

Knowledge Management Practices in Indian Banking Sector

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Abstract: Banks worldwide use data warehousing/BI solutions for performance measurement, profitability analysis, risk management, historical analysis, managing compliance requirements, executive dashboards, regulatory reporting and customer relationship management. Once the business transactional data (deposits and loans etc) from all the branches of the banks had been accumulated in the transactional processing system, giving a consolidated view of the bank's operations, the need of bank managers at various positions to know the financial status of the bank in order to acquire new customers and retain existing customers, was perceived. In this paper discussed about KM applications for banks, need to integrate a framework for banks. Knowledge management has recently been emerged as a new discipline in its own right and, given its newness, is probably still developing its theoretical home. This will aim to reflect on current theoretical and empirical works tell us about the implications of better strategic alignment between corporate strategy and KM strategy. This study seeks to explore the role of KM in the banking sector through strategic relationship between KM and banking strategy, where the role of KM and its implications for human resources present the greatest challenge to current management practices.

Keywords: Knowledge transfer, KM strategy, User friendly, Decision making, IT systems.

Introduction

Knowledge Management (KM) has been in existence in our society ever since the discovery of language. Human beings learnt how to communicate and knowledge transfer took place from father to son, teacher to pupil, from educated to the uneducated through various means as written form, songs and dances or by folklore. As long as society was not widespread, these different tools and techniques served its purpose of facilitating the transfer of knowledge. In small organizations, which are geographically not spread out or which are

psychologically close knit, knowledge dissemination takes place without any formal procedure in place. The grapevine is sufficient to ensure free flow of knowledge. However, a major drawback is that of the content being distorted as it moves away further from the originator. Today even in small organizations it is not possible to expect that each and every employee is aware of every bit of information existing or generated within the organization.

The concept of knowledge management is to ensure that reinvention of the wheel does not take place, to

ensure that we can build on what we learn from others and in the organizational context to ensure that the response time to adapt to environmental changes is reduced. In a highly competitive world where every unit of time is crucial and where every decision is strategic, it becomes imperative that an organizational repository of knowledge is generated and stored in an accessible place. What could be better than having a centralised database in a user friendly form. The objective of knowledge management is to capture tacit knowledge of different stakeholders of the organization as customers, shareholders, employees, suppliers etc. and make it explicit so that other employees can take advantage of it. Such sharing of information will enable improved and quicker decision making and benefit the organization.

Knowledge management is the practice of adding actionable value to information by capturing tacit knowledge and converting it to explicit knowledge; by filtering, storing, retrieving and disseminating explicit knowledge; and by creating and testing new knowledge. In this context, tacit knowledge includes the beliefs, perspectives, and mental models so ingrained in a person's mind that they are taken for granted. KM will have six dimensions: 1) creating of knowledge, 2) acquiring of knowledge, 3) organizing of knowledge, 4) saving of knowledge, 5) disseminating of knowledge and 6) applying of knowledge.

Lee (2000) writes that: "inclusion of human's collaboration and help is the factor that distinguishes knowledge from corresponding data and information with it and this adds more value to the individual to whom knowledge is transferred". KM improves the knowledge activities performance, process

performance, employee performance, market performance, and organizational performance (Cebi, Aydin and Gozlu, 2010). Data and information are the most important objects which computer processes and analyses. But now there are some people think of computer as knowledge processing machines. So we must think about their relation and difference.

The Stages of Development of KM

Looking at KM historically through the stages of its development tells us not only about the history of KM, but it also reveals a great deal about what constitutes KM.

First Stage of KM: Information Technology

The initial stage of KM was driven primarily by IT, information technology. That first stage has been described using an equestrian metaphor as "by the internet out of intellectual capital". The concept of intellectual capital provided the justification and the framework, the seed, and the availability of the internet provided the tool. As described above, the consulting community jumped at the new capabilities provided by the Internet, using it first for themselves, realizing that if they shared knowledge across their organization more effectively, then they could avoid reinventing the wheel, underbid their competitors, and make more profit. The first use of the term Knowledge Management in the new context appears to have been at McKinsey. They realized quickly that they had a compelling new product. Ernst and Young organized the first conference on KM in 1992 in Boston (Prusak, 1999). The salient point is that the first stage of KM was about how to deploy that new technology to accomplish more effective use of information and knowledge.

