How Knowledge Management Influences Performance? 
Evidences from Indian Manufacturing and Services Firms

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ABSTRACT

Prior research studies on knowledge management (KM) offer inconsistent support that it enhances firm performance. A majority of them discuss KM without incorporating the valuation of KM efforts. This article proposes a conceptual model comprised of six KM and two performance constructs. Performance is classified as financial and non-financial. Survey data from 313 Indian respondents is used to examine the influence of KM on firm performance. The results show that there is a strong, positive and significant link between the six KM constructs and organizational performance. Further, it is found that the influence of KM constructs on financial performance is indirect, that is, their influence is accomplished through the mediating variable organizational performance. The study provides evidence, firstly, through identifying important KM constructs and secondly by examining its influence on performance. It contributes to managerial practice by proposing an empirically validated KM model, which can guide KM practitioners in developing capabilities for enhancing organizational performance.

KEYWORDS

Financial Performance, Impact Assessment, India, KM Enablers, KM Process, Manufacturing, Services, Organizational Performance

1. INTRODUCTION

Companies worldwide have been struggling with the idea of using knowledge management for enhancing business performance. A large number of research studies have focused on the KM practices adopted in organizations. Some studies have empirically examined the influence of KM practices on performance improvements (e.g. Mukherjee et al., 1998; Smith and McKeen, 2004; Zack et al., 2009; Chen et al., 2011; Mills and Smith, 2011; Holsapple and Wu, 2011; Tubigi and Alshawi, 2015; Valmohammadi and Ahmadi, 2015; Cegarra-Navarro et al., 2016; Shahzad et al., 2016; Ha et al., 2016; Koohang et al., 2017). However, these studies do not provide a distinction between financial and non-financial performance improvements. This research gap, i.e. the need for to distinguish between the financial and non-financial impact of KM is our motivation for undertaking this research study. The authors believe that this is important, especially in sectors where companies have to cope with growing pressures of mature markets, increasing customer demands, cost reduction and changing consumer behaviours.

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Our objective is to identify relevant KM constructs and determine the degree to which they influence firm performance. Both qualitative (focus group and personal interviews) and quantitative (survey) research are used. The sample is comprised of working professionals from Indian organizations. Structural equation modeling is used to examine the relationship. The results show that all KM constructs positively and significantly impact firm performance. The impact of KM constructs on financial performance is indirect. This paper helps in linking KM efforts with performance improvements, which is a crucial element in determining how successful KM efforts are. This research also provides recommendations for Indian organizations, which are pursuing KM or plan to use it in future.

Consistent with its objectives, this organization of the papers is as follows. First, a review of literature discusses Knowledge Management (KM), KM models and assessment tools, critical KM constructs, KM enablers, and performance measures. What follows are the research gaps, objectives of the study and formulation of the hypotheses. Next, the research model is presented based on the proposed relationships in the hypotheses. This is followed by methodology, which includes details of the instruments used, sample description, and techniques used to test the hypotheses. In the following section, we present the analysis of the data and findings from the study. This includes testing the instrument for validity and reliability and path coefficients of the causal linkages in the research model. Finally, we conclude the research findings with our recommendations, implications for academicians and practitioners, limitations and suggestions on areas of future study.

2. OVERVIEW OF LITERATURE REVIEWED

2.1. Theoretical Background

There are various perspectives on how KM should be defined and measured. According to Jennex (2005), KM is an action discipline and knowledge application is essential in order to have an impact. The discipline of KM focuses on using knowledge derived from past experiences and applying it to improve the effectiveness of current and future decision-making.

Although KM impacts business outcomes, it is difficult to measure. Thus, appropriate proxies can be used to measure how well the management is managing its firm’s knowledge base (Soo et al., 2002). Three critical factors for KM emphasized by prior researchers are process, enablers and performance (Lee and Choi, 2003, Chang and Chuang, 2011).

The main focus of this research is to examine the relationship between KM process, enablers and firm performance. Previous research studies have researched the influence of KM factors on performance and suggested a number of tools and metrics.

2.2. Synthesis of Previous Studies to Identify Important KM Constructs

A synthesis of previous studies yields some insights. Firstly, for the success of KM implementation, it is crucial that relevant KM constructs are correctly identified and effectively managed. Secondly, the initiative should be conceptualized around a specific core issue that the organization is struggling with. (Saroch and Barmash, 2007). Thus, identification of critical issues and processes where issues occur is crucial for initiating the KM pilot.

2.2.1. KM Processes

A well-defined process for capturing, applying and disseminating knowledge is critical for the success of a KM initiative. Prior research studies have acknowledged common steps in a typical KM processes, viz. acquire, collaborate, integrate and experiment (Leonard-Barton, 1995); acquire, index, filter, link, distribute and apply (Alavi, 1997); generate, codify and transfer (Davenport and Prusak, 1998); acquire, convert, apply and protect (Gold et al., 2001); create, storage/retrieval, transfer and apply (Alavi and Leidner, 2001); acquire, select, internalize and use (Holsapple and Joshi, 2002); acquire,
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