EFFECT OF KNOWLEDGE SHARING ON ORGANIZATIONAL PERFORMANCE THROUGH CUSTOMER SATISFACTION IN THE MALAYSIAN BANKING INDUSTRY

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UNIVERSITI TEKNOLOGI MALAYSIA
EFFECT OF KNOWLEDGE SHARING ON ORGANIZATIONAL PERFORMANCE THROUGH CUSTOMER SATISFACTION IN THE MALAYSIAN BANKING INDUSTRY

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A thesis submitted in fulfilment of the requirements for the award of degree of Doctor of Philosophy

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DEDICATION

To

My beloved wife,

My beloved sons,

And my beloved mother and father
ABSTRACT

Recent continuous instabilities in financial markets have led banks to regulate themselves to violent and aggressive market while struggling for growth, and maintaining their profits. Previously, banks were relying on products for improving their profit margins however, currently they are focusing on customer satisfaction due to the intense competition in the market. Ensuring the satisfaction of financially proficient and knowledgeable customers is the new megatrend of banking industry. Banks need to satisfy their customers in order to maintain an acceptable organizational performance. Therefore, this thesis develops a model to improve organizational performance of the banks through satisfying customers by applying knowledge sharing. In this regard knowledge sharing - as a strategic capability of a bank - affects business process improvement, after sale services, and products & services offering which result in customers satisfaction, and consequently improves organizational performance. Moreover, this study presents and discusses empirical findings of a survey on the effect of knowledge sharing on organizational performance done on 384 Malaysian bank employees. Structural equation modeling (SEM-Smart PLS 3) was used to perform the analysis on the hypothesized model. The findings strongly support the hypothesized relationships proposed in the theoretical model. Particularly, the results revealed that knowledge sharing has a strong positive effect on business process improvement and after sale services. The results seem to suggest that there are strong and positive relationships between business process improvement and products & services offering, after sale services and customer satisfaction, products & services offering and customer satisfaction, business process improvement and organizational performance, products & services offering and organizational performance, customer satisfaction and organizational performance, and customer satisfaction and customer feedback. This study contributes to theoretical and practical knowledge by providing the evidence of the positive relationship between knowledge sharing and organizational performance. Hence, the findings respond to the current needs of the service industry in general, and the banking industry in particular, in that competitive organizational performance is dependent on effective application of knowledge sharing, which is a strategic capability in pursuit of sustainable competitive advantage.
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CHAPTER 1

INTRODUCTION

1.1 Introduction

Knowledge sharing plays a very important role in advancing and improving organizational performance in today's competitive business environment. Knowledge sharing is the most important part of knowledge management which without it, all knowledge management goals and objectives will be compromised, this thesis is focused on developing a framework for the application of knowledge sharing on organizational performance in the Malaysian banking industry. This chapter introduces the area of concern of the research including background of the study, the current phenomena of Malaysian banking industry, problem statement, research questions and objectives, research hypotheses, existing research gap, scope of the study, limitation of the study, definition of terms, and structure of the thesis.

1.2 Background of the Study

It has been proven by various scholars that knowledge is an essential organizational source for gaining competitive advantage (Law and Ngai, 2008). Achieving sustainable growth and innovation, which guarantees an organization acceptable performance and survival in an aggressively competitive market, can be done by appropriate utilization of knowledge (Davenport and Prusak, 1998; Foss and Pedersen, 2002; Law and Ngai, 2008).
Current continuous instabilities in financial markets caused the banks to regulate themselves to violent and aggressive market while struggling for growth, and maintaining their profit (http://www.deloitte.com, 2012). One of the changes brought by rapid alteration in the banking industry is that, nowadays, the banks approach customers instated of expecting them to come to the bank, and satisfying customer have drawn the attention of all banking organizations. In the past, banks were relying on products for improving their profit margins, but now due to the intense competition in the market, products have gone to the sideline, and customer satisfaction is the central concern of all banks (Firdaus et al., 2010). Customers are assumed as the most important stakeholders of all companies, because the subsistence and success of every company depend on the existence of that company’s customers. Customer satisfaction is the assessment of product or service by customers to see whether the product or service is the right answer for their demands or not (Adeoye and Lawanson, 2012), and since long time customer satisfaction is regarded as an alternative for thrive of an organization.

As stated by several scholars, knowledge sharing provides competitive advantage to the organizations (Law and Ngai, 2008; Tracey et al., 1999; Yang and Wu, 2008). It affects firm performance by helping them in reducing costs, faster response to market changes, growth in market share and profitability, innovation in products, and customer satisfaction and retention (Law and Ngai, 2008; Tracey et al., 1999; Yang and Wu, 2008). As a result, this research aims to investigate the influence of knowledge sharing on organizational performance through customer satisfaction, while taking in to consideration other important factors.