The first stage might be described as the “If only Texas Instruments knew what Texas Instruments knew” stage, to revisit a much quoted aphorism. The hallmark phrase of Stage 1 was first “best practices,” to be replaced by the more politic “lessons learned.”

Second Stage of KM: HR and Corporate Culture

The second stage of KM emerged when it became apparent that simply deploying new technology was not sufficient to effectively enable information and knowledge sharing. Human and cultural dimensions needed to be addressed. The second stage might be described as the “ ‘If you build it they will come’ is a fallacy” stage—the recognition that “If you build it they will come” is a recipe that can easily lead to quick and embarrassing failure if human factors are not sufficiently taken into account.

It became clear that KM implementation would involve changes in the corporate culture, in many cases rather significant changes. Consider the case above of the new pediatric medicine and the discovery of the efficacy of adding orange juice to the recipe. Pharmaceutical sales reps are compensated primarily not by salary, but by bonuses based on sales results. What is in it for that sales rep to share her new discovery when the most likely result is that next year her bonus would be substantially reduced? The changes in corporate culture needed to facilitate and encourage information and knowledge sharing can be major and profound. KM therefore extends far beyond just structuring information and knowledge and making it more accessible.

As this recognition unfolded, two major themes from the business literature were brought into the KM fold.

The first was Senge’s work on the learning organization (Senge, Peter M., 1990 *The Fifth Discipline: The Art and Practice of the Learning Organization*.) The second was Nonaka’s work on “tacit” knowledge and how to discover and cultivate it (Nonaka, Ikujiro & Takeuchi, Hirotaka, 1995 *The Knowledge-Creating Company: How Japanese Companies Create the Dynamics of Innovation*.) Both were not only about the human factors of KM implementation and use; they were also about knowledge creation as well as knowledge sharing and communication. The hallmark phrase of Stage 2 was “communities of practice.” A good marker of the shift from the first to the second stage of KM is that for the 1998 Conference Board conference on KM, there was for the first time a noticeable contingent of attendees from HR, human resources, departments, and by the next year, 1999, HR was the largest single group, displacing IT attendees from first place.

Third Stage of KM: Taxonomy and Content Management

The third stage developed from the awareness of the importance of content, and in particular the awareness of the importance of the retrievability of content, and therefore of the importance of the arrangement, description, and structure of that content. Since a good alternative description for the second stage of KM is the “it’s no good if they don’t use it” stage, then in that vein, perhaps the best description for the new third stage is the “it’s no good if they try to use it but can’t find it” stage. Another bellwether is that TFPL’s report of their October 2001 CKO (Chief Knowledge Officer) Summit reported that for the first time taxonomies emerged as a topic, and it emerged full blown as a major topic (TFPL, 2001 *Knowledge Strategies – Corporate*

Strategies.) The hallmark phrases emerging for the third stage are content management (or enterprise content management) and taxonomies.. At KMWorld 2000 a track on Content Management appeared for the first time, and by the 2001 KMWorld Conference, Content Management had become the dominant track. In 2006, KMWorld added a two-day workshop entitled Taxonomy Boot Camp, which still exists today. The hallmark terms for the third stage of KM are taxonomy and content.

Review of Literature

Maryam B et al (2010) have studied the KM practices and experiences of Iran banks. Their study shows that informal training is the main source of communication for sharing knowledge. Working on the other aspects such as IT systems, for the ease of strong and sharing experiences or lesson learned are useful. The study elaborates on capturing knowledge from industrial resources in three investigated banks, such as industrial associations, competitors, clients and suppliers. It showed that banks adopt themselves with the changing environment and can be more proactive than reactive (Maryam, Rosmini and Wan, 2010).

