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Knowledge Management Practices in Banking Sector: an Indian Study

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Abstract

Purpose - The benefits of Knowledge Management Practices (KMP) are in critical areas of service sector for enhancing the organization's performance. The KMPs lead the organizations to a better position in today's competitive environment. These bring in a culture of effective decision-making, improving the customer relationship management (CRM), and create new values through additional innovative services.

Design/methodology/approach - In the paper, the banking sector in India and the knowledge management practices in banking sector have been explained. A case study has been used to illustrate the knowledge management practices. The case study was conducted through a survey by a structured questionnaire. The respondents were 30 students of IIT Roorkee, who were non-internet banking user and the executives of the Punjab National Bank IIT Roorkee Branch, who were interviewed. The responses were analyzed through different statistical methods like factor analysis, correlation, etc. with the help of SPSS. The results include the secondary data and the findings of the study based on the various responses given by the respondents.

Research implications - The study benefits the banking sector to understand the importance of knowledge Management Practices and to create new business opportunities.

Originality/value – The study helps to understand use of internet banking and also suggests benefits of implementation of knowledge management in Indian banking sector.

Key words: Knowledge Management Practices, Customer Relationship Management, Business Opportunities and Internet Banking

Introduction

The process of capturing and accumulating all the knowledge residing in the minds of all the human resource of any organization and making it available for decision making for achieving the goals and gaining competitive advantage is knowledge management. Knowledge can be managed well by making the implicit knowledge into explicit knowledge. Knowledge sharing helps in enhancing the business processes of the organization. It helps in removing the redundant processes and making the system more efficient and effective. Knowledge is an asset for any organization and efficient management of this resource makes the organization

vibrant. Knowledge management acts as a tool in making a strategic impact and influences the organization on many fronts.

Building knowledge-driven, learning organizations is important in the current scenario of rapidly evolving operating environments. Knowledge and assimilation of new ideas and trends are essential to keep the organization ahead on the curve. This is true for banking as it is for all other sectors. Banks must continuously seek to be aware of cutting edge practices in banking internationally and institutionalize this learning across the organization (Kamath, et.al, 2003).

Indian Banking

The Indian Banking sector consists of Reserve Bank of India, State Bank of India and its seven Associate Banks, nationalized banks, private banks and cooperative banks. Other banks include rural banks, agricultural banks and other non-banking financial institutions. There are 19 nationalized banks. Among the private banks, the major share goes to the three banks - ICICI bank, HDFC bank and Axis bank. In the agricultural banks, NABARD (National Bank of Agriculture and Rural Development) is the main bank. Non-banking financial institutions include the insurance companies both in public as well as private sector. Financial institutions which finance major industrial projects include the IDBI, SIDBI, State finance corporations like Uttar Pradesh Finance Corporation (UPFC), Himachal Pradesh Finance Corporation (HPFC), Rajasthan Finance Corporation (RFC), etc (http://goidirectory.nic.in/bankfin.htm).

Knowledge Management

Knowledge management provides the advantages of introducing new products or services for financial organizations. KM supports changing customer needs. Customer requires more information from different sources. The data base of customers is frequently changing; volumes of information require effective KM practices. Expectations of customers are growing regularly which require the proper dissemination and control of technology. Knowledge management drive competition in banking sector. Banks require being more successful in managing customer knowledge and providing them satisfactory services. KM in banking sector is an effective business initiative strategy. CRM (Customer Relationship Management) helps to sustain customer data base. Banks are required to inform their customers on regular basis on networking, operational manuals formulating guidelines and various charges. The Indian banks have used technology from www (world wide web) to wwww (world wide wireless web). The Indian banks are scaling up the latest technology, opening up new service channels, identifying and understanding the legal issues and continuing to plan business, managing operational risks and creating customer satisfaction. Technology in banking industry requires to afford risk management for prevention, new lines of services and to build collective wisdom. Bank operators bear high risk and in India the banking industry balances servicing between rich and poor people. The volume of business and margin of business is a critical issue for banking industry. Knowledge management practices like personal banking, mobile banking and internet banking help in realizing these missions.

