

**Impact of Knowledge Management Practices
and
Human Capital on Organizational Performance**

**School of Business and Economics
University of Management and Technology**

**Thesis presented in Fulfillment of the Requirements for the Degree of
*MS MANAGEMENT***

By

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DEDICATION

To ALLAH ALLMIGHTY;

The most Benevolent and The most Merciful

DECLARATION

To the best of my knowledge, this thesis does not contain any previously published material, except where reference is made

Khalid Mahmood

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Abstract

Prevalent competitive era has highlighted the importance of Knowledge as an important organizational resource. Its effective management is considered to be an antecedent to success, hence making the subject a 'hot button' for the practitioners and researchers. However, the domain of research has mostly been restricted to profit sector. Due to its peculiar context and secrecy compulsions, the research in the Armed Forces is sparse. This study, while not touching the red lines, is first of its kind in Pakistan that broadly investigates the impact of knowledge management practices and human capital on the organizational performance of Pakistan Security Forces. Due to current challenges to Low Intensity Conflict being faced by Pakistan Security Forces , where the adversary is under the curtains and operational environment are complex and multi dimensional, Pakistan Security Forces now need an informative and a thinking soldiers, i.e. who is innovative and creative to fight this menace. To lead such a body of troops, their superior officers are ought to be knowledgeable, skillful and embedded with leadership traits who can ensure performance differences.

Measuring organizational performance in the context of Armed Forces is a complex issue. However, based on existing literature, a theoretical framework and a research model was conceptualized to ascertain the relation between Knowledge Management Practices and human capital on the organizational performance of Pakistan Security Forces.

Field survey was conducted by using a questionnaire adapted from corporate sector and modified to the context having closed-ended questions. Questionnaires were administered amongst 300 respondents. Out of 250 received, 203 usable questionnaires were utilized for data analysis in SPSS. Statistical analyses revealed a positive significant relationship between Knowledge Management Practices and human capital on the organizational performance. It was also found that resourcefulness moderates relationship between human capital of officers and organizational performance of Pakistan Security Forces.

The research findings are consistent with the previous research in the field of Knowledge Management. The study also contributed to theory by extending the Knowledge Management research within the Armed Forces context. Moreover, from the managerial perspective, the findings gave clear indications that would allow Armed Forces to understand the implications of Knowledge Management on organizational performance and to use this knowledge for implementing efficient and effective Knowledge Management. The findings can be utilized for policy making decisions.

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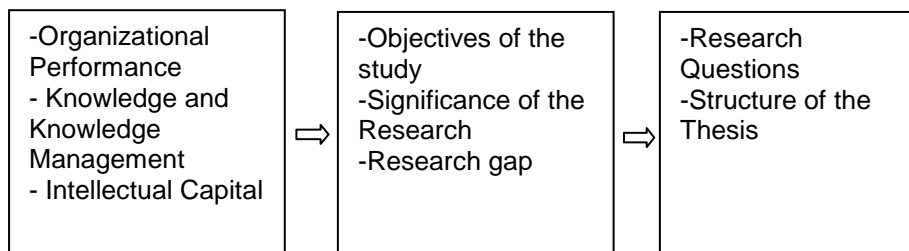
Chapter 1

Introduction

*“If money is your hope for independence, you will never have it.
The only real security a man will have in this world is
a reserve of knowledge, experience and ability”-
(Henry Ford, 1930)*

Chapter one is divided into three parts. First part briefly dilates upon the key concepts of the study. This follows the objectives of the study, significance of the research and identification of research gap. Finally, in part three research questions have been listed followed by framework of the thesis.

Fig 1-1: An overview of the chapter 1



1.1 Key Concepts of the Study

1.1.1 Organizational Performance

Organizational performance is a multidimensional term and is generally measured using indicators in efficiency, financial viability and effectiveness according to

the organizational context. Stewart (2010) describes that profitability is any organizational goal and as such could be a measure for organizational performance. Javier (2002) describes organizational performance as 3Es (economy, efficiency, and effectiveness) of any project. Daft (2000), visualizes organizational performance as the organization's ability to achieve its goals through appropriate use of resources in an effective and efficient manner. Likewise, Ricardo (2001) endorses organizational performance as the ability of the organization to achieve its goals and objectives.