Today competitive benefits of strategic attempts along with knowledge management have relatively been recognized among all industries across the world. Research results give firm evidences and documents about this point that organizational culture has a positive relation with knowledge management and organizational benefits programs (Allame et al, 2010). D. CHATZOGLOU et al, Proposed an approach for integrating a system that utilizes decision support and KM to enhance the quality of the support provided to decision makers in a bank's

loan department is presented. Some of the benefits of this new system include enhanced quality of support provided to bank managers in real time decision-making and KM functions.

Furthermore, banking technologies contribute great benefits not only to banks themselves but also to their customers (e.g., convenience, security, improvements, better access to information, and an alternative to cash). Thus, new models which include all the factors mentioned in the above statements will provide more benefits and conveniences to banks and their customers (Chatzoglou, Vanezis and Christoforidis, 2005). The value of knowledge on bank's customers and products can erode over time. Since knowledge can get stale fast, the content in a knowledge management programme should be constantly updated, amended and deleted using results from regular survey of customers and Customer Satisfaction Index.

Therefore, there is no endpoint to a knowledge management program. Like product development, knowledge management is a constantly evolving business practice which reflects the needs of banks' customers (Yarong & Ling 2006). True enterprise-wide KM solution cannot exist without a BI-based meta-data repository. In fact, a metadata repository is the backbone of a KM solution. That is, the BI meta-data repository implements a technical solution that gathers, retains, analyses, and disseminates corporate "knowledge" to generate a competitive advantage in the market, the intellectual capital (data, information and knowledge) is both technical and business-related (Marco, 2002).

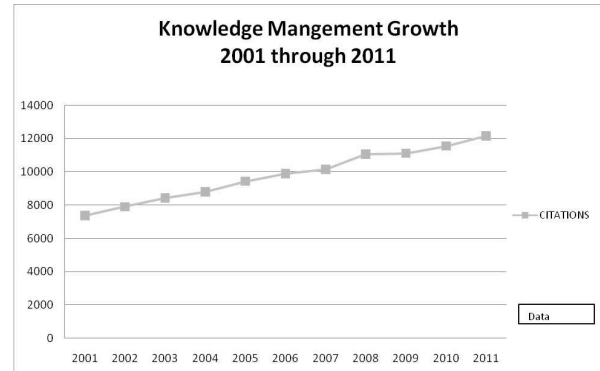
Techniques of knowledge discovery such as on line analytical processing and data mining, though they

support the management of explicit knowledge, help in mastering the hidden knowledge of the individual in the decision making process. The decision making system can be observed as decision making based on rules and decision making based on skills and knowledge (Curko,Vuksic & Loncar,2009).

Future of Knowledge Management and E-Banking

The ability to communicate by use of language is something that human beings bring to the world by nature of their existence: that is to say, it is not developed empirically, but is a priori. To the extent that any theoretical position can be grounded on such an a priori ability, then such a position may be seen as fundamental to us as communicative human actors.

In so far as communication, at least partially, may be oriented toward mutual understanding, it might be argued as the foundation of knowledge creation and sharing. In these terms, knowledge is not reducible (as is so often seen in scientific or pseudo-scientific study) to the properties of an objective world, but can be defined both objectively and according to the a priori concepts that the knowing subject brings to the act of perception. This knowing subject, being social, mediates all knowledge through social action and experience: subject and object are linked in the acts of cognition and social interaction, and the so-called subjective and objective 'paradigms' may be represented as just a convenient tool for understanding, which has been accorded too much primacy as a form of reality.



Rather, then, than relying on the concept of paradigms, this concept, and particularly the idea of paradigm incommensurability, should be opened up to challenge. Consider the so-called subjective / objective dichotomy. According to the paradigm argument, viewed (say) from an epistemological perspective, one who sees a problem context as positivistic, and seeks, for example, a technological solution, will be unable to communicate and share knowledge with another who views the same problem context as existing in the views and opinions of those participants involved in and affected by the system of concern. There are at least two fundamental difficulties with this:

1. It contradicts common human practice, and, dare it be suggested, common sense. Human participants in social groups commonly combine technical ('positivistic') and interpretative ('anti-positivistic') activity, seemingly denying the paradigm incommensurability thesis from an epistemological standpoint.
2. Theoretically, the paradigm incommensurability view seems to have dubious support. At its most basic level, it derives from the idea that technical,

scientific, functionalist activity cannot be conducted together with interpretivistic, subjective activity. But if, theoretically, subjective and objective are inseparable, paradigm incommensurability becomes much less compelling.