Costanzo, Keasey and Short (2003) in their paper on “A Strategic Approach to

the Study of Innovation in the Financial Services Industry: The Case of Telephone Banking" emphasized that most of the banks in UK in 1990s opted telephone banking as a major restructuring business strategy. Telephone banking was regarded as cost cutting strategy and it helped in increasing profit ratios to the banking sector. From this perspective in 1989 the Midland Bank launched a telephone branchless bank called First Direct. This is a beautiful example of integrating technology with customer services. This knowledge practice took off in the whole UK banking industry and acted as a catalyst for successful business performances. The applications of telephone banking are becoming popular in other parts of the globe.

In Indian banks, the use of technology is a critical challenge because of infrastructure management. Indian banks started applications step by step by removing the trouble. The ICICI Bank adopted KM practices by introducing web-portal called "Wise Guy". Most of the Indian banks like State Bank of India, State Bank of Patiala, Axis Bank, HDFC Bank have followed the seven steps recommended by Wendi and Ruth (1999). Wendi and Ruth in their seven steps model suggested that any organization should follow the seven steps – Get, Use, Learn, Contribute, Build and Sustain, Assess and Divest to convert the information into knowledge. The implementation of knowledge management in banking industry mainly focuses on internet banking.

The website http://news.cnet.com/Online-banking-use-widespread,-study-finds/2100-1038_3-5759890.html reported the following in the western context:

"A majority of adults are comfortable monitoring their finances and paying bills over the Internet, while older people remain more cautious, according to a Yahoo-commissioned study in 2005.

In an online survey of 2,687 people, 64 percent said they check their bank account balances primarily online and 56 percent said they use the Internet as their primary way to check their investment portfolios.

The percentage who said they pay their bills primarily over the Internet (43 percent) was the same as for those who said they pay bills through the mail. Half said they trade investments mostly online, while only 15 percent said they still make investment trades in person, the study found."

The website http://www.encyclopedia.com/doc/1G1-89069142.html reported in Indian context, "INDIA: 15 PERCENT OF INDIAN SURFERS USE E-BANKING.(Brief Article)(Polling Data)(Statistical Data Included)".

The above literature indicates that internet banking is used by a very small fraction of the account holders in India. This was a stimulation to find out why the people in India who are using internet banking are very little or are not using at all through this study.

Case Study

The Objectives

The objectives of the study are-

1) To study the implementation of knowledge management in banking sector in India.

2) To study the change occurred in the banking sector after the implementation of knowledge management in India.
3) To study why people are not interested in internet banking in India

The Sample

The elements of the universe comprised of account holders in State Bank of India and Punjab National Bank. A total of 30 samples were collected and analyzed. Special care was taken to take sample from both gender and diversified educational background.

The Data Collection Tool

A questionnaire was developed keeping in mind the findings of earlier study on internet banking. The questionnaire is having five factors namely Lack of Knowledge, Inaccessibility/inertia, No perceived need, Risk and Lack of human touch. All the factors have four items in each; thus there were 20 items. The questionnaire was administered on each subject of the sample.

Description

(i) The scale is self administering.
(ii) The subject is asked to interpret each item for himself/herself.
(iii) Responses are in terms of selecting any one of the five choices.

Scoring

Scoring is done manually. The respondents were asked to respond on a Likert Scale of 1 to 5, where 1 represented strongly disagree and 5 represented strongly agree.

Data Analysis

Data were analyzed through the factor analysis and the statistical tool - correlation analysis with the help of SPSS 15.0 to achieve the objectives of the study.

