

**Effect of Knowledge Management Practices on Product Innovations:  
Study with Special Reference to Hospitality Industry in Southern Province  
Sri Lanka**

M.G.M Prasadani and A.A.K.K. Jayawardhane  
*Uva Wellassa University, Badulla, Sri Lanka*

**Introduction**

21<sup>st</sup> century is considered as the Knowledge era. The knowledge is the factor that drives the businesses in the 21<sup>st</sup> century. It can be seen as an asset raising traditional asset questions to management such as when, how much and what to invest in. Owing to the particular properties of knowledge, however, knowledge assets require special attention (Uwe *et al.*, 2003).

Knowledge Management (KM) is defined as the internal modes of collaboration in innovation activities between different departments that involve in the exchange of knowledge. The significant determinants of KM include consumer orientation, continuous R&D activity, and number of employees, high-tech manufacturing and knowledge intensives services (Annelies and Dirk, 2009).

Innovation is doing something newly and uniquely to what the competitors are producing or practicing. Companies collect new ideas and forms new products and processes based on those ideas. Innovation is crucial to the success and survival of companies. It can be identified as the single most important building block of competitive advantage. There are two common forms of innovations, product innovation and process innovation. Product innovation generally involves in the introduction of new products or services to meet market needs (Allan, 2008).

In accordance with the United Nations World Tourism Organisation (UNWTO), hospitality is an industry that generates three billion dollars per day globally, and one out of twelve people around the world are employed by tourism industry. Potentially, tourism will become Sri Lanka's largest industry and employer. According to Karr R, the 'Pearl of the Indian Ocean', Sri Lanka's diverse attractions have always lured tourists from all over the world. Since the war ended in May 2009, there has been a rapid growth in the numbers of tourists visiting Sri Lanka and as a sector, tourism is booming (Business Today, 2010).

This study aimed to identify whether there is a relationship between Knowledge Management practices (KMP) and product innovations and assessing the impact of KMPs on product innovations since these two concepts are very important to the business world. Accordingly, the sub objectives of this study were to observe current degree of KMPs in hospitality industry and the degree of KMPs in different classes of hotels, the effect of different types of KMPs on product innovation and to explore the relationship between KMPs and product innovation.

**Methodology**

The study was focused on collaborative KM techniques that potentially lead to the exchange of ideas and knowledge. Therefore, dimensions were comprised with three practices namely Joint development of innovation strategies, Regular meetings of department heads, Seminars and workshops involving several departments of collaboration.

Three hypotheses were established based on the conceptual frame work.

*H1<sub>1</sub>*: Joint development of innovation strategies makes positive impact on product innovation.

*H2<sub>1</sub>*: Regular meetings of department heads make positive impacts on product innovation.

*H3<sub>1</sub>*: Seminars and workshops involving several departments make positive impacts on product innovation.

Data were collected from the star hotels in Southern Province. Hence, the sample was comprised with 17 star hotels which have registered under the Sri Lanka Tourist Board (SLTB) and 45 managers were interviewed. A structured questionnaire and in-depth interviewing methods were used to collect the data. The questionnaire consists of 3 parts, namely, the general information about hotels, KMPs on their premises and product innovation which was implemented within past four years including 2010. The information about managers, their ideas of the KMP and information about product innovation have been included in the questionnaire.

### Results and discussion

Considering current degree of KMPs in hospitality sector, it was revealed that the Regular Meetings of Departments (RMD) is mostly practiced by the hotels. However, it has been identified that even though there is a higher practice of RMD, it has not been able to make a significant effect on product innovations due to the ineffective usage of the RMD.

These hotels can use RMD as a mean of knowledge sharing. This is a meeting where all the heads of the departments are participated in and discussed about innovations. In addition, at these meeting the organization can give the employees an opportunity to explore their new ideas about innovations.

