

1 Introduction

1.1 Introduction

The financial sector of the 21st century is complex and dynamic (Shih, Chang & Lin, 2010, p. 75; Beier, 2005, p. 45). The only constant is change, which will happen faster within the next five years than in the last fifty (Gardner, 2009, p. 1; Skinner, 2007, p. 12). Long-known predictability vanished after the subprime crisis shook the industry like nothing else before, leading to further structural changes and impacting strategic decisions – both already made and those still to come. In particular, the levels of uncertainty due to almost constant changes in technology and regulations are probably higher within the financial services industry than in any other (Boot & Marinc, 2008, p. 1173). For these reasons, knowledge management as an integral part of strategic management becomes more and more important for the financial services industry (Grant & Denzin, 2009, p. 561; Safizadeh, Field & Ritzman, 2008, p. 88).

Today's financial services industry faces many demanding challenges. Amongst these are strong (national and international) competition, globalisation¹ and liberalisation (Grant & Denzin, 2009, p. 561; Shih, Chang & Lin, 2010, p. 75; Safizadeh, Field & Ritzman, 2008, p. 88; Gardner, 2009, p. 1). The demand for customer-oriented product and service innovations, as well as new distribution channels including multi-channelling, local deregulated markets and globally

¹ Globalisation as such is not a new phenomenon, but the mobility of skilled workers, trade liberalisation, faster and cheaper transportation and the possibilities of modern information and communication technologies add up to a yet unknown dimension (Asgeirsdottir, 2006, p. 21).

standardised reporting requirements – together with advances in information systems – influences today's financial services operations and impact strategic decision-making (Grant & Denzin, 2009, p. 561; Nellis, McCafferey & Hutchinson, 2000, p. 53; Brown & Kleiner, 1997, p. 237). Skinner (2007) summarises regulatory, customer and technology changes as well as threats to profitability as the four biggest challenges faced by today's financial services industry players (p. 1).

The shareholders' permanent eye on the income/cost ratio requires a constant search for more efficiency and effectiveness, although higher efficiency – especially amongst foreign banks – does not automatically lead to increased profits (Sturm & Williams, 2004, p. 1797). In this respect, knowledge-based strategies have become far more important for the financial services industry (Grant & Denzin, 2009, p. 561; Safizadeh, Field & Ritzman, 2008, p. 88). Thus, a bank has to be especially careful when it comes down to the core competencies required to operate successfully in the market – both now and in the future (Boot & Marinc, 2008, p. 1196). The importance of knowledgeable employees in such an unstable and fast-paced world is steadily increasing; these employees and the firm's overall capabilities therefore have to be regarded as a real asset in terms of competition and profitability (Koubek, 2000, p. 14; Brown & Kleiner, 1997, p. 237; Zineldin, 1996, p. 13).

While coping with faster innovation and production cycles, increased competition and sophisticated customer desires, the roles of information, communication and therefore the management of knowledge become increasingly important (Koubek, 2000, p. 12). Hence, calls for knowledge management within the financial services industry are ever-present (Willke, 2001, p.13), especially since there is a certain

necessity to create new knowledge (von Krogh, Nonaka & Aben, 2001, p. 427). Unlike some other industries – namely manufacturing, the financial service industry provides knowledge-based products and services (Grant & Denzin, 2009, p. 568; Shih, Chang & Lin, 2010, p. 75). The knowledge required for banking operations is often more complex than in other industries (Shih, Chang & Lin, 2010, p. 76). Only those banks that constantly achieve first mover advantages – via the creation of new knowledge and innovation – might to be able to transform these into sustainable competitive advantages (Gardner, 2009, p. 22; Roberts & Amit, 2003, p.107). Thus, creating the flexibility and responsiveness to create new advantages at a faster rate than competitors – often referred to as “dynamic capabilities” (Todorova & Durisin, 2007, p. 777; Easterby-Smith & Prieto, 2008, p. 235; Bogner & Bansal, 2007, p. 168; Zollo & Winter, 2002, p. 340) – is one key concern within the financial services industry (Grant, 1991, p. 131). Dynamic capabilities represent the ability to renew and reconfigure existing capabilities into new capabilities and competences. The bottom line of dynamic capabilities regarding their nature and evolution is linked to concepts of managing knowledge (Easterby-Smith & Prieto, 2008, p. 235).

Different organisations use their capabilities in different ways, leading to different levels of efficiency and effectiveness compared to competitors (Helfat & Peteraf, 2003, p. 999). Continuously being amongst the first movers within the financial services industry, and being able to provide a proven history of innovations, not only affects a firm’s reputation, but also improves its performance (Roberts & Amit, 2003, p. 118) including efficiency and effectiveness.