1.1.2 Knowledge and Knowledge Management

Knowledge has always remained a lynch pin in the system while transiting from agrarian economy to knowledge economy. Prevalent competitive era has aligned the focus of growing organizations towards knowledge hence making it a 'hot button' for the researchers. Sequel to aforesaid, Knowledge has been validated as an important organizational resource and with effective management has emerged as an antecedent to success (Nevo and Chan, 2007).

Knowledge Economy has now configured in the shape of economic globalization, technological advancement, the progressive primacy of services sector, speedy product cycles and changes in the customers orientation Kretschmer, (2007). Resultantly, a new competitive dynamic is emerging (Leitner, 2005; Díaz-Díaz, Aguilar-Díaz and De Saá-Pérez, 2008). This phenomenon is characterized by firm's reliance on intangible resources and capabilities. Knowledge economy has configured the business resources in terms of 20% tangible value and 80% intangible value (Roos et al., 2005). As a result, knowledge has been recognized as key factor in achieving and maintaining competitive

advantages (Galende, 2006). Davenport and Prusak (2000) and Holsapple & Joshi,(2002) have explained knowledge as experiences, insights, values and contextual information and suggest that like other valuable resources knowledge also needs to be efficiently managed for utmost results. Patton (2007) also endorses that firm's advantage is its unique assets and these are crucial determinants of sustainable competitive advantage for firm's ultimate performance.

Knowledge Management (KM hereafter) is a process/mechanism to manage and utilize knowledge for the benefit of organizations. KM is a process of creating, accumulating, organizing and utilizing knowledge which helps achieve objectives and enhance organizational performance (Rašul et al, 2012). KM is also a process that transforms individual knowledge into organizational knowledge. Liebowitz and Megbolugbe,(2003) view KM as a process of creating value from intangible assets of the organization. Therefore, the prime objective of management is to improve the processes of acquisition, integration and usage of knowledge. It has been established that knowledge is a dynamic organizational capability and KM helps inducing innovation, organizational adaptation, revitalization and strategic decision making (Earl, 2001; Eisenhardt & Martin, 2000).

A causal relationship between KM and organizational performance has been established by many researchers who validated that KM creates a competitive advantage which is positively linked to organizational performance,(e.g. Chadha *et. al.*, 2010; Fugate *et. al.*, 2009; Wang *et. al.*, 2009; Ibrahim *et. al.*, 2009; Kasim, 2008; Zack *et al.*,2009).

1.1.3 Intellectual Capital

In the last few decades “Intellectual Capital” has emerged as an intangible resource and firm's primary means of creating sustainable competitive advantage (Hsu & Fang, 2009) and a significant pointer towards continuous growth and performance of a firm (Bierly & Chakrabarti 1999). It has now been well recognized that economic wealth flows from knowledge assets, intellectual capital and its useful application, probably replacing or supplementing conventional land, labor, and capital (Dean and Kretschmer, 2007). Intellectual capital is also being referred to and occasionally interchangeable with, ‘knowledge capital’, ‘knowledge economy’ and ‘intangible assets’ (Gowthorpe, 2009). Intellectual capital has three primary interrelated non financial components (Bontis, 1998; Chang et al., 2008): Human Capital, Structural Capital and Relational Capital.

Human Capital encompasses competencies, skills, experiences and knowledge (Guerrero, 2003). It represents tacit knowledge embedded in the minds of people in the organizations (Crossman and Hulland, 2002). Human capital plays an important role for financial performance as a result of knowledge, abilities and skills held by the employees (Youndt, Subramaniam & Snell, 2004). Likewise, Nielsen et al., (2006) argued that human capital as an organizational asset in the form of skilled and proficient employees helps to enhance organizational performance.

1.2 Objectives of the Study

Currently a fair degree of research has been conducted to investigate the relationship between human capital and organizational performance. However, research to examine the impact of KM practices on organizational performance and the relationship between KM practices and human capital and their integrative effect on organizational performance is quite insignificant.

Moreover, in the above stated research, focus of study has generally remained towards corporate sector with a limited research in the context of Security Forces. In case of Pakistan, there is a total void. Whereas, the current and future warfare will be highly knowledge intensive and performance differences will be attributed to knowledge asymmetry (Thomas et al, 2001). Pakistan, due to its geo-strategic location and emerging power centers in the region is now confronted with a complex security milieu. Resultantly, for the last one decade, Pakistan Security Forces (PSF hereafter) are engaged in Low Intensity Conflicts (LIC hereafter). Low intensity operations being more complex and multidimensional need more knowledge input to combat the entire spectrum of conflict.