In essence, then, it is the argument of this chapter that these difficulties disappear once a scientific basis for our thinking is denied. For example, suppose science (as is suggested by Kant and Habermas) is seen as just one form of knowledge, which in any case is simply a convenient human perception of how the world works. Now, all human endeavor becomes mediated through subjective understanding, and the paradigms as impenetrable barriers disappear. So, the problem of interest constitution theory being no longer defensible is resolved, since it is no longer being relied on. However, this problem has been replaced with another, which may be stated as follows:

1. Accepting all human actions as mediated through subjective understanding leads to the possibility of a basis for KM in the universal characteristics of language.
2. The dichotomy between subject and object has gone, and with it, paradigm incommensurability.
3. Organisational intervention is recast as an entirely communicative issue. For example, the so-called technical interest of knowledge constitution theory becomes instead an question of how technology may further enable human interaction, all within a framework of human intercommunication.

4. The difficulty which now arises is essentially a practical one, of how to incorporate these ideas into e-banking practice.

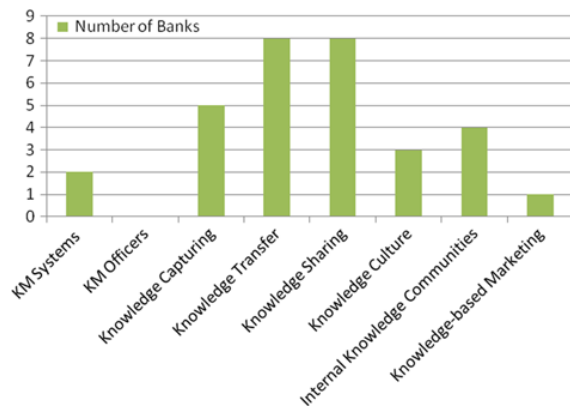
Work by Habermas (1976; 1987) on communicative action presents a universal theory of language which suggests that all language is oriented toward three fundamental validity claims: truth, rightness and sincerity. What is most compelling about this theory, however, is that all three validity claims are communicatively mediated. This viewpoint is most radically seen in respect of the truth claim, where it is proposed that such a claim results not from the content of descriptive statements, but from the Wittgensteinian approach casting them as arising in language games which are linked to culture: truth claims are socially contextual.

'Truth', can therefore be assessed by reference to communication. Rightness is about norms of behaviour, which are culturally relevant, and are therefore to be determined by reference to that which is acceptable to those involved and affected in the system of concern as a cultural group. Finally, sincerity is about the speaker's internal world: his/her internal subjectivity. These ideas can now be taken forward to provide a KM approach to e-banking which is theoretically grounded, and closer to that which is experienced in action. The conclusions below begin this process.

Applying Knowledge theory into Banking Sector

Banking, in the service industry, delivers its service across the counter to the ultimate customer. The activities of banking industry are all about "relationship". Hence, banking industry has to

provide better services with a smile to the customers in order to cultivate and maintain long lasting relationship with their customers. Notwithstanding the level of technology, banking is primarily a labour intensive service sector. Hence it will not be possible for the banks to sustain effectiveness unless human resource management is given prime importance because the technology is only an aid to human effort and not a substitution thereof. If the technology is the equalizer, then the human capital shall be the differential in future.



The Human Resources are the most important element for the progress of banking. Though technology can replace manual intervention, the thinking process is the exclusive preserve of human beings. With changing times and technology, banks would require employees with special skills in the areas of risk management, treasury, product development, customer relationship management and IT services. The technology can improve speed and quality of performance, but at the same time it can also unleash the risk factor. It is rightly said: “We are trying to apply third generation ideas on second generation organizations which are unfortunately run by first generation managers”.