Results revealed that the Joint Development of Innovation (JDI) is the least practicing technique in the hospitality sector. However, results indicate that it has a statistically significant and strongly positive relationship between JDI and product innovations. Further, it was observed that the hotel which practice JDI have been successful in their innovations. Therefore, the organizations should give an opportunity to employees to share their innovative ideas with the other members of the organization. According to the results, the Seminars and Workshops Involving several departments (SWI) also account for a positive correlation with product innovation and make a significant effect on product innovations. It was found that there is a positive relationship between KMPs and product innovations.

Moreover, it was identified that JDI and SWI, were the variables which have a significant impact on product innovation although the practice is at a lower level in the hotel sector.

### Conclusions

Innovation is the key to organizational success and that will ensure the business growth as well as survival of the organization. Therefore organizations have to pay a huge attention to the development of KMPs in their organizations.

Product improvement (PI) as given in Figure -1. Further, the study explored the organizational performance with respect to Average Under Writing Result (AURR). Data were gathered from 14 insurance companies which had got registered in 2006 and after 2006 in Sri Lanka. Primary data were gathered for four years from 2006 to 2009. Data in relation to product innovations were collected through a questionnaire and AURR was obtained through the annual reports of the Insurance companies. Data were analyzed by using the regression analysis.

### **Results and discussion**

Results revealed that NMI, NCI, PI have a strong positive relationship with the AURR. Overall finding indicates that innovations are significantly and positively affected to the performance of the insurance industry. R-Square of the regression analysis tested for overall Insurance industry is .757 it emphasizes that 75.7% of the total variation of the AURR is being explained by the components of the independent variable. The statistically significant ( $P < 0.05$ ) and fitted regression model can be depicted as follows.

$$\text{AURR} = -2422.196 + 239.413 \text{ NMI} + 148.641 \text{ NCI} + 130.504 \text{ PI} + \mu$$

As far as the overall insurance industry is concerned, results suggest that performance of the industry is significantly affected only by NMI rather than other types of innovation.

In accordance with the R-Square value of the multiple regression tested for life insurance industry, 75.5% of the variation of AURR can be explained by the independent variables. The fitted model is as follows.

$$\text{AURR} = -326.130 + 132.462 \text{ NMI} + 27.581 \text{ NCI} + 53.033 \text{ PI} + \mu$$

Further, according to the results, it was identified that there are several NMIs in life insurance industry for instance, "Health deposit" and "Unit Link" of Union Assurance "Premium life plan" of Asian Alliance can be pointed out as examples to the NCI. PI is introduced by changing the features of the product. "Family health care" of Asian Alliance, "Ceylinco Pranama" etc can be considered as PIs.

Considering the performance of the General Insurance, R-Square value explains that 64.2% of the variation of the performance can be explained by the independent variable. Further, the fitted multiple regression model can be expressed as follows.

$$\text{AURR} = -781.229 + 153.679 \text{ NMI} + 124.765 \text{ NCI} + 135.310 \text{ PI} + \mu$$

In addition, results proved that the performance of the General Insurance has also got significantly affected by the NMIs. "One and only" of Ceylinco, "My home", "My car", "My life" of Janashakthi can be considered as NMIs. Further, "Pet insurance" of Janashakthi, "My home" of Amana Takaful etc. can be identified as examples to the PIs.

### **Conclusions**

It can be identified that the insurance system of any country becomes a very effective partner in the process of economic development. Therefore, product innovations namely, NMI, NCI, and PI would be playing an important role in increasing the organizational performance of the insurance industry. As far as the entire industry is concerned, product innovation has become a leading factor for higher organizational performance. If a company engages only in either life or general insurance, they have

an opportunity to introduce more new to the market innovations and reach higher organizational performance. However, it is important to match the products with the customer needs and wants in delivering the products to the customer. In the above discussion it was clear that certain amount of the variation in the organizational performance was not explained by the independent variable. This unexplained variation might be explained by other variables such as consumer's financial matters, delivery of products, regulatory environment, and awareness of the insurance.

### **References**

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