

The Effectiveness of Knowledge Management Towards Organisational Performance of Internet Business in Malaysia

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Abstract

In today's digital economy, rapid access to knowledge is critical to the success of many organisations. The Internet is a form of information and communication technology that is combined with other network technologies and services, which constructs a digital environment that consistently creates new knowledge, quickly disseminates it, and applies it to organisations. Thus, due to this characteristic, the Internet is profoundly changing knowledge management (KM), and the World Wide Web has promoted KM from a trend to the Internet business reality. KM is known as a tool that seems to gain a more relevant role as managing knowledge and information has become increasingly critical to all companies. The implementation of KM within organisations is among the key factors in ensuring organisational success and providing benefits such as improved efficiency, improved competency, and better decision-making, particularly in the Internet-based context in local organisations. The assumption underlying the use of virtual KM is that by locating and sharing useful knowledge, organisational performance will improve, particularly in the digital environment. Several researchers suggest the important role of KM in Internet business. However, the extent of KM contribution to the performance of Internet business is yet to be established due to lack of empirical evidence. Furthermore, KM effectiveness can only be conceived as the effectiveness of an organisation in managing the knowledge acquired, shared, and applied by the Internet entrepreneurs. Based on this issue, this paper aims to bridge the gap between KM and Internet business performance literature by providing a conceptual framework for KM effectiveness specific for Internet business. Therefore, the objectives of this article are to develop a conceptual framework related to KM effectiveness and to identify the relationship between KM effectiveness and performance achievements in Internet-based context. The expected result of this research will provide potential benefits to Internet entrepreneurs and enhance the performance of Internet business accordingly. This could be achieved by implementing the effective KM and reinforce its importance as an integrated Internet business tool.

Keywords: *knowledge management, knowledge acquisition, knowledge sharing, knowledge application, organisational performance, internet business*

JEL Codes:

1 Introduction

The emergence of information technology have pushed the worlds in a new economical era with the continuous and rapid improvements in information technology (Theriou, Maditinos, & Theriou, 2011). The Internet known as a form of information and communication technology that is combined with other network technologies and services. The combinations with other network technologies constructs a digital environment that consistently creates new knowledge, quickly circulates it, and applies it to organisations. Thus, due to this characteristic, the World Wide Web has promoted KM from a trend to the Internet business reality due to Internet is profoundly changing knowledge management (KM) implementations in organisations. Besides, KM has been a famous topic over the first years of the twenty-first century in several business communities and known as a natural evolution.

The big concern that have occurred related to KM is how to complete it effectively and successfully by allows an organisation to gain insight and understanding from its own experience and procedures (Theriou et al., 2011). The implementation of KM within organisations is among the key factors in ensuring organisational success and providing benefits such as improved efficiency, improved competency, and better decision-making, particularly in the Internet-based context in local organisations.

By looking at the digital environment particularly, the underlying statement towards the use of virtual KM is that by discover and sharing useful knowledge whereby as a result the organisational performance will improve. Several researchers suggest the important role of KM in Internet business. However, the extent of KM contribution to the performance of Internet business is yet to be established due to lack of empirical evidence. Furthermore, KM effectiveness can only be conceived as the effectiveness of an organisation in managing the knowledge acquired, shared, and applied by the Internet entrepreneurs. Based on this issue, this article aims to bridge the gap between KM and Internet business performance literature by providing a conceptual framework for KM effectiveness specific for Internet business.

The objectives of this article are to develop a conceptual framework that linked to the KM effectiveness and to identify the relationship between KM effectiveness and performance achievements in Internet-based context. This article is organised as follows where section two refers to the importance of the Internet business in Malaysia. Section three explains about KM in Internet business. Section four refers the relationship of KM and organisational performance in Internet business. Section five presents the conceptual framework to portray the relationship between KM and organisational performance. Section six refers to the implementation of effective KM towards organisational performance. Last but not least, section seven includes conclusion and finally, section eight refers to an acknowledgements whereby to thank all those who have helped in completing this article.

2 The Importance of Internet Business in Malaysia

In the digital era nowadays, ICT skills are a must for an individual in their daily routine activities. If the individuals do not have or master ICT skills, they will be left behind by others with these skills. This is because ICT skills have already become the current needs of an individual and future demands for an organisation nowadays (Musa, 2008).