Results & Discussion

It is seen in Fig. 1 that the amount of time spent on internet by each respondent is very high (score 136/150). This indicates that most of the respondents were comfortable with the use of internet. The item ‘you conduct online transaction frequently’ has been given the least weight age (052/150) which indicates that not many respondents are conducting online transactions of any kind.

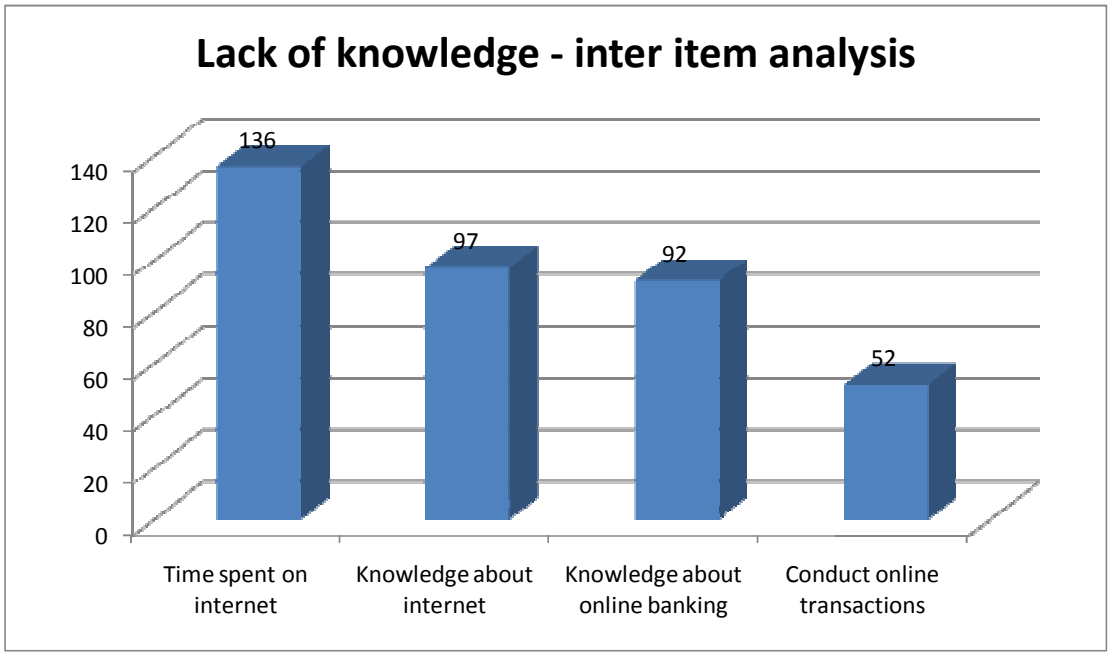

Fig. 1: Inter item analysis of Lack of knowledge factor

The graph in Fig. 2 shows that most of the respondents (score 135/150) have full time availability of computer but their inner drive to shift to internet banking is the least (score102/150).