A matching response and success during combat is highly dependent on provision of real time information about enemy coupled with professional competence of the commanders to analyze and respond accordingly. Prevalent security environment confronted by PSF has highlighted the importance of knowledge asymmetry over the adversary for performance differences. Sense-making and decision-making in a hazy

and hostile environment can be facilitated through effective KM practices for its better application at an appropriate time for the desired outcome.

In this backdrop, the thesis aims to empirically examine the impact of KM practices and human capital of officers on the organizational performance of PSF. In doing so, the study will further ascertain the relationship between KM practices and human capital of officers with organizational performance of PSF and subsequently study the individual as well as integrative effect of KM practices and human capital of officers on the organizational performance of PSF.

Foregoing in view, the objectives of the study are:

1. To examine the impact of KM practices on the organizational performance of Security Forces in Pakistan.
2. To establish the extent to which, human capital of officers is related to the organizational performance of PSF.
3. To ascertain the relationship, if any, between KM practices and human capital of officers in PSF.
4. To understand the integrative effect of KM practices and human capital of officers on the organizational performance of PSF.
5. To identify which factors of human capital has more impact on the organizational performance of PSF.

1.3 Significance of the Study and Research Gap

Knowledge Management and human capital are vital sources of competitive advantage leading to organizational performance, therefore understanding their importance and mutual relationship is of paramount importance. As identified by Zack et al (2009) there is a significant gap in the literature pertaining to an insufficient empirical evidence of impact of KM practices on the organizational performance. When seen in the backdrop of developing countries context, this gap is more pronounced.

Moreover, there is an insignificant research examining the relationship between KM practices and human capital and their cumulative effect on organizational performance. The domain of research has also been restricted to the corporate sector and has not been extended to the security forces due to a peculiar and unique context with a sense of secrecy in the security forces. In case of Pakistan, there is a total void in the aforesaid perspective.

Therefore, the thesis aims to examine the above stated links and thus attempt to fill the above mentioned gap in the context of PSF as an institution. The aim is to study the relationship between KM practices and human capital of officers engaged in LIC, an environment characterized by pluralistic demands, complexity and uncertainty where decisions about life and death are being made. The study will, therefore hopefully open new avenues of future research.

As highlighted above, this research is quite significant because of its unique context and will contribute to the body of knowledge, both in terms of theory and practice. By conducting this research, the thesis will contribute to the field of KM, which is still at theory development stage. Although, literature suggests a positive relationship between KM practices, human capital and organizational performance, yet no empirical

research can be cited which explicitly contextualizes this type of study within the ambit of security forces of a country.

1.4 Research Questions

Having noted the significance of the study and its contribution to an existing knowledge in the integration of Human capital with Knowledge management and its relationship with performance , the thesis attempts to answer the following questions:-

1. What is the relationship between KM practices and the organizational performance within the context of PSF?
2. What is the relationship between human capital of officers and organizational performance of PSF?
3. What is the nature of relationship between KM practices and human capital of officers of PSF?
4. Is there any an integrative effect of KM practices and human capital of officers on the organizational performance of PSF?
5. Which factor of human capital has stronger impact organizational performance of PSF?

1.5 Structure of the Thesis

The thesis comprises of six chapters: Introduction, Literature Review, Developing Hypotheses and Research Model, Research Methodology, Data Analysis and finally Discussion with Conclusions and Recommendations.

Chapter 1 highlights a brief description of the key concepts of the study, objectives, significance of the research with identification of research gap and research questions. Moreover, this chapter also enumerates the anticipated contributions of this study in academic and practical perspective.

Chapter 2 provides an exhaustive literature review covering the concept of knowledge, various definitions of knowledge, perspectives and classification of knowledge followed by Resource Based View and Knowledge Based View of the firms including KM and KM practices. The chapter gives an overview of intellectual capital, its components, a detailed literature review of human capital and organizational performance. Finally, a brief description of low intensity conflicts and relief operations has been outlined.

Chapter 3 explains the variables of the study, operational definitions of the variables of interest, theoretical framework followed by hypotheses. Basing on this framework a conceptual model of the study has been framed.

Chapter 4 relates to research methodology, design strategy along with population, sample and sampling frame. It also incorporates information about survey instrument, data collection and data analysis techniques.

Chapter 5 describes the research results.

Chapter 6 finally presents a discussion of results along with implications of research and direction for future research followed by conclusions and recommendations.