In this respect, it is proven that firms practicing knowledge management (KM) innovate more extensively than their non-KM counterparts (Asgeirsdóttir, 2006, p. 22), producing innovations that improve daily business or operational processes (Seufert, Back & von Krogh, 2006, p. 79). Nevertheless, authors mainly discuss a specific topic within a financial services organisation, thus narrowing the focus to an operational instead of a strategic view, e.g. innovation management (Heimer, 2001, p. 6) or risk management (Strulik, 2001, p. 31-54).

Financial services derive from people for people. Thus, people make the difference, not technology (Skinner, 2007, p. 62), as back office systems and core financial services systems become more and more transparent (Skinner, 2007, p. 66). Hence, it is important for banks to “keep up” in terms of technological capabilities (Skinner, 2007, p. 4). Only those resources that are hard to imitate such as managerial information technology (IT) knowledge, or the business processes behind pure technology, are likely to continue to provide competitive advantages for firms (Ray, Barney & Muhanna, 2004, p. 35). Since scope economies, i.e. synergies, typically refer to a steady-state situation allowing for optimal operations to capture them, and given the constant flux in the financial services industry over the past ten years and, more importantly, the current turmoil with respect to the subprime crisis, there must be other factors accounting for the remarkable difference between the market leader and the average player. For Boot & Marinc (2008), learning and innovation are amongst these factors (p. 1176).

As KM has the potential to improve efficiency, decrease risk and increase innovation (Back, Enkel & von Krogh, 2007, p. V), while at the same time counter “the heightened complexity of an increasingly global marketplace” (Wang, Hult, Ketchen & Ahmed, 2009, p. 99), this study responds to the challenges indicated above by developing a KM model on a financial services corporation level. It accounts for differences among financial services corporations, allowing each to follow its existing overall strategy accompanied by an appropriate (individual) KM strategy, and supported by horizontal organisational forms in order to assure an overall strategic, as well as organisational, fit. Eventually, it will be flexible enough to be adjusted to a dynamically changing market and/or regulatory conditions.

1.2 Background to the Research & Research Justification

KM literature indicates that some KM practices are more appropriate than others, depending on firm specifics such as size or industry (Gault, 2006, p. 36; King & Zeithaml, 2003, p. 769). Going through management literature, best practices and academic literature on how to establish a KM initiative successfully within the financial services industry, the reader will arrive at the following questions: How do the corporate strategy of the company and KM fit together? Which of the models, frameworks, methods and best practices dealing with KM are the right ones? Finally, which organisational components are necessary to support KM, without having to reorganise and turn the existing organisational structure upside-down?

The reason for those questions arising in the first place is based mainly on the lack of industry-specific literature about KM and the lack of profoundly documented variables regarding when to choose which model, framework or best practice.

1.3 Research Problem

The problem addressed in this research is:

How can a financial services industry-specific KM model be developed and aligned with the overall strategic management that accounts for ever-present market and/or regulatory – and hence strategic – changes?

Essentially, it can be argued that although a lot of literature can be found on KM, no financial services industry-specific models – actually, no industry specifics at all – yet exist. However, KM has to be applied in an industry-specific way (Becker, 2007, p. 57; Gault, 2006, p. 36; King & Zeithaml, 2003, p. 769), acknowledging at the same time that even within the same industry, KM differs according to (amongst other things) the strategy, size, diversification and globalisation of each single financial services corporation.

The actuality of this topic is not only expressed by academic scholars (Kridan & Goulding, 2006, p. 212; Curado, 2008, p. 141), but also through the interest of practitioners and management magazines. Halfway through this study, the German-speaking management magazine specialising in KM, *Wissensmanagement – Das Magazin für Führungskräfte*, actually dedicated a whole issue to KM in financial

services companies and published an article about this study (Held, 2009, pp. 16-17). This can well be understood as a clear and important sign of practitioners searching for a KM model that better suits their needs.

1.4 Outline of this Thesis

This thesis consists of five chapters and is organised in accordance with Perry's (1998b) widely accepted (Love, 2002, p. 409) proposal. The structure of this thesis can be illustrated as follows (description below the illustration):