Omar and Anas (2014) found that due to the development of the current ICT, Malaysians nowadays are more knowledgeable and informative because the information is always ready and available with one click on the search engine. Hence, with the development of ICT, it helps the individuals to generate positive thinking skills and abilities to brainstorm their valuable ideas in order to increase the source of income for an individual and the organisation. Thus, this statement has been supported by previous studies from Musa (2008), he highlighted that with ICT facilities and skills, it will allow individuals to gain extra knowledge in various fields for the use of social, employment, economy, educations and politics as well. With this, ICT are known as a gateway for the unlimited access to knowledge (Musa, 2008).

In order to transform the nation into digital economy, there are numbers of ICT initiatives continued to be implemented when looking towards Tenth Malaysia Plan (Tenth Plan), 2011-2015 (Economic Planning Unit, 2011). However, in the Eleventh Malaysia Plan (Eleventh Plan), 2016-2020, the government has emphasised on driving ICT in the knowledge economy through innovation and productivity to enhance competitiveness and wealth creation. Thus, the growth of the ICT industry will, in turn, drive the demand for a strong digital infrastructure, when it becomes essential for Malaysia to stay competitive in the market. Nevertheless, the ICT has to play a vital role in the development of the country mostly to improve the effectiveness, productivity, and competitiveness if the organisations in order to be one of the driving forces in the development of ICT, especially in Malaysia (Mohd Yusof, Fuziah, Mohd Safar, and Mat Pauzi, 2009).

Internet business plays an important part in the economic growth of a country through new business venture formation and development of current Internet firms. However, with increasing towards the development of information technology (IT) it has significantly affected both firms and markets. Therefore, the Internet is the tool that presently has the most significant consequence in the business world whereby nowadays the Internet is one of the functions that is becoming important as a trade infrastructure. Thus, the Internet indirectly becomes a medium or a tool for people to exchange their information and communicate with each other at a speed that has never been seen before.

In this new era, the Internet business can be group into two types of firms using this type of new IT. The first type is the firms using the Internet along with their physical presence or known as a traditional company. This type of firm will use the Internet as a new distribution channel or alternatively as a logical extension of their traditional business. The second type of firm is known as the pure dot-com firm (Internet startup or cyber-traders). This type of pure dot-com firm has been precisely considered to run in this new environment. Thus, these two types of firms, which are traditional business and pure dot-com company are now taking on a significant role on the Internet (Tarres, Melendez, & Obra, 2006).

Mokhtar (2015) mentioned that the use of the Internet has already turned into a common stage for businesses in order to market their products and services in the globalised world. This statement has been supported by a study from the Internet World Stats (2014) on the increasing number of Internet users. The study showed that Asia has the most Internet users with 45.7 per cent of users more compared to other regions. However, this is probably related to the higher population in Asia, which is almost 3,396.4 million , for instance, as compared to Oceania, which is only 36.7 million.

The use of the Internet, mainly in emerging countries, has increased rapidly in recent years (Chinn & Fairlie, 2006; Qiang, 2010), and this study has been supported by the International Telecommunication Union (2011), which showed that there was an increase in Internet users, in both developed and developing countries.

Paynter and Lim (2001) stated that Malaysia stepped into the beginning age of the Internet in 1995 and according to them, around 1996, the development began for the total Internet hosts in Malaysia. Based on the result of the first Malaysian Internet survey that was implemented since October to November 1995 by MIMOS and Beta Interactive Service, this survey showed that one out of every thousand Malaysians has the access to the Internet (20,000 Internet users out of 20 million inhabitants) (Beta Interactive Services, 1996). Lee (2000) argued that this number increased to 2.6 per cent compared from the total population in 1998. This increased number of the percentage was proven by the number of computer units sold, which was 467,000 in 1998 and increased to 701,000 in 2000 (Lee, 2000). This percentage indicated an increasing growth.

Moreover, a survey conducted by the Malaysian Communication and Multimedia Malaysia (MCMC) (2014) on Internet users showed an increase in the percentage of Internet users across Malaysia at 66.6 per cent against 33.4 per cent of non-users. However, due to the Internet functions in information and idea sharing, the Internet has experienced increasing popularity among Malaysians, which allows the development of new communities, channels, and platforms for substantial business activities.

