

Role of Knowledge Management in Firm Performance: A Quantitative Study

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Abstract

There is an examination of the role of knowledge management (KM) in firm behaviour and performance. The following literature review also provides insights for managers and policymakers on the importance of implementing effective KM practices to enhance firm performance. The previous literature for this study finds that effective KM practices positively impact several aspects of firm performance, including innovation, productivity, and profitability. Additionally, it shows that the impact of KM on performance is stronger in firms with a culture that values and encourages knowledge sharing and collaboration. Overall, this review contributes to the existing literature on KM and firm performance by providing empirical evidence of the positive impact of KM on both financial and innovation performance. It also highlights the importance of considering the level of KM implementation, the extent of KM practices, OL, and OC when examining the relationship between KM and firm performance.

Keywords: Knowledge management, firm performance, organizational learning, organizational culture, knowledge management implementation, KM practices.

Introduction

KM in firms is the method to sharing, using, creating, and managing knowledge and information in a firm. It involves organising and collecting internal and external knowledge, expertise, and experience to enable effective decision-making, problem-solving, innovation, and learning. KM encompasses a range of practices, tools, and techniques, including knowledge capture, creation, codification, storage, retrieval, transfer, and application. KM helps firms leverage their intellectual assets and capabilities, promote collaboration and learning, and improve performance, competitiveness, and sustainability. KM can be

implemented through various approaches, such as communities of practice, knowledge sharing platforms, expert directories, mentoring programs, and knowledge audits.

In today's competitive business environment, knowledge has become a critical asset for companies to achieve and maintain an advantage. Effective KM practices can lead to better decision-making, improved innovation, and increased organizational performance. Numerous studies have examined the connection among KM and performance of the firm. However, the findings are mixed, and the mechanisms through which KM influences firm performance are not fully understood. Therefore, this quantitative study contributes to the existing literature in a similar manner.

Despite the potential benefits of KM, implementing effective KM practices can be challenging. KM requires a cultural shift in organizations, where knowledge sharing, and collaboration are valued and encouraged. Moreover, KM practices need to be aligned with organizational goals and strategies to ensure that they contribute to firm performance. The literature on KM and firm performance has identified several mechanisms through which KM can influence firm performance. For example, KM can enhance innovation by facilitating knowledge sharing and collaboration among employees, leading to the creation of new ideas and products. KM can also improve financial performance by increasing operational efficiency, reducing costs, and improving decision-making.

However, there are many other facets and a complicated link between KM and company success. The scope of the company, the amount of market rivalry, and the kind of business may all have an impact on how effective KM practises are. Furthermore, elements like organisational behaviour and management style may temper the effect of KM on company performance. The results of this research have significant policy and managerial ramifications. They highlight the importance of effective KM practices in enhancing firm performance and provide insights into the mechanisms through which KM influences firm performance. Furthermore, the study provides guidance on how firms can optimize the benefits of KM by considering factors such as OL and OC. Overall, this study contributes to the understanding of the relationship between KM and firm performance and provides valuable insights for firms and policymakers.

Literature Review

Darroch (2005)'s report gives empirical data to back up the importance of KM inside businesses. Data was gathered through a postal survey issued to CEOs of companies with 50 or more workers from a variety of sectors. According to the findings, a company with KM capabilities will efficiently use allotted capital, become more inventive, and improve in performance. In practise, KM is widely used in many organisations.

Hsu and Sabherwal (2011) provide an empirical explanation that illustrates how two KM skills (knowledge improvement and knowledge utilisation) influence the impacts of three forms of IC on creativity and company success (social capital, human capital, and organisational capital). The model is validated using survey and secondary data from 533 Taiwanese publicly traded businesses. The theoretical model is supported by structural equation modelling, with two exclusions: the path from human resources to information enhancement capacity is not supported, and personal capital has an unanticipated direct influence on innovation.

Palacios Marqués and José Garrigós Simón (2006) This study investigates the connection amongst information management practises and business performance by conducting an empirical study on 222 Spanish enterprises. The findings suggest that organisations that use knowledge management practises outperform their competition. Inkinen (2016) fill a research gap by analysing the several literature reviews and assessing how KM-entailed organisational practises affect business performance. The findings show that KM practises are a substantial driver of innovation, and that leadership attributes and organisational configurations are likely to boost firm success by employing a thorough and efficient KM. By synthesising pertinent research, the study offers coherence to the previously disorganised debate on KM practises.

Wu and Chen (2014)'s study proposes a conceptual framework for KM evaluation. Despite significant KM spending, empirical studies have revealed minimal impact in organisational efficiency. A questionnaire survey was carried out and path analysis was performed using the method of partial least squares. The findings indicate that information assets serve as a basis for KM-driven performance via the intermediary of company procedure skills. Both indicators, financial and otherwise, should have practical consequences. Mithas et al., (2011) extend that KM plays an integral part in business capacities for management of consumers, operation management, and the performance of employees. The authors used a particularly rare set of archival data from a conglomerate firm that had inculcated a model of performance excellence

model which was based on the Balridge criteria. Another important aspect here is that senior management develop IT sectors within firms to set up a knowledge data set and informational framework.

