

# KNOWLEDGE MANAGEMENT IN STANDARD AND ISLAMIC FINANCE IN THE UAE AS A MODEL

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**Summary:** The banking sector is an important component of the UAE economy. Successful and appropriate implementation of knowledge management practices in UAE banks will support the economy. The insights gained from the preliminary findings of this research can help implement, manage and use knowledge management in UAE banks, helping to educate organizations and develop a culture of knowledge in banks, which in turn can increase productivity and gains in competitive advantage, growth and profit.

**Keywords:** Islam, Banks, Knowledge management, United Arab Emirates, Islamic banks, Knowledge-based marketing, Knowledge management system.

## 1. Introduction:

The recent global financial crisis has presented new challenges to banks: some banks will thrive and some will barely survive, while others will go under. The banks that survive will be those that have full and accurate knowledge of their customers' profiles as well as an understanding that will allow them to identify macro-environmental trends in a rapidly changing environment. Successful identification of trends requires continuous implementation of market research as well as investment in research and development – for this will nurture the generation of a sustained stream of competitive and innovative products and services that in turn foster growth and profit. In the current macro-environment, it is imperative that banks be able to transform research-generated data into information which can then be turned into knowledge. This knowledge can then enable decision makers to engage in appropriate action. This process is a fundamental principle of knowledge management (KM).

This research identified gaps in KM implementation and utilization in eight banks in the United Arab Emirates (UAE). It also sought to ascertain if there exist differences in KM implementation and utilization between Islamic and conventional banks and, if so, what these may be.

## **2. Literature review:**

### **2.1 Knowledge management:**

KM is practiced in many organizations, in diverse industries, and in many countries. The extent of KM implementation and utilization varies. In organizations where KM implementation is successful, knowledge activities occurring in each functional unit are coordinated and integrated across the organization as a whole, thereby promoting congruence in which the impact of the KM system is greater than that generated by the disparate knowledge activities of each of the functional units. There are various definitions of KM. KM is a “developing body of methods, tools, techniques and values through which organizations can acquire, develop, measure, distribute and provide a return on their intellectual assets”.

In this model, the knowledge-creating organization has four essential components:

- (1) Organizational mission;
- (2) Organizational outputs or objectives;
- (3) Knowledge inputs (marketing and other); and
- (4) Information systems, computing and telecommunication technology.

In the theoretical construct presented, it is posited that the KM system brings together the various knowledge activities associated with productivity in the organization including innovation of new products or services.

In the knowledge management in organizations (KMS) model, various marketplace knowledge inputs are required before marketing strategies are developed. These inputs include macro- and micro-environmental knowledge, product or service knowledge, knowledge of competitors, knowledge of customers, value chain knowledge, and the like, as well as other non-marketplace knowledge including research and development (R&D) knowledge, knowledge of automation, knowledge of operational techniques, contributions of knowledge workers, and patent portfolios.

In the KMS model, information systems, computing, and telecommunication technology resources are at the core of the organization. These technologies enable the organization to capture, create and share knowledge; this is vital to the organization's ability to survive in a rapidly changing environment. According to the KMS model, the four knowledge assets must be integrated, coordinated, and effectively leveraged in order for the organization to achieve its overall objectives.

## **2.2 Knowledge management in banks:**

In a research paper titled “Knowledge management in Malaysian banks: a new paradigm”, the Governor of the Bank of Negara Malaysia was quoted as he spoke at the launch of the “Towards a knowledge-based organization” program: If we are to be a central bank, with farsightedness and an ability to face new challenges, we need to be equipped with the expertise and the means to implement appropriate policies, and have confidence in our actions. An important component of this future is that the Bank must fully embrace and employ the principles of knowledge management. Whilst the principal objectives of the central bank remain unchanged, the new knowledge management strategies refocus the Bank’s policies and practices in managing knowledge as a key corporate asset and in leveraging and exploiting knowledge to better achieve these objectives.

## **3. Methodology:**

After the completion of a secondary research literature review, the following research questions were constructed:

RQ1. To what extent is KM practiced in UAE banks?

RQ2. Is there a difference in the practice of KM in Islamic and conventional banks?

RQ3. What global best practice KM strategies can be recommended?

### **3.1 In-depth interviews:**

Eight open-ended, face-to-face, in-depth interviews using a structured questionnaire were conducted with senior executives in eight different banks. Job titles of the interviewees included: Manager of Strategy Unit, Head of International Bank, Senior Manager (main branch), Retail Sales Officer, Group Head (Operational Risk), CEO, General Manager and Group Chief Compliance Officer, and Head of Contracting and Real Estate Finance. Five of the eight banks were listed on the Abu Dhabi Securities Exchange and the Dubai Financial Market. Of these five, one was an Islamic banking institution. Executives from two other Islamic banks and one executive from the UAE Central Bank were also interviewed. Thus, in total, three executives from Islamic banks and five executives from conventional banks were interviewed.