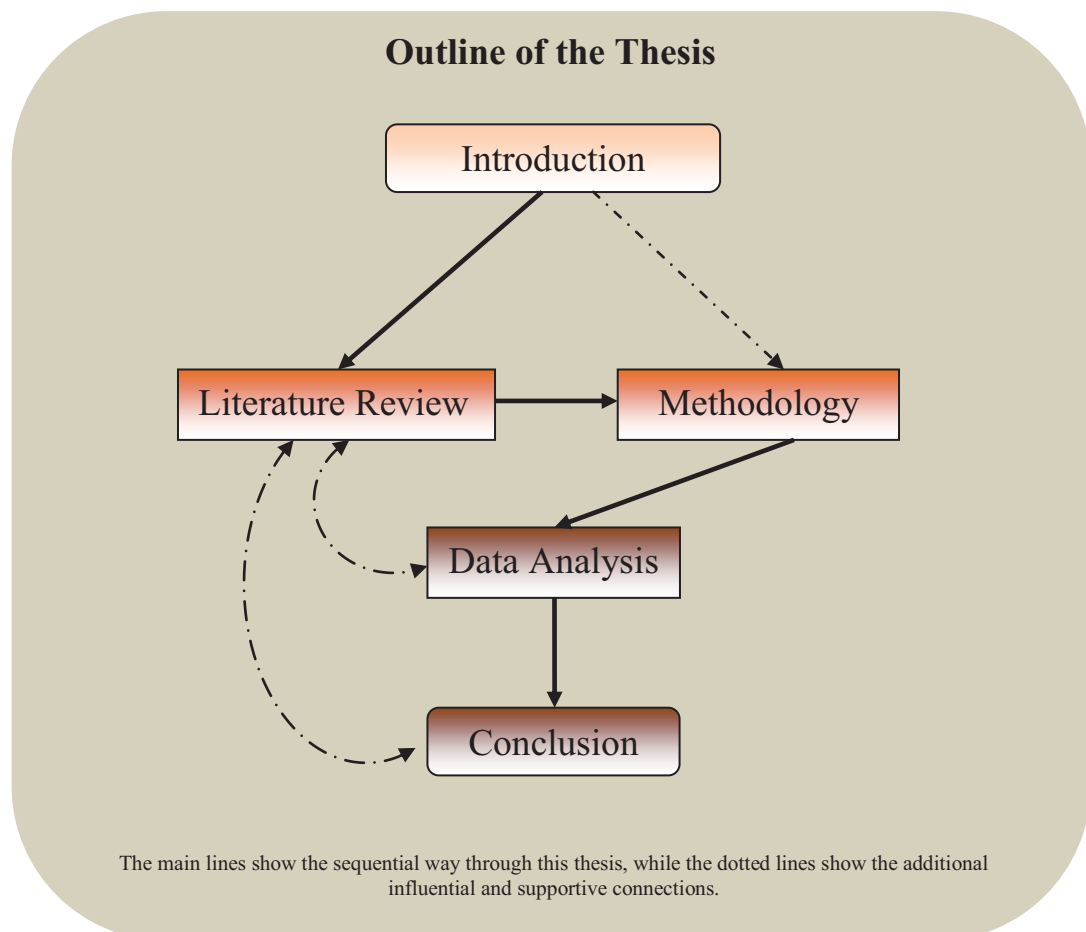


Figure 1.1: Pictorial Outline of the Thesis

Chapter 2 – Literature Review: will start by positioning KM in the overall domain of strategic management. It will begin with a brief exploration of the external and internal views on competitive strategies. These confronting views will then be aligned by focusing on their commonalities regarding their understanding and integration of KM. From this basis, the two most important frameworks for KM will be discussed, namely the resource-based view (RBV) and the knowledge-based view (KBV) of the firm. This will be followed by an intensive review of existing definitions of knowledge, stressing their importance as a starting point for any KM initiative. Consequently, KM will be discussed by detailing the most influential frameworks for conducting strategy-oriented KM. In addition, similarities between the concepts of KM and organisational learning will be stressed in order to reveal their overall value for the firm. The discussed frameworks will then provide the basis for the theoretical KM model developed within this thesis. This pure KM basis will be finally enriched by a discussion on organisational issues regarding supplementing the primary organisational structure with so-called communities and a brief introduction into managerial aspects. Finally, Chapter 2 will conclude with a propositional theoretical strategic KM model derived by drawing from the different aspects discussed. This model will then be explored empirically as part of this thesis.

Chapter 3 – Methodology: will detail the research methods used within this study to validate the propositional KM model developed. This chapter will start with an acknowledgement of existing and practised ontological and epistemological views on how to conduct strategic management and KM research. Next, a sound justification for the use of a functionalist/positivist paradigm and qualitative research methods will be provided. This will be followed by a detailed insight into the research

procedures used within this study, including a discussion on validity, reliability and generalisability in the light of data collection and data analysis. The chapter will conclude with a brief discussion on ethical issues.

Chapter 4 – Data Analysis: will present the findings of the qualitative research conducted with German-speaking financial services firms regarding their KM efforts in relation to the research question. These findings will be analysed, discussed and compared with the propositional framework developed in Chapter 2.

Chapter 5 – Summary, Conclusions and Implications: will provide a conclusion for each relevant topic of the strategic KM model, and summarise this with respect to the research problem and in comparison with the relevant literature reviewed in Chapter 2. This will be followed by providing implications for any theory, methodology and practice based on this study. Next, limitations that restrict this research will be disclosed and their possible impact on the results explained. Finally, suggestions for future research into the field of KM will be provided.