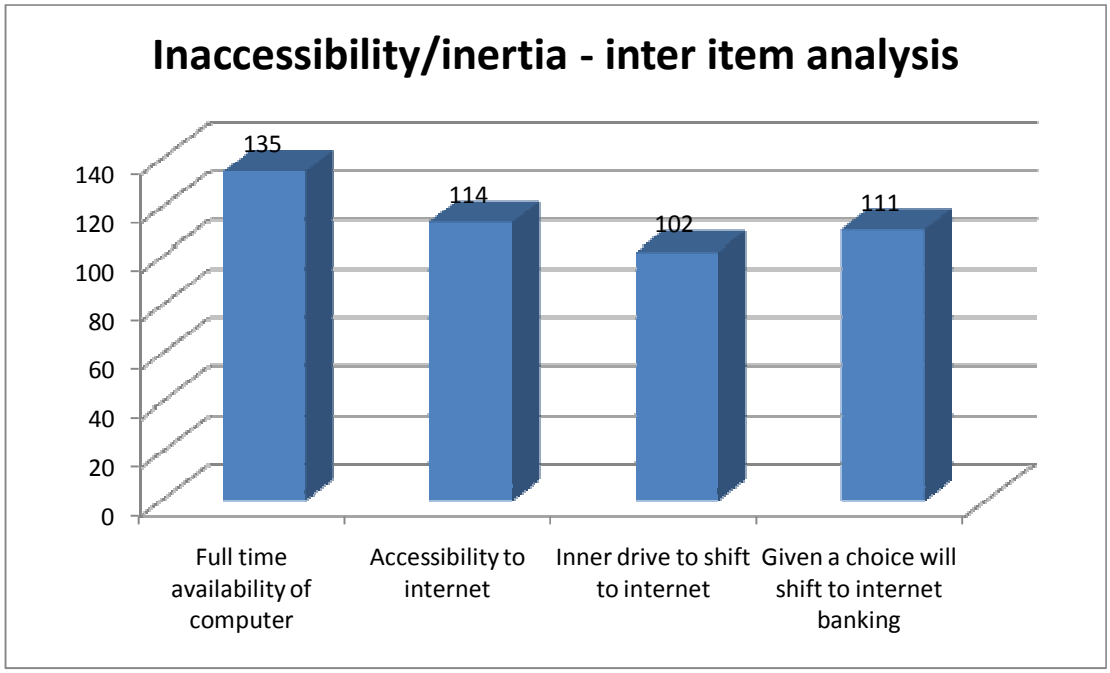

Fig. 2: Inter item analysis of Inaccessibility/inertia factor

Graph in Fig. 3 indicates that most of the respondents feel a need for internet banking (score 112/150).

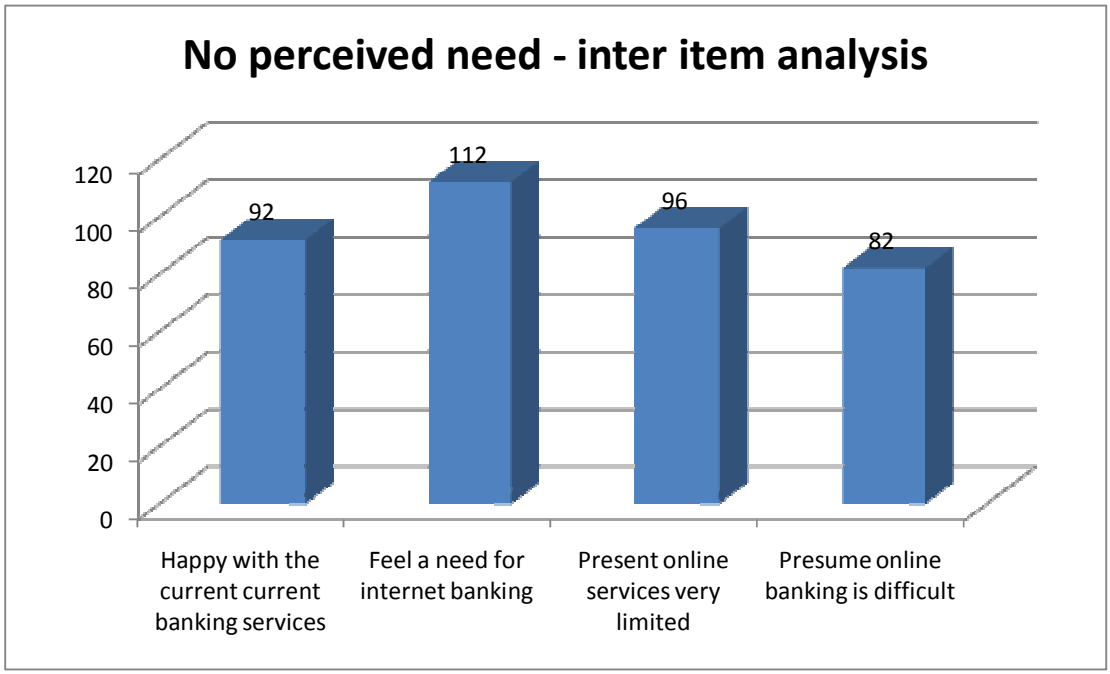

Fig. 3: Inter item analysis of No perceived need factor

Fig. 4 indicates that most of the respondents feel that their privacy will be affected (score 113/150) by the use of online banking and it is a risky proposition (score 106/150).