Omar and Anas (2014) found that in Malaysia, e-commerce in Malaysia now stands at a more inspiring note through the initiative given by the government.

They also had mentioned that in order to ensure that the initiative given by the government is fully implemented by the e-commerce, the infrastructure construction and frameworks have been and will be develop by communities in Malaysia in the future. Hence, the study from Omar and Anas (2014) found that especially to the Internet business users, since the government has provided a huge allocation to this Internet users, therefore they have to ensure that all facilities and requirements related to the ICT sector can be developed and can deliver useful benefits to the communities in Malaysia.

However, all of the literature that has been extensively discussed its shows that in order to achive good performance it can complete only through a good managing of the Internet business. For example, the Interenet business can be carried out successfully wit the support of the government authorities and also able to winning the trust of consumers by looking towards the existing successful Internet business and consistent effort (Omar and Anas, 2014). Hence, with the innovation of conventional method, it surely attracts consumers to deal virtually.

To date, as Internet businesses are important growth engines in many developed countries and other emerging countries in driving the economy of their countries respectively, including Malaysia, therefore, a great potential can be exposed to develop Malaysian Internet businesses through KM in order to contribute to the success of organisational performance.

3 Knowledge Management (KM) in Internet Business

Knowledge Management (KM) is an impressive, multidisciplinary, and controversial concept which enables the existing individual knowledge to be captured and transformed into organizational knowledge. But, in turn the knowledge must be diffused and shared by many employees. These employees use this knowledge but they also create new individual, which becomes organizational, and so on (Theriou et al., 2011). KM is also known as the knowledge that managed by the organisations that can help to improve many features of organisational performance (Gupta, Iyer, & Aronson, 2000).

The concept of “knowledge management” has been perhaps the most important phenomenon to emerge in recent years in the study of management. Theriou et al., (2011) stated that different authors and researchers have presented different definitions of KM. To define KM is not an easy matter, this is because it is multi-faced and controversially concept and what’s more is a mix of strategies, tools, and techniques. However, the general accepted definition of KM concept are not occur even though knowledge management has been extensively studied by researchers and academics (Theriou et al., 2011).

Knowledge management has been broadly defined from many perspectives. In Wiig (1995) perspectives, knowledge management is a process or methods used to search important knowledge among different knowledge management operations. The aim is to facilitate an organization in acting intelligently in order to secure its viability and success. Next is to make an organization realise the best value of its knowledge assets (Wiig, 1995). To conclude from Wiig (1995) perspectives, the purpose of KM is to maximise organization's effectiveness. Besides, Lakshman (2007) defined that KM referred to as a firm's capability that guides its employees to work together to generate, capture, share, and leverage their collective knowledge to enhance their performance.

Nonaka and Takeuchi (1995) mentioned in their study whereby lots of claim identifies that knowledge is a major factor driving business-level capabilities. Hence, due to the claims has been made, it becomes the utmost important source of competitive advantage (Nonaka and Takeuchi, 1995). Awad and Ghaziri (2004) stated that information and knowledge are critical to the companies' performance. However, these authors suggested that especially in an Internet-based context, to capture and transfer best practices is not enough to achieve success.

The development of Internet and e-commerce technology are needed to allow firms to establish new forms of knowledge creation in order to provide them the opportunities to improve their capability (Siau, 2000). Through the Internet, vast amounts of information concerning customers, suppliers, markets, and supply chains can be effortlessly gathered, while information about company processes, products, and services can be easily disseminated to the public.

Stojanovic and Handschuh (2002) stated that in order to capture and disseminate new sources of information, KM system play an important role as a main function by getting the information. Furthermore, by implementing a knowledge-acquisition and knowledge sharing system by using the Internet as the medium it helps to meet the requirements and specifications of unique and complex system in the companies.

Furthermore, to use digital information effectively and to take advantage of Internet possibilities, the corporations to adapt both knowledge management system and business strategy are needed in this digital society (Takahashi & Vandenbrink, 2004). As Malhotra (2000) suggested that to achieve a pre-specified organisational goals the traditional KM model need to emphasize convergence and compliance to meet the goals.