Fugate et al. (2009) examine the connection between KM and organizational performance. The authors argue that knowledge management can lead to improved performance by advancing the decision-making process, increasing innovation, and improving operational efficiency. The results suggest that KM practices, including its acquisition, knowledge dissemination, and its application, are positively associated with operational and organizational working.

Daud and Yusoff (2010) investigating how social capital works as a common ground among KM and performance of companies within SMEs. The authors argue that social capital, which is the value derived from social networks, can mediate the relationship between the two. The study uses survey data from 833 SMEs in Malaysia to explore the connection between KM, and the other two factors. The results suggest that capital plays a significant part between the two.

Wang et al. (2016) compare three predictive models to investigate the connection amongst knowledge sharing and firm performance. The authors argue that knowledge sharing, which is the exchange of knowledge among employees, can enhance firm performance by improving innovation, reducing costs, and enhancing customer satisfaction. The study uses survey data from 800 high-tech Chinese firms to compare three predictive models of the relationship above. The results suggest that a model that includes the mediating role of KM capability provides the best fit for the data and suggests that KM capability plays an important mediating role in the relationship between firm performance and knowledge sharing.

Wang and Wang (2012) investigate the relationship between sharing of know-how, innovation, and firm management. The study uses data from 226 managers from 89 Chinese firms to show that innovation is desirably connected to KS, which in turn has a good influence on FP. Sánchez, Marín, and Morales (2015) focus on the countering influence of efficient HR practices on KM and FP. The study, based on data from 191 narrowed down Spanish companies, shows that strategic human resource practices can significantly enhance KM and consequently positively influence FP. Collins, Worthington, Reyes, and Romero (2010) explore the connection among KM, supply chain technologies, and FP. The study shows that KM positively influences the adoption of supply chain technologies, which in turn has a good influence on FP.

Wang et al. (2014) examined the impact of KS and intellectual capital on FP. The authors collected data from 228 Chinese firms and used a structural equation modeling method to utilise the data. The study found that KS positively affects intellectual capital, which in turn positively affects FP. Furthermore, the study found that intellectual capital, which includes human, structural, and relational capital, positively affects firm performance. The authors also found that the impact of IC on FP is stronger than the impact of KS on FP. This suggests that IC is a more important factor in determining FP than KS.

Chuang et al. (2013) conducted a study that examined the key factors of KM with IT support and its impact on FP. The authors collected data from 119 Taiwanese firms and used a structural equation modelling approach for data analysis. This research found that KM practices, including storage, knowledge creation, application, and sharing, positively affect firm performance. The study also found that information creation has the strongest impact on FP among the four KM practices. This suggests that organizations should focus on creating new knowledge to improve their performance. Additionally, the study found that the impact of KM practices on FP is stronger in firms that have high levels of information technology support. This suggests that information technology can support KM practices and enhance their impact on FP.

Objectives of the study:

To measure the role of knowledge management in firm performance

Research Methodology:

This study nature is empirical. 190 respondents were approached to give their view on the role of knowledge management in firm performance. The data was analysed through frequency distribution and data was presented with the help of pie charts.

Data Analysis and Interpretation:

Table 1 Better decision making

Particulars	Agree	Disagree	Can't Say	Total
Respondents	166	16	8	190
% age	87.0	9.0	4.0	100

Table 1 represents the statement **better decision making** and 87.0% respondents admit with this statement.

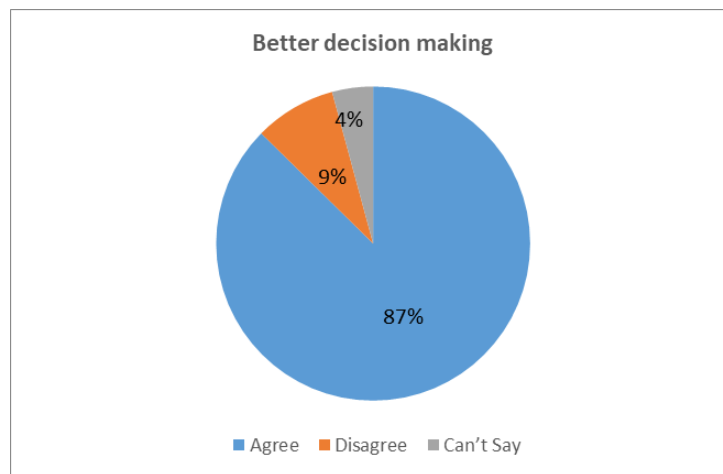


Figure 1 Better decision making

Table 2 Improved innovation

Particulars	Agree	Disagree	Can't Say	Total
Respondents	172	15	3	190
% age	90.0	8.0	2.0	100

Table 2 represents the statement **improved innovation**, and 90.0% respondents admit with this statement.