It is a recognized fact that HR occupies a unique and sensitive position in the banking sector; no meaningful change is possible without the involvement of their employees. Therefore, if banks have to undertake any significant changes to adapt themselves to new competitive environment, one of the most crucial initiatives lie in organizing and preparing its HR to the requirement of competitive banking. Human asset being an intellectual asset, the new source of competitive advantage can be defined as the sum total of knowledge, skills and competencies that an organization possesses. The fundamental principle of human resource management is to treat people as a valuable asset. Good HRM is to attract the best talent, retain and motivate them.

The performance of the banks (as any other service sector organization) highly depends on their HR. Hence, efficient and effective HR practices of selecting the right people, who would maximize value and minimize cost within the organization, remains a challenging task. The core function of HRD in the banking industry is to facilitate performance improvement, measured not only in terms of financial indicators of operational efficiency but also in terms of the quality of financial services provided. Factors like skills, attitudes and knowledge of the human capital play a crucial role in determining the competitiveness of the financial sector.

The quality of HR indicates the ability of banks to deliver value to customers. Capital and technology are replicable but not the human capital, which needs to be valued as a highly valuable resource for achieving that competitive edge. The primary emphasis needs to be on integrating human resource

management strategies with the business strategy. HRM strategies include managing change, creating commitment, achieving flexibility and improving teamwork. The other processes representing the overt aspects of HRM, viz. recruitment, placement, performance management, are complementary.

Banking is not just a business of money but a business of information. The change in the global business environment has led banks to rationalize their products and services and examine the role of KM in competitiveness improvement. Managing knowledge is as important to banking industry as it is for any other kind of organization. Indeed, the last open frontier for banks to create competitive advantage may reside in their ability to leverage knowledge. Supporting this notion, Craig Kaylor of the Hampden Savings Bank, claims that banks do not sell goods only, but services and more specifically knowledge.

Knowledge sharing initiatives should aim at creating an environment that promotes several cultural factors, including professional autonomy, cohesiveness and communication structure. Banks should emphasize the creation of a work context characterized by high levels of organizational citizenship. In this way, mutual social relationships can be cultivated, and knowledge sharing intentions will be increased. Second, the establishment of a knowledge sharing system should promote the workplace communication and knowledge sharing, especially in geographically dispersed organizations from the technological viewpoint.

Moreover, organizations should focus on the creation of communities of practice within the workplace because human networks are the best way to achieve

knowledge sharing. Managers should provide appropriate feedback to all employees about the achievements of referent communities. These actions enhance individual's sense of self-worth and motivate knowledge-sharing behaviour. The World Bank launched a knowledge sharing initiative which was determined to transform itself into a knowledge bank, while until that time thought itself mainly in traditional banking terms with a range of knowledge-sharing programmes.

These may include tacit knowledge debriefings, communities of practices, helpdesk and advisory services, indigenous knowledge programmes, extensive knowledge collections on the web and a platform to share knowledge with the development community through the Development Gateway web site. As the ability to generate new knowledge is highly relevant to Intellectual capital in the banking industry, they should define their own robust mechanisms for knowledge creation so as to improve their ability in knowledge creation. Knowledge creation in banks should focus on the information exchange and sharing. The usual approach adopted by banks may include team-oriented brainstorming and workshops.

Conclusion

Knowledge Management refers to a multi-disciplined approach to achieving organizational objectives by making the best use of knowledge. KM focuses on processes such as acquiring, creating and sharing knowledge and the cultural and technical foundations that support them. Organizations are realizing that intellectual capital or corporate knowledge is a valuable asset that can be managed as effectively as physical assets in order to improve performance. The

focus of knowledge management is connecting people, processes and technology for the purpose of leveraging corporate knowledge. The database professionals of today are the Knowledge Managers of the future, and they will play an integral role in making these connections possible.

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