1.3 Malaysian Banking Industry

Banking industry is one of the most important industries for every country, as well as for Malaysia, and it has a critical role in Malaysia future economic plans. Malaysian financial landscape has experienced great changes within the last decades. Changes like deregulation of the financial sector by Bank Negara Malaysia
(BNM), banks mergers, and the presence of foreign banks as new players in the Malaysian financial market.

The development of Malaysian banking industry has emerged since the 1900s from a simple beginning. At the early stage, most of the economic activities were mainly related to the rubber plantation and tin industry. By the time that these two activities flourished, the need for banking and financial service was a serious demand rose by business owners. Therefore, the first Malaysian bank was formed in 1913 by the name of Yik Banking Cooperation in the state of Selangor. This was the first step and a milestone move, and since that time, the Malaysian banking industry has been growing fast and progressively. Considering the speedy development of banking industry, the need for a governing organization was fast realized in order to control, regulate, and facilitate all aspects of banking activities and operation throughout Malaysia. Therefore, Bank Negara Malaysia (BNM) was formed as an organization to regulate and govern the Malaysian banking industry. BNM is a constitutional organization which is wholly owned by federal government. The authority, powers and functions of Bank Negara are vested in the Central Bank of Malaysia through Act 1958, which gives the responsibility of fostering fiscal stability in the financial structure of the country's banking industry. BNM is also responsible to coach and support banks in their effort to accomplish more efficient governance, managing reserves and banks currencies and all other matters pertinent to banks financial position (BNM, 2012).

Since the beginning of banking history in Malaysia, Malaysian banks observed a steady and smooth growth, but the 1980s crisis and subsequently the 1997 Asian Financial Crisis (AFC) brought lots of changes to Malaysian banking industry and turned it to a competitive industry with intense rivalry among banks for survival (Leng, 2012). The worsening situation of crisis forced BNM to take action by forming the National Economic Action Council (NEAC) which was set up on 7 January 1998 to address the crisis. The result was the introduction of a long-term Financial Sector Master plan (FSMP) 2001-2010. This strategic blueprint was divided into three phases and comprises 119 recommendations. Phase one recommended building the capacity of domestic banks within the first three years. Phase two, which was the subsequent three to four years, stressed on gradual deregulation to increase domestic competition for ultimate market liberalization.
Finally, Phase three involved new patterns of foreign competition and incorporation into the global economy as Malaysia’s banking industry becomes fully liberalized by 2010.

Another milestone policy change, which totally refreshed Malaysian banking industry landscape, was the modification to the Banking and Financial Institutions Act (BAFIA) 1989. An integrated commercial banks and finance company (BAFIN) framework was established following this amendment. On 15 January 2004, the implementation of this amendment permits the merger of commercial bank and finance company within a domestic banking group into a single legal entity. As such, this single entity was allowed to hold dual licenses to carry out both the businesses of a banking and finance company (BNM, 2012).

These macro policy changes, triggered major Malaysian domestic banks such as Maybank, Southern Bank and others to have mergers and acquisitions with investment banks or funds management companies. These consolidations and mergers between traditional commercial banks and other non-bank institutions (i.e. investment companies, funds management companies, etc.) saw the birth of Universal Banking in Malaysia. As a result of these changes in macro level, the micro level was also effected and all Malaysian banks were impacted. As Malaysia’s banking industry deregulates, undoubtedly, it becomes more crowded and competitive. In Malaysia, three categories of competitors emerged. First, the rise of Universal Banking welcomes the presence of non-financial competitors such as insurance companies (i.e. Prudential, ING, AIA, etc.) and retail outlets (i.e. Tesco, Sunshine Group, etc.). The products offered by these companies resemble those by traditional commercial banks. Second, in the quest to transform Malaysia to be a regional Islamic financial hub, Bank Negara Malaysia has encouraged Islamic banking. As a result, Bank Negara has loosened its regulatory role by granting up to three new Islamic banking licenses to qualified foreign bank applicant (BNM 2012). From merely five Islamic banks (as at 31 January 2006), this figure increased more than three-fold to become 17 Islamic banks (as at 31 January 2009). In 2006, four out of five Islamic banks were domestically-owned and only one was foreign owned. This scenario quickly changed in 2009 where six out of the 17 Islamic banks in Malaysia are foreign owned. Clearly, this shows the rapid growth of foreign Islamic banks in the local scene. And finally the third competitor is no
other than those foreign banks that once-upon-a-time ago pioneered Malaysia’s banking industry. Although the formation of Bank Negara in 1959 succeeded in spearheading the growth and protecting the interests of domestic banks, nonetheless, a deregulated banking industry would once again witness the re-entry and presence of foreign banks into the Malaysian banking scene.