To encourage performance, knowledge management has been defined as a planned, structured process in order to manage the acquisition, sharing and applying knowledge as an organizational asset (Lin, 2005). The dimensions of KM defined as follows where knowledge acquisition defined as the processes that use existing knowledge and capture new knowledge.

Meanwhile, knowledge sharing is the processes that distribute knowledge among all individuals participating in process activities and knowledge application is the business processes through which effective storage and retrieval mechanisms enable a firm to access knowledge easily (Lin, 2005). From the literature review that has been extensively discussed, virtual KM can consider as an Internet-based business strategy integrating every area that touches the data gathering.

To conclude, based on the KM views and methodologies that has been developed it could be say knowledge need to be handled cautiously due to knowledge known as an important asset. Besides, it could also be say that the fundamental of knowledge management is to get the right knowledge to the right people at the right time. Therefore, KM is a process that facilitates organizations to capture, select, organise, distribute, and transfer significant information, knowledge, and expertise so as to gain business advantage.

4 Knowledge Management (KM) and Organisational Performance in Internet business

The relationship between KM and organizational performance has been widely studied and appear to have an inconclusive results. The relationship between KM and organisational performance found in the study by Leea, Sangjea and Kang (2005). In their study they investigated knowledge management performance index (KMPI) by using both qualitative and quantitative methods. The sample frame used in this study consisted of one hundred and one firms in South Korea and the outcome of their findings indicated a strong linkage between knowledge management performance and the overall performance. However, in another study which has been found in Lin and Lee (2005) study, they assessed the influence of organizational learning factors and knowledge management process on e-business adoption. Their findings throughout this study indicated that organizational learning factors and KM process are related to the level of e-business adoption.

Besides, in another study by Margues, Simon and Margues (2007), they explored that the association between knowledge management practices and firm performance of two hundred and twenty two Spanish firms in biotechnology and telecommunication industries. In this study they employed the competence-based view of the firm and focuses on the importance of knowledge management as a sustainable competitive advantage. As a result, they find a positive relationship between KM and firm performance when they applies a factor analysis with a subsequent correlation analysis between factor loadings and a variety of firm performance measures (Margues, Simon and Magrys, 2007).

Previous study by Tiago et al., (2009) stated that most traditional financial and accounting methods of evaluation are not suitable as the only forms of performance measurements in the Internet-based practices (Tiago et al., 2009). This is due to the fact that there are some intangible, indirect and even strategic benefits that need to be considered (Grembergen & Amelinckx, 2002). Research has shown that in industries such as the airlines industry and the wireless communications industry,

non-financial information is highly value relevant (Amir & Lev, 1996; Behn & Riley, 1999). Their results suggest that, on a stand-alone basis, traditional financial statement information is largely irrelevant for the wireless communications industry.

Besides, Amir & Lev (1996), finds that non-financial indicators such as population size, and market penetration are highly value-relevant. Previous literature has been extensively discussed by Behn and Riley (1999) where they examine whether non-financial performance information is useful as a leading indicator of financial performance for the airlines industry. In addition, previous literature has been extensively discuss about the relationship of KM towards non-financial performance where it's found that KM has been linked positively to non-financial performance measures such as quality (Mukherjee et al., 1998; McKeen et. al, 2005; Tiago et al., 2007), innovation (Forcadell and Guadamillas, 2002). Thus, the dimensions of non-financial measurement that will be used to measure in this study is sales, which has been taken from the study of Tiago et al., (2007) and the dimensions consists of quality of customer service, sales area, numbers of customers and sales volume.

There are three dimensions that considered used in this research as the notion of corporate success in e-business which adapted from Amit and Zott, (2001). The three dimensions in this study are consists of hard factors, soft factors, and innovation. The first dimension refers to the hard factors and the indicators of economic performance, namely sales volume and number of customers. The second dimension refers to a company's improvement in customer relationships, measured in our model by the quality of customer service. The last dimension reflects the company's achievements in terms of its competitive position, given by the sub dimension sales area (Tiago et al., 2007).

