahmad, 2006).

It is no secret that knowledge sharing with the right people enhances the competitive advantage and provides continuous knowledge creation. This advantage, however, could be eroded when competitors obtain such knowledge (Ahmad, Bosua, & Scheepers, 2014). Hence, organizations have to manage the risks associated with knowledge sharing (Thalmann et al., 2014). This involves balancing between too much and too little knowledge sharing and knowing how
A Framework for Managing the Life Cycle of Knowledge in Organizations
www.igi-global.com/article/framework-managing-life-cycle-knowledge/2746?camid=4v1a