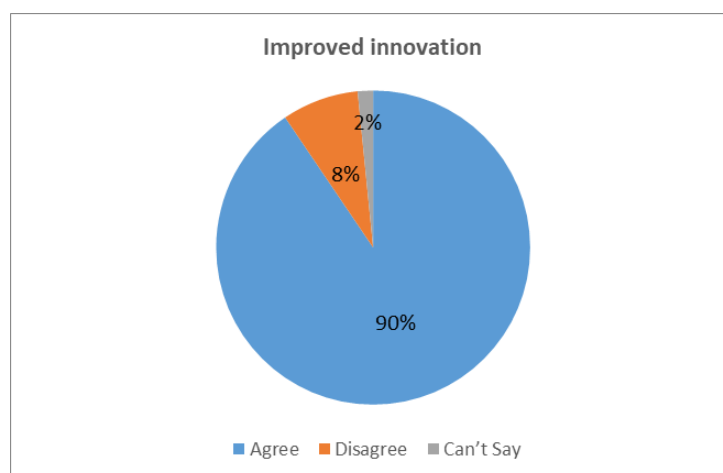


Figure 2 Improved innovation

Table 3 Increased organizational performance

Particulars	Agree	Disagree	Can't Say	Total
Respondents	163	18	9	190
% age	86.0	9.0	5.0	100

Table 3 represents the statement **Increased organizational performance** and 86.0% respondents admit with this statement.



Figure 3 Increased organizational performance

Table 4 Increasing operational efficiency

Particulars	Agree	Disagree	Can't Say	Total
Respondents	175	11	4	190
% age	92.0	6.0	2.0	100

Table 4 represents the statement **increasing operational efficiency** and 92.0% respondents admit with this statement.

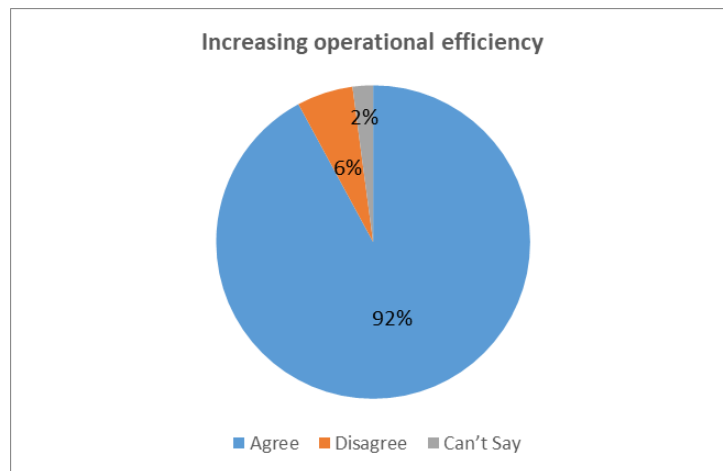


Figure 4 Increasing operational efficiency

Table 5 Helps reducing financial costs

Particulars	Agree	Disagree	Can't Say	Total
Respondents	178	9	3	190
% age	94.0	5.0	1.0	100

Table 5 represents the statement **helps reducing financial costs** and 94.0% respondents admit with this statement. Considering all the responses of the statements, it was found that to a good percentage, the respondents have agreed that knowledge management plays a big role in better firm performance.

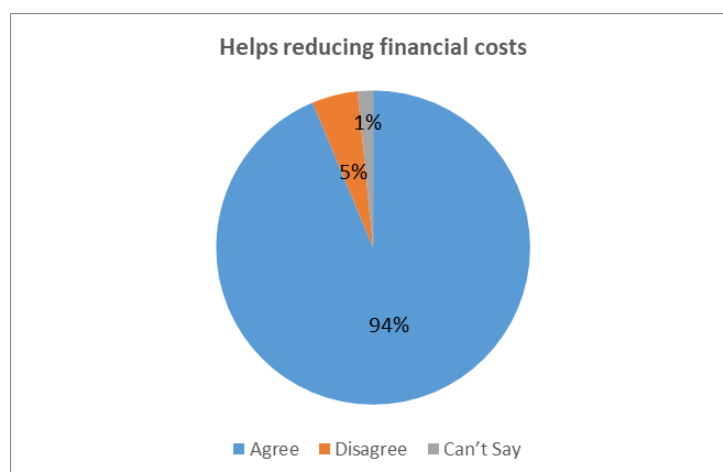


Figure 5 Helps reducing financial costs

Conclusion

Based on the literature reviewed, it can be finalised that KM plays a crucial role in enhancing FP. The quantitative studies conducted in this area have revealed a good influence between KM and various dimensions of FP, such as innovation, competitiveness, financial performance, and overall organizational effectiveness. Moreover, the results of the reviewed studies suggest that the implementation of effective KM attempts can lead to significant advancements in the performance of firms across different industries and geographical locations. These practices include the creation of a knowledge-sharing culture, the development of knowledge repositories, the use of information and communication technologies, and the adoption of knowledge management strategies that are aligned with the firm's strategic objectives. Despite the importance of knowledge management for firm performance, some challenges remain, such as the difficulty of measuring and evaluating the impact of KM on FP, the need for effective leadership and management support, and the challenges associated with the implementation of KM practices in complex organizational settings. Overall, the literature reviewed highlights the critical role of knowledge management in enhancing FP and provides valuable insights for managers and policymakers seeking to improve their organizations' competitiveness and sustainability in today's knowledge-based economy.

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