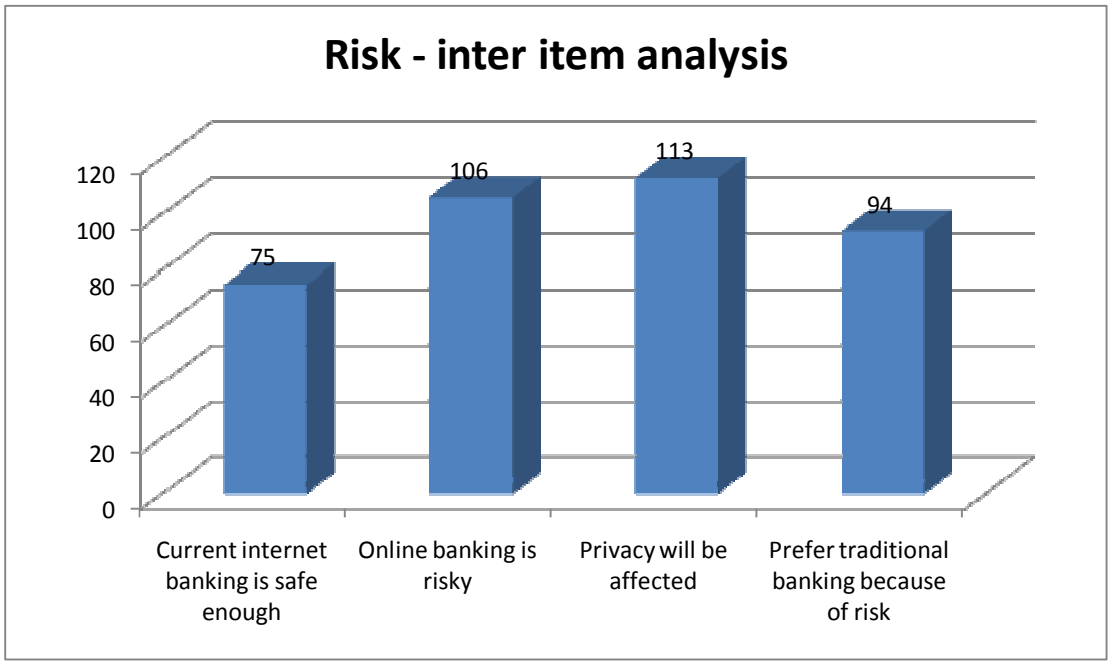

Fig. 4: Inter item analysis of Risk factor

The graph in Fig.5 indicates that people think that the 'HELP' icon on the website of bank is not helpful enough as compared to help given by bank employees (score 091/150).