As a result of all these dramatic changes, the industry became highly competitive. Recently, Malaysian banks are facing the challenge of customer satisfaction, in market, and among the customers (Kheng et al., 2010). According to BNM, the Malaysian banking industry will face more intense competition caused by more demanding customers. Customers’ ability to influence the market based on their demand is an important factor in the Malaysian banking sector (Portal Rasmi Bank Negara Malaysia, 2012). The importance of customer satisfaction and offering services which could perfectly satisfy customer’s changing demands can be clearly observed in BNM guidelines for Malaysian banks. For instance, in a report published by BNM, BNM recommends that all banks collect a broad range of data on customers’ needs and satisfaction (Portal Rasmi Bank Negara Malaysia, 2012). Furthermore, BNM urges banks to increase their efficiency and effectiveness in offering a wider range of financial services in order to respond to the increasingly differentiated demands of their customers, and to establish stronger customer relationships to gain competitive advantage (Portal Rasmi Bank Negara Malaysia, 2012). BNM, also encourages banks to better understand their customer needs, satisfy their customers, retain them and acquire new customers (Portal Rasmi Bank Negara Malaysia, 2012).

BNM, has forecasted the rising of new customer demands, which are varied and sophisticated. In the financial sector blueprint 2011-2020, BNM realizes the new generation of Malaysians who are more matured and financially-savvy with totally new demands of financial services. BNM, regards the new consumer demands as a key force which leads the banking industry to offer more sophisticated and comprehensive range of financial services. In the 2011-2020 blue print, BNM is focusing on the future highly competitive market, and advises all banks to respond swiftly to customer demands. By applying knowledge based innovation in ordered to develop knowledge-intensive services, for Diversifying their services based on
customer demands, offering cost effective and high quality services, and establishing fast and cost effective delivery channels (Centera Bank of Malaysia, 2011). These are essential to effectively satisfy customer demands in order to survive in the aggressive competitive environment of the banking industry. The Malaysian banking industry is ambitious by increasing competition, recession pressures, and customer demands (Kheng et al., 2010). Among these, customers are the key element for banks' success, and a bank which can offer more options and flexibility in order to satisfy its customers’ demands is the winner of this competition (Ernst&Young-Global, 2012). Thus, it is clear that customer satisfaction is one of the main factors for success in world banking industry including the Malaysian banking industry (Ernst&Young-Global, 2012; Kheng et al., 2010).

1.4 Problem Statement

The current competitive business environment make the challenge of maintaining a competitive level of organizational performance very serious for all industries as well as banking industry. Overcoming this challenge by banks needs a sustainable source of competitive advantage (knowledge) which enables organization to achieve various competitive advantages. Therefore, applying knowledge sharing in the organization in order to utilize knowledge becomes vital and imperative in order to maintain a competitive organizational performance. As a result, this research intends to evaluate the effect of knowledge sharing on organizational performance through customer satisfaction in the Malaysian banking industry platform.

In order to serve customers in the best way and maintain their position in the business, banks are required to decrease the cycle time, work with the lowest possible amount of fixed asset and overhead (people, inventory and facilities), reduce the time for product development process, enhance their customer service, practice employees empowerment, be innovative and offer high quality products, improve their pliability and adaption, gather information, produce knowledge, share and learn. Without constant concern about producing, renewing, accessibility, quality and application of knowledge by all teams and individual at work place and market, none
of the aforementioned are going to happen in an organization. In essence, without proper application of knowledge, an organization cannot survive the fierce competition in the modern business world (Bhojaraju, 2005). Various research have tried to address the problem of organizational performance improvement through different ways in different industries and companies (Mills and Smith, 2011; Chen and Liang, 2011; Kuo, 2011; Ho, 2011), but in the information era, knowledge remains a major factor for success in business. Therefore, proper application of knowledge is vital for the businesses, akin to the importance of coal and oil during the industrial age (Zhang and Zhao, 2006). Banks are moving towards rationalizing their products and service while seriously considering knowledge management in order to maintain and enhance their competitiveness in the ever changing global market (Dzinkowski, 2001). There is a consensus among academics and practitioners that banking is the business of information not business of money alone (Lamb, 2001). Thus, like other industries, the banking industry has also considered knowledge management as an important factor for the success of the business. If banks still want to have competitive advantage in the market, the final chance for them is to have the ability to maximize the use of knowledge (Chatzoglou and Vraimaki, 2009). In fact, banks are not selling goods, instead they are selling service or to be more precise they are selling knowledge. Therefore, the financial thrive and growth of banks heavily relies on how well they can realize their customers' demands and then disperse and use knowledge for the benefit of the business (Chatzoglou and Vraimaki, 2009).