Data were recorded by field notes and by tape-recording. Interviewer notes were then transcribed to facilitate analysis. Not all participants were interviewed by the same interviewer although the team of researchers used the same question script for each interview to promote uniformity, facilitate comparison of data during analysis, and ensure data remained anchored to the

research objectives. Respondents were permitted to comment beyond the pre-determined structured questions. Interview questions are presented below as part of the text.

## **4. Results**

### **4.1 Summary of responses about KM practices in UAE banks**

The extent of KM practice in UAE banks

1. Are KM systems in place? Most banks did not have any KM systems in place. B1 does not have a knowledge management system (MKS), although it was claimed that the banks connect system, which allows the employees to enter particular requests (e.g. equipment, business card, holiday leave to a senior manager through an electronic system). B2, B3, and B4 also did not have KM systems in place, although B4 has a learning development system – a training system that is obligatory for all bank employees

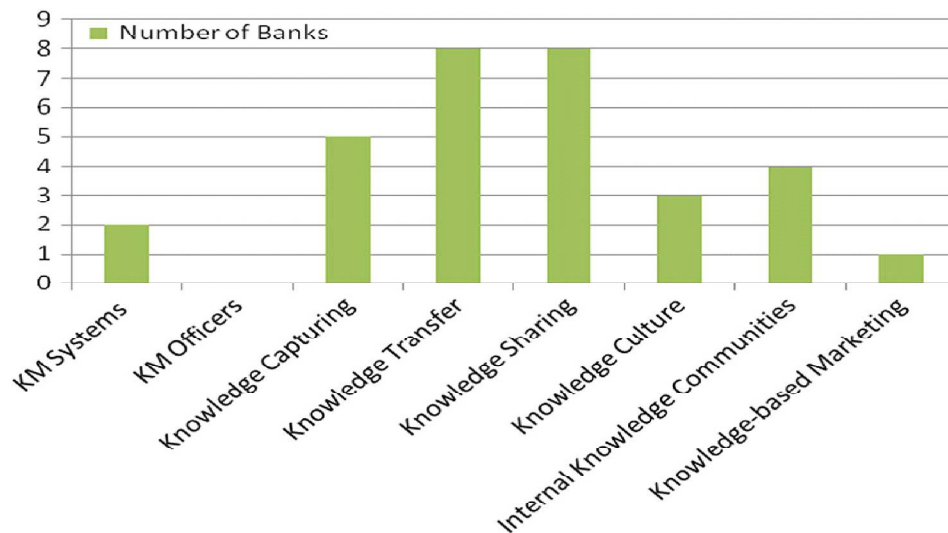
2. Has a KM officer or a knowledge champion been appointed in your bank? None of the banks interviewed had employed KM officers. However, most agreed KM was being managed by one or more departments. For example, B1 had a management information system, a network of all communication channels in the bank, while B3 believed that all employees are responsible for knowledge transfer and idea sharing. B4 placed the responsibility for KM with its training and development department rather than with a KM officer. Similarly, B7 placed KM under the direction of its human capital department. B5 was in the process of forming a KM committee within the bank's strategy unit and B8 placed KM duties under the supervision of its communication team (see Figure 2, none of the banks in the study had appointed a dedicated KM officer or champion).

3. How is knowledge captured in your bank? B1 had a data storage system called "The Business Continuity Plan" to capture knowledge. B2 used traditional KM methods such as an intranet and an internal magazine to capture knowledge. In B3, employees rotate to other departments in order to capture knowledge and techniques so that they can implement them in their own department. B4 captured knowledge via record retention. B5 used a staff information system and archive system, Arab Docs, to capture knowledge.

The economics unit of B6 was charged with the collection of relevant economic data.

B6 also used more informal methods of capturing KM such as socializing and personal networks. B7 utilized a staff suggestion program to capture knowledge; the bank analyzed staff recommendations and implemented those

deemed meritorious. B8 utilized a procedures menu to capture policies such as Customer credits and other records (see Figure 2, 62.5 percent of the banks in the study had knowledge capturing systems in place).



4. How is knowledge transferred in your bank? B1, B2, B4, and B5 transferred knowledge through e-mail, intranet and extranet, discussion boards, training, and meetings. In B3, senior managers communicate with the vice president through communication bands. B6 has a structured career development and training plan in place for nationals and high-potential expatriates. B7 highlighted two modes of knowledge

transfer: a company magazine and a CEO forum in which 12 employees are selected randomly to meet and discuss issues with the CEO. In B8, policies transfer up for approval then transfer down for implementation, and the CEO is always kept updated (see Figure 2, knowledge transfer occurred in all banks (100 percent).