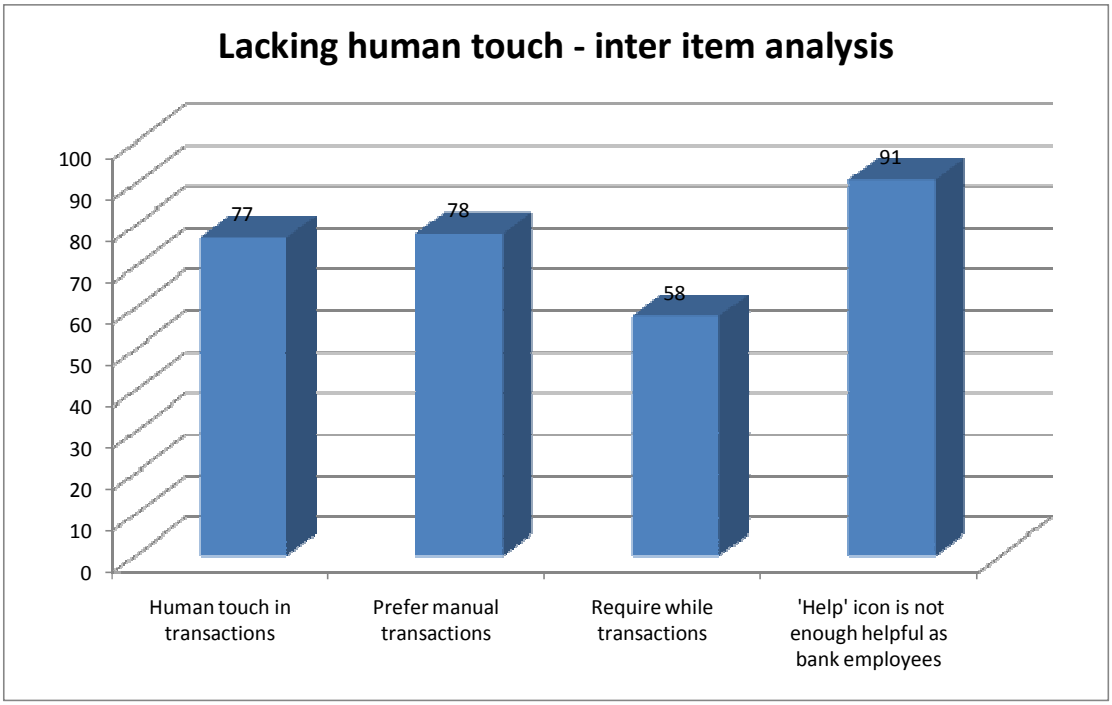

Fig. 5: Inter item analysis of Lacking human touch factor

Table 1: Correlations

		Lack_of_ Knowledge	Inaccessibility_ or_inertia	No_perceived_ need	Risk	Lacking_ human_ touch
Lack_of_knowledge	Pearson Correlation	1	.328	.358	-.094	.080
	Sig. (2-tailed)		.077	.052	.622	.676
	N	30	30	30	30	30
Inaccessibility_or_inertia	Pearson Correlation	.328	1	.424(*)	-.181	-.298
	Sig. (2-tailed)	.077		.020	.338	.109
	N	30	30	30	30	30
No_perceived_need	Pearson Correlation	.358	.424(*)	1	.214	-.058
	Sig. (2-tailed)	.052	.020		.255	.762
	N	30	30	30	30	30
Risk	Pearson Correlation	-.094	-.181	.214	1	.402(*)
	Sig. (2-tailed)	.622	.338	.255		.028
	N	30	30	30	30	30
Lacking_human_touch	Pearson Correlation	.080	-.298	-.058	.402(*)	1
	Sig. (2-tailed)	.676	.109	.762	.028	
	N	30	30	30	30	30

* Correlation is significant at the 0.05 level (2-tailed).

The Table 1 indicates that the factor inaccessibility/inertia has a significant correlation with no perceived need factor (.424*) and risk factor has a significant correlation with lacking human touch factor (.402*). It shows that inaccessibility of the account holders is dependent on perception of needs. However, the technology comforts increase the demands and expectations of account holders as a result they now need the awareness and assurance about accessing the account through internet banking. It is also interesting to note that because of lacking in human touch the risk factor is also more prominent (.402*).