Thus, in this study sales is taken as one of the non-financial measures and the dimensions consist of quality of customer service, sales area, numbers of customers and sales volume is to examine whether these dimensions will influence the relationship and to examine if the dimensions came to be regarded as the critical drivers for Internet business performance measurements in this study.

5 Conceptual Framework

Based on the above review of the literature, a conceptual framework have been developed (Figure 1) to portray the relationship between knowledge management (KM) and organisational performance.

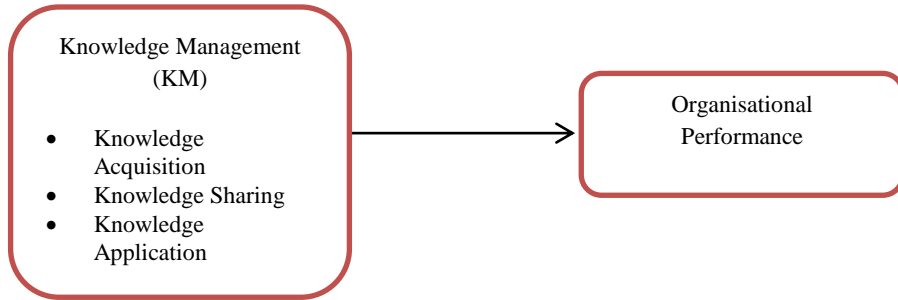


Figure 1: Conceptual Framework of Knowledge Management (KM) and Organisational Performance

6 Implementation of effective Knowledge Management (KM)

Knowledge management has been always important for business success and can contribute to gain competitive advantage and these has been realised by the organizations today whereby knowledge need to manage as an asset in order to success (Lim et al. 1999). Besides, Hlupic et al. (2002) mentioned that KM able to facilitates companies to be faster, more efficient, and more innovative due to KM is considered as a vehicle for organisation effectiveness and competitiveness.

In addition, Gold et al., (2001) highlighted that towards the effective application of knowledge management it enables a firm to become innovative, enhanced its efforts, quickly commercialise new products, able to forecast surprises, become more responsive to market changes and decrease redundancy of knowledge and information available to it.

In fact, there are many companies around the world which have very effective knowledge management systems in place. Some of these are a result of a successful implementation, and others may be a result of a rockier implementation, but all of this situations can be highlighted as a factors that should be followed for any future implementations undertaken by other companies. However, in this study will focus on the implementation of effective KM on Internet business. Thus, an effective knowledge management implementation will enhance more value to the overall performance of the organisation (Toften and Olsen, 2003).

Furthermore, to succeed nowadays the organisations have to view knowledge as an asset and manage it effectively. This is because knowledge management able to facilitates companies to be faster, more efficient, and to be more innovative. Thus, it can be say that the effective knowledge management is a valuable activity due to its consequences to firm performance (Lim et al. 1999).

Perhaps, several organisations establish knowledge management in order to improve performance this is because by using knowledge management initiatives is a kind of an investment.

However, based on previous study and findings from Tiago et al., (2007) it shows that KM has a positive impact in Internet business and based on these results, the concept of KM implementation in the Internet business is important too reinforced. Thus, the positive relationship between KM and Internet business performance follows the positive relationship founds in the earlier studies.

Knowledge management is important to firm performance due to its contribution on innovation improvement, enhancement of coordination of efforts, better decision making, and ultimately better financial results (Holsapple and Wu, 2008). Thus, most organizations today have identified knowledge management as a critical success factor for companies. Knowledge are known as a strategic weapon because managing knowledge is significant which can lead to sustained increases in profits.

Probst, Buchel and Ruab, (1998) in their study mentioned that once the correct and important knowledge is transformed, distributed, and intergraded, the organisation will be able to achieve the competitive advantage. The organisations that can be considered as successful is when the organisations able generate new knowledge and distribute it broadly throughout the organisation and rapidly embody it into new technologies and products.

7 Conclusion

In conclusion, KM is known as a driving force of critical importance for business success or failure. The need of knowledge management begins when knowledge is acquired, shared, and subsequently applied. The results of the study will help and benefits the Internet entrepreneurs to understand the knowledge management success and how the effectiveness of knowledge management influence the organisational performance. Organisations that facilitate knowledge management and promote effective knowledge transfer today will have competitive advantage tomorrow.

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