5. Does knowledge sharing taking place in your bank? In B1, B2, B3, B7, and B8 knowledge was shared through formal and informal meetings. B1 also had a “CEO Blog” where all employees were able to share their ideas. Academia, a course-based employee learning system, was utilized by B2, while B3 practiced employee rotation to different departments as a means of knowledge sharing. B4 made use of its company magazine as well as a dedicated suggestion page on its web site. Similarly, B5 used electronic means to enable employees to make suggestions. B6 made use of a social club to encourage ad hoc knowledge sharing amongst employees. B7 shared knowledge via an internal web site which contained summaries of trends,

rankings, comparisons, etc. (see Figure 2, knowledge sharing occurred in all banks (100 percent).

6. Does a knowledge culture exist in your bank? Most banks did not have a knowledge culture in their banks, as it is hard to change the culture in an organization. B1, B2, B4, B5, and B6 were still in the process of changing the culture in their organizations. B1 and B4 endeavored to create a knowledge culture through social occasions, courses, and trips that promote the development of a common vernacular amongst employees. In addition, B1 offered education in Islamic Shari'ah in order to enhance employee understanding of Islamic Shari'ah. B3, B7, and B8 asserted the existence of a knowledge culture within their institutions; they created learning, and intelligent organizations that encouraged employees to share their knowledge, experiences and ideas (see Figure 2, 37.5 percent self-identified as having knowledge cultures).

7. Does your bank have internal knowledge communities? B2 and B4 reported the existence of knowledge communities to occur through meetings rather than via formal internal knowledge communities. B1 noted employee communication to be promoted through its social club events. B3 reported several internal communities such as Omnidoc (a system that makes available customer-related documents), Globas (a system that provides a summary of each customer), HR Connect (a system that connects departments to HR), E-sarf (a system to connect IT to departments, if they had any problems), and PBMS (a banking transaction system).

8. Is knowledge-based marketing practiced in your bank? Most of the banks in this study did not practice knowledge-based marketing. B3, B7, and B8 self-identified as users of knowledge-based marketing. B1 noted practices such as the collection of data, SWOT analysis, customer evaluation, and risk analysis. B4 was analyzing information as well as undertaking SWOT analysis, customer evaluation, and risk analysis (see Figure 2, only 12.5 percent of the banks practice knowledge-based marketing, and those banks did so only at a most basic level).

#### **4.2 The differences in KM practices between Islamic and conventional banks in the UAE:**

According to the research findings, both Islamic and conventional banks focus on knowledge transfer, knowledge capture, and knowledge sharing and are interested in building knowledge communities electronically within their organizations. Islamic banks in the UAE appear to have a greater degree of implementation of KM than conventional banks.

## **5. Discussion:**

### **5.1 Knowledge management practice in Islamic and conventional banks:**

Despite the small sample size (n = 8), insights about KM in the UAE banking industry were gained. The findings show that Islamic and conventional banks in the UAE have implemented and utilized KM through a variety of practices and to varying degrees (Figure 2). Arguably, most of the banks in this study could be classified as being in the pre- or early implementation phase of KM. For example, only two banks had a basic structure of a KM system in place.

In any case, the levels of implementation, utilization, integration, and coordination of KM practices in the UAE bank sample of this study do not compare to that of organizations such as the aforementioned INTECSEA in the literature review, in which all knowledge activities in each of the organization's functional units are coordinated and integrated, thereby promoting congruence resulting in the force of the whole being greater than the force of the disparate knowledge activities of each of the functional units. Knowledge sharing. All the banks in this UAE study showed a high level of sharing knowledge (100 percent) and knowledge transfer (100 percent).

Knowledge capture. The percentage of banks in this study implementing knowledge capture systems is 62.5 percent and in the engineering industry it is 40 percent. It is important to capture the knowledge embedded in organizations because employee turnover results in loss of "knowledge creating employees" (Nonaka and Takeuchi, 1995). When "knowledge creating employees" leave, they take with them tacit knowledge. It is important to capture this tacit knowledge by transforming it into explicit knowledge, which is organizational knowledge in systems within the organization which can be rapidly communicated to people and processes that are connected to the internet. Internal knowledge communities. The percentage of banks in this study that reported forming internal knowledge communities was 50 percent compared to 20 percent in the UAE engineering industry (Cader, 2007).

The lower figure in the engineering industry is possibly due to the time when the research was done, 2006, when knowledge communities were not as active as they are now. Knowledge communities are virtual communities trying to find common ground for their category of interest.

The low number of knowledge communities found in this study may be due in part to the reluctance of banks to share confidential information beyond their own organizational boundaries.

