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## Mediating Role of Trust on the Effects of Knowledge Management Capabilities on Organizational Performance

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### Abstract

Knowledge Management Capabilities (KMC) have got two major components namely processes and infrastructure. Researchers relate the effect of KMC either to the processes or its infrastructure. But many KMC studies did not consider trust as an important influential variable. This study then seeks not only to identify and compare the effects of processes and infrastructures of KMC on organizational performance of Malaysian public listed companies, but also to bring in trust as a variable that mediates between these two groups of variables. Data from 176 usable questionnaires from senior managers of companies listed in the Malaysian Stock Market (Bursar Malaysia), were analysed using Analysis of Moment Structure (AMOS) software. The findings indicate that effects of the process capabilities component of the KMC are more dominant for organizational performance than its infrastructure capabilities. In addition, the effects on organizational performance are, the sharing, utilization and acquisition of knowledge (in that order) followed by organizational culture and structure, and finally technology infrastructure. Finally, the mediating role of trust was confirmed. Thus building organizational trust between employees and manager could enhance organizational performance.

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### 1. Introduction

Knowledge management capabilities (KMC) contribute to the organizational performance in the form of innovation, new product development, and competitiveness (Cepeda & Vera, 2007; Abidin-Mohamed et al., 2009; Chang & Chuang, 2011; Chen & Fong, 2012; Villar et al., 2014). This is due to the fact that achieving superior organizational performance depends equally on tangible assets such as the natural resource and intangible assets such as knowledge (Lee & Sukoco, 2007). KMC is defined as an organization's ability to accumulate critical knowledge resources and manage their assimilation and exploitation (Miranda et al., 2011) or as the ability to mobilize and deploy KM-based resources in combination with other resources and capabilities (Chang & Chuang, 2011).

Early research in KMC can be traced back to 2001 with the work of Gold et al. (2011) who divided KMC into processes and infrastructure capabilities. The first includes knowledge acquisition, conversion, application and protection while the latter includes technology infrastructure, structure, and culture (Alavi & Leidner, 2001; Gold et al., 2001; Liu et al., 2004; Tseng, 2014). Taken together these capabilities determine the KMC of an organization,

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which in turn is linked to various measures of organizational performance such as competitive advantage, competitiveness, and innovation (Gold et al., 2001; Lee & Sukoco, 2007). Nevertheless, previous studies associate the outcome of KMC to either processes capabilities (Ju et al., 2006; Sambasivan et al., 2009; Liu & Deng, 2015; Wu & Chen, 2014) or infrastructure capabilities (Cepeda & Vera, 2007; Chuang, 2004). Few attribute the organizational performance to both (Gold et al., 2001; Fan et al., 2009). A combination of both capabilities can provide a coherent and systematic knowledge support to daily organizational activities and can determine the organizational KMC (Gold et al., 2001; Mills & Smith, 2011; Lee & Sukoco; Sandhawalia & Dalcher, 2011). Both capabilities are used as either a mediator or a moderator (Cepeda & Vera, 2007; Ju et al., 2006; Tseng & Lee, 2014; Chen & Fong, 2012; Wu & Chen, 2014) while few studies tests the direct effect of the constructs on organizational performance (Liu et al., 2004; Cold et al., 2001). In addition, the findings of researchers regarding the direct effect of the KMC components are inconclusive. While some considers the knowledge application is the most important components (Mills & Smith, 2011; Liu & Deng, 2015), others find organizational culture and structure (Pandey & Dutta, 2013).

Activities of KM require a culture of trust between the organizational members. Researchers urge organizations to establish a trust culture (Sandhawalia & Dalcher, 2011; Abidin-Mohamed et al., 2014). This is because; lack of trust is the major reason for not sharing knowledge among organizational members (Currie & Kerrin, 2003; Gharakhani & Mousakhani, 2012). Nevertheless, our search reveals that trust and its mediating effect are slightly investigated by researchers in the area of KMC. Empirical evidences show that trust could play a mediating role in the relationship between industrial cluster involvement and knowledge obtaining (Niu, 2010).

Previous studies focus on countries such as European countries and United States (U.S). In the emerging economies, Taiwan received much attention compared with other countries (Ju et al., 2006; Wu & Chen, 2014). In Malaysia, the government has adopted a strategy to transform to knowledge based economy during the 1990s to fulfill the vision of 2020 (high income nation). However, despite the support and encouragement of knowledge based economy, many Malaysian organizations are not effectively managing and utilizing knowledge (Moshari, 2013; Ramin et al., 2013).

This paper aims to contribute to the literature related to the effect of KMC on the organizational performance. KMC consists of two constructs. The first is knowledge process capabilities with three components: knowledge acquisitions, knowledge sharing, and knowledge utilization. The second is knowledge infrastructure capabilities with three components: organizational culture, organizational structure, and technology infrastructure. In addition, the study tests trust as a mediator between KMC and organizational performance. Both financial and non-financial indicators are considered as the components of organizational performance. The paper consists of six sections. First section discusses the background of the study along with the issues and objectives. Literature review is given in second section. Third section discusses the development of the conceptual model and the hypotheses of the study. The research methodology is given in the fourth section. Fifth section presents the findings. Conclusion and direction for future work are given in sixth section.

## **2. Literature Review And Hypotheses**

### *2.1. Knowledge Process Capabilities*

Knowledge process capabilities are defined in this study as systematic processes that enable organizations to acquire, share and utilize effectively the organizational knowledge. Processes were varied in the literature based on the perception of researchers and the nature of their studies. For example, processes include acquisition, conversion, application and protection (Gold et al., 2001; Fan et al., 2009; Liu & Deng, 2015); acquisition, conversion and application (Ju et al., 2006); obtaining, refining, storing, and sharing (Liu et al., 2004); creation, transfer, integration, application (Wu & Chen, 2014); transfer, conversion, protection (Tseng & Lee, 2014; Tseng, 2014); acquisition, sharing, application (Gharakhani & Mousakhani, 2012); acquisition, dissemination, utilization (Chen & Fong, 2012).

Overall, knowledge processes capabilities are considered as systematic processes that start with acquiring the knowledge from internal and external sources. Next, the knowledge is shared among organizational members to create new knowledge or to avoid reinventing the wheel. Lastly, the shared knowledge is utilized by the organization and its members. Thus, in this study, the knowledge processes capabilities consists of three components namely acquisition, sharing, and utilization.

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