In the present competitive era maintaining an acceptable level of performance is the main concern of all business organizations. As the competition is moving from product based to customer centric, satisfying customers have become the major concern of organizations in order to improve their performance. Besides, one of the megatrends of the banking industry in next five years will be customer expectations (Hyde et al., 2011). Therefore, the banks as service firms should do their best to satisfy their customers which will guarantee the sustainability of the organization. Moreover, the result of a proper respond to consumer needs will be a successful organization (Adeoye and Lawanson, 2012). It is clearly stated in the literature that customer satisfaction has a significant effect on bank performance (Adeoye and Lawanson, 2012). As such, banks are moving towards a new megatrend in the near
future, which is fulfilling customers’ expectation. It is clear that the winner of this competition is the bank that can satisfy the customers’ needs and requirements.

In order to respond to industry need in finding a sustainable way for improving organizational performance many researchers have studied the affect of different knowledge management practices on organizational performance (Zack et al., 2009; Mills and Smith, 2011; Chen and Liang, 2011; Molina and Callahan, 2009; Kuo, 2011; Ho, 2011), and tried to offer different solutions, but still there is a dearth of research on the effect of knowledge management important factors (e.g. knowledge sharing) on organizational performance and other related factors which play important role in organizational success (Zack et al., 2009). As knowledge sharing is the main pillar of knowledge management (Tiwana, 2002), and it is accepted as the most fundamental process of knowledge management, knowledge sharing has an important place as the main building block of business success (Chatzoglou and Vraimaki, 2009). Therefore, in accordance with capability part of resource-based theory (Barney, 1991; Penrose, 1959) this research tends to investigate the effect of applying knowledge sharing as a capability of organization in order to utilize organization most strategic asset (knowledge) for improving organizational performance. The main question which this research attempts to answer is: Could knowledge sharing in the banking industry result in satisfied customers, and lead a bank to show better overall organizational performance in a competitive market?

1.5 Research Questions

The research questions for this thesis are as follows:

1. Does knowledge sharing positively effect organizational performance through improving business process improvement, products & services offering, after sales services, and customer satisfaction?
2. Does knowledge sharing have a positive impact on business process improvement?

3. Does business process improvement positively affect products & services offering?

4. Does knowledge sharing have a positive impact on products & services offering?

5. Does knowledge sharing have a positive impact on after sales services?

6. When customer satisfaction is affected by business process improvement and products & services offering, does it have a positive effect on organizational performance of the Malaysian banking industry?

7. When customer satisfaction is affected by after sales services, does it have a positive effect on organizational performance of the Malaysian banking industry?

8. Are satisfied customers willing to share their knowledge with the Malaysian banks through customer feedback?

1.6 Research Objectives

1. To predict the effect of knowledge sharing on organizational performance through customer satisfaction while considering other important factors in the Malaysian banking industry

2. To study the relationship between customer satisfaction and organizational performance in the Malaysian banking industry

3. To examine the effect of knowledge sharing on business process improvement, products & services offering, and the influence of these two factors on customer satisfaction and organizational performance
4. To investigate the relationship of knowledge sharing and after sales services and the effect of this factor on customer satisfaction

5. To evaluate the influence of customer satisfaction on customer feedback

1.7 Research Hypotheses

The hypotheses of this study are as followed:

1. Knowledge Sharing has a positive influence on Business Process Improvement

2. Knowledge Sharing positively affects Products & Services Offering

3. Business Process Improvement has a positive impact on products & services offering
4. Business Process Improvement has a positive influence on Organizational Performance