Knowledge culture. In this study, 37.5 percent of the banks self-reported having a knowledge culture compared with 59 percent of UAE engineering firms (Cader, 2007). These numbers may be inflated – as this aspect of KM is the most difficult to develop within an organization (O'Dell, 2000) – thus this aspect of the study merits further investigation.

Knowledge-based marketing. The banks in this study (12.5 percent) as well as the engineering firms from Cader's (2007) study (20 percent) were both found to have had low levels of knowledge-based marketing activity such as the collection and analysis of data to be transformed into knowledge. This assertion is further supported by evidence from this study that the banks did not have comprehensive KM systems in place. The customer is a bank's most important asset; thus, the practice of knowledge-based marketing may be deemed crucial. However, the validity of these assertions is questionable. B4 is the only bank that engaged in knowledge-based marketing practices such as data collection, SWOT analyses, information management, and evaluation.

This also occurs in more hearty economic times through employee retirement. To ameliorate this situation, organizations should employ a knowledge champion to coordinate the capture, integration, and appropriate dissemination of tacit knowledge. None of the banks in this study has employed a KM champion while Cader's (2007) study found 20 percent of UAE engineering firms had.

## **5.2 Knowledge management in Islamic banks:**

Although the small sample size of this study precludes assertions, it can be inferred that Islamic banks are keener to implement KM than conventional banks. This may be due to the rules of Shari'ah and Islamic banking, which requires all the products and the processes in Islamic banks to follow the Islamic law (Shari'ah). For example, Islamic finance, in addition to forbidding payment of interest, prohibits pure monetary speculation and requires business transactions to involve concrete assets.

The dearth of Shari'ah experts may have necessitated the Islamic banks to provide explicit knowledge transfer to employees. More so to new employees who would have joined the Islamic bank from a conventional banking background and will have difficulties in understanding Islamic finance jargon.

The MKS of the Islamic banks can contain a learning database which can for example, generate self-learning courses to ensure employees are consistent in their knowledge of the Shari'ah. Even the banks' customers should be educated in Islamic finance. This is a major challenge today.



There is also an ethical element that Islamic banks must consider: customers in the UAE expect their finances to be dealt with under strict adherence to the Shari'ah. Therefore, Islamic banks need to ensure that all practices do not go against the customer's religion. In order to be certain that all the transactions and services do not go against Islam, Islamic banks should transfer knowledge to all its employees and train them to provide Islamic financial services instead of conventional financial services. It is easy for an employee in an Islamic bank to unwittingly perform a transaction similar to one they had performed when employed in a conventional bank. This could in some situations mean there may be some parts in the transaction that might go against Islam.

### **5.3 Recommendations:**

- Offer professional-development programs on KM topics Promote staff awareness of KM concepts.
- Employ a KM champion
- Create a KM department that includes a KM champion, appointed at the senior level of the organization.
- Develop internal and external knowledge communities
- Develop internal and external knowledge communities to promote communication, networking, and boundary spanning and to enhance knowledge sharing and transfer.
- Implement knowledge-based marketing systems
- Acknowledge the importance of knowledge-based marketing to gain competitive advantage.
- Utilize a technical system to capture organizational knowledge
- Employ a technical system to capture a full range of information and knowledge.
- Establish a knowledge culture.

### **5.4 Recommendations for Islamic banks:**

The utilization of a KM system should facilitate the transfer of Shari'ah knowledge to internal stakeholders and external alliances resulting in the promotion of appropriate Islamic banking practices. For example, a KMS for Islamic banks may include an Islamic finance learning database with self-directed course functionality, which may be accessed by bank employees as well as bank customers. The lack of Islamic finance and banking knowledge of employees and customers is a challenge faced by Shari'ah-compliant institutions.

## **6. Conclusion:**

This study found only one bank had implemented basic KM practices. Overall, however, the practice of KM in the UAE banks in this study was still in the pre- or early stages of implementation. This assertion is based on the data collected, which demonstrated a lack of coordination and integration of KM in the organizations studied. The data also indicated a general absence of knowledge-based marketing taking place in these institutions, be they Islamic or conventional banks. Knowledge-based marketing is believed by the authors to be a vital element of long-term organizational success. In the KMS model (Cader, 2006), mentioned in the literature review above, various marketplace knowledge inputs are required before marketing strategies are developed. These inputs include macro- and micro-environmental knowledge, product or service knowledge, knowledge of competitors, knowledge of customer needs and Life styles, value chain knowledge, and the like. It is only when the marketing expert examines the new knowledge generated by a KM system that a marketing decision can be made with confidence.

There appears to be small differences between Islamic and conventional banks in terms of KM implementation. However, due to the small sample size this finding requires further examination. Islamic banks appear to be keener on implementing KM than their conventional peers. This differentiation may be attributable to the required but little known conditions mandated in Islamic banks by Shari'ah. MKSs are suggested to be a key to overcoming this deficit.

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