The amount of time spent on internet by each respondent is high (136/150). This depicts that most of the respondents were comfortable with the use of internet. Not many respondents are conducting online transactions of any kind. Each respondent is having full time availability of computer at his or her place. Most of the respondents feel a need for internet banking. People feel that online banking is a risky proposition and feel that their privacy will be affected by its use. People think that the HELP icon on the website of bank is not helpful enough as compared to help given by bank employees. Inertia is the major factor why people do not go for internet banking, although they have accessibility. Because of inertia people think that there is no need to shift to internet banking and they remain firm on their traditional banking style. While making online transactions, due to lack of human interface, people feel that there is no one who can be held accountable if something goes wrong. So they feel that online banking is a risky proposition. Whosoever is spending considerable amount of time on internet is not necessarily using any online transactions. The respondents who are aware of internet are also aware of the online banking facilities available to them. Whosoever is having a computer at his place is having a good and speedy accessibility to internet. Whosoever is having a good and speedy internet accessibility has the inner drive to shift to internet banking. Whosoever has the inner drive to shift to internet banking may shift to internet banking if given a choice. People feel a need for internet banking. Respondents feel that the current online banking system is not safe enough and that's why people prefer traditional banking. Respondents think human presence is very necessary while making transactions and people often require help while transacting.

The case study presented in the paper was a pilot study with a small sample size. Also the sample was not random, rather the respondents (samples) were from the students lot of a technical institute. The respondents did not have much need of doing the banking transactions, as basically they were students and their most of the needs were already taken care of by the institute. Another reason for the very little or no use of internet banking is the fact that the students have very convenient access to the banks which are inside the campus and the respondent students also live on the same residential campus which is very small when compared to the big cities. So they do not have any problem in going to the bank and making the transactions rather that is convenient as the bank staff members facilitate their transactions by explaining to them the meanings and implications of the various terms used in the working. Also the human touch gives

them better feeling. The respondents do feel a need for the use of the internet banking. But when it comes to practicing the internet banking they feel that their privacy would get affected and they find the online banking a risky preposition. The above findings and discussion is restricted as a pilot study with small size of sample. However, the study further can be extended with the help of larger sample size and including more Indian banks.

The bank is able to capture, process and generate a huge volume of data, information and knowledge if the customers use internet banking on a large scale. Similar is the situation if the customers use the services through the mobile banking. With the use of internet banking and mobile banking the data gets accumulated and the banks are able to know the needs of the customers, their priorities and preferences, and the gaps where the banks need to upgrade or modify.

We should make the internet banking and mobile banking more popular by providing incentives to the customers who use internet and mobile banking. The incentives need not be financial but the ones which further attract the customers for using the internet and mobile banking. The customers should also be insured against the loss, if any, which they incur in the use of internet and mobile banking. All this will go a long way in the use of internet and mobile banking and in turn will help the banks in doing extremely well in harnessing the benefits of the knowledge management practices.

Conclusion

From the above discussion we can understand that technology has brought us the banking services in a better way. Financial institutions have adopted knowledge management as a strategic approach particularly the use of technology such as the internet and mobile/telephone banking. The value added through knowledge management to the CRM is quite appreciable. However, the account holders in India are not in a position to derive benefits out of it. Bankers are required to create more awareness and support the account holders for use of internet and mobile/telephone banking and to hold mileage over other competitors. Insurance cover should be provided to the customers against any possible loss to them which will go a long way in attracting more customers for internet and mobile/telephone banking.

The technology intensive banking services like internet and mobile/telephone banking should be made available free of cost to the customers. The banks will be able to save their expenditure on the manpower by avoiding the manual banking. Bankers also have to take care that innovations have short life cycle and therefore a continuous improvement in their services are required. The regeneration of the core business will be a challenge for banking industry in current knowledge economy. Successful technological support will establish the credentials of banks through KM practices like internet banking, mobile/telephone banking, e broking and corporate e banking.

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Biography

1. Saurabh Kumar completed MBA from IIT Roorkee in the year 2007 from the Department of Management Studies. He is presently working as Software Consultant and Management Advisor in a multinational company. His area of interest is Information Technology and Management. He has also worked in the areas of commercial aspects and economic impact on use of knowledge management.

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