5. Products & Services Offering has a positive impact on Organizational Performance


7. Products & Services Offering positively influences Customer Satisfaction

8. Knowledge Sharing has a positive impact on After Sales Service

9. After Sales Service positively affects Customer Satisfaction

10. Customer Satisfaction positively influences Organizational Performance

11. Customer Satisfaction has a positive effect on Customer Feedback

1.8 Research Gap

From theoretical perspective, firstly this study is an extension of a model suggested and proved by Law and Ngai (2008). They have proven that knowledge sharing can significantly improve organizational performance while positively effecting business process improvement and product & services offering. This research extends Law and Ngai (2008) model to banking industry while identifying and adding three new important factors (customer satisfaction, after sales services and customer feedback) to their model. Secondly, this research tends to contribute to resource based theory by adding customer satisfaction as a factor which can be improved by knowledge sharing (an organizational capability) and eventually leads to improvement of organizational performance. Thirdly, the most important overlook in the related literature is the lack of large-scale empirical evidence in the area which this research is focusing, and only a few number of research have studied and
examined the relationship between knowledge management important factors (e.g. knowledge sharing) and organizational performance (Zack et al., 2009). Finally, this study intends to provide a new insight to academics and adding to the current knowledge of the domain.

From practical point of view, this research plans to solve the problem of organizational performance improvement in the banking industry by suggesting that utilizing knowledge sharing can improve customer satisfaction in the banks which would result in better performance of Malaysian banks in the domestic and global competitive markets. The results of this research is also intended to provide a new insight to practitioners about Malaysian banking industry, and suggest an operational model and guide for Malaysian banks.

1.9 Scope of the Study

Focus of this study is on Malaysian banking industry which includes Malaysian banks only. For the purpose of this research, a survey questionnaire will be distributed among the employees of Malaysian banks. The survey attempts to measure and identify the relationships among variables which are defined in this study model.

The variables of this study are developed within the perspective of knowledge management practices' effectiveness on the organizational performance. There are many factors under this perspective but this research is focusing only on the effect of knowledge sharing as the most important factor of knowledge management on the organizational performance.
1.10 Limitations of Thesis

One of the strength of every research is to realize its limitation (Dolen et al., 2004). Although this research is contributing to the existing knowledge of its domain, it has few limitations which need to be recognized. It is important to mention that knowledge sharing effects organizations from various aspects and all of them cannot be covered in one research. Therefore, this study is only focusing on the effect of knowledge sharing on some important factor which can result in better organizational performance in service industry. Another limitation of this study which should be considered when generalizing the result of the study is the sample population of this research which is Malaysian banks employees. This study tested its hypothesized model in the banking industry which is a special category of service industry with strict regulations and controls. Therefore, when applying this model for other research in other industries the necessary precautions must be considered.

This research also has some limitation regarding the data collection due the banking industry strict regulations and controls. For the purpose of data collection some Malaysian banks cooperated with the process of data collection but the data which was collected directly from banks was not enough for the purpose of the analysis. Therefore, the research had to seek the help of NUBE (National Union of Bank Employees) in order to distribute and collect the questionnaires to and from bank employees through their training centers.

1.11 Definition of Terms

Knowledge (K):

A mixture of constructed experience, values, contextual information, skills, and fundamental concepts (Davenport and Prusak, 1998).
Knowledge Management (KM):

A guideline intended for finding efficient solutions for complicated problems (Henao-Ca’lad and Arango-Fonnegra, 2007).

Knowledge Sharing (KS):

A complex social interaction process through which knowledge is generated and used effectively (Wilde, 2011).

Business Process Improvement (BPI):

Continuous improvement of a set of activities or rationally connected tasks which should be done to provide value to consumers and to accomplish organization's strategic goals (Strnadl, 2006; Trkman, 2010).

Products & Services Offering (PSO):

Innovative alternative products and services offered by business (Victorino et al., Accessed 2011).

After Sale Services (ASS):

A recovery process which tries to solve customers' problems (Potluri and Hawariat, 2010).

Customer Satisfaction (CS):

A comparison done by customers between what they expect, and what they really receive (Li et al., 2012; Oliver, 1980).

Organizational Performance (OP):

The real result of an organization compared to the planned outcomes (Ho, 2011).
Customer Feedback (CF):

Customer reaction sent back to the business with the objective of providing organizations with an understanding about their performance (Clynes and Raftery, 2008).

1.12 Structure of the Thesis

Chapter One
Introduction

Chapter Two
Literature review

Chapter Three
Methodology

Chapter Four
Data analysis

Chapter Five
Conclusion

Chapter 1 introduces the reader to the research areas of concern.

Chapter 2 discusses the literature related to the foundation of the variables of conceptual framework of this research.

Chapter 3 describes the methodology used in the research.

Chapter 4 discuss the analysis on the survey and the results.

Chapter 5 concludes by synthesizing the findings, discussing contributions and describing recommendations of the research.


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management structure for successful implementation of knowledge management system – a case study in Process industry.


