

TACIT-EXPLICIT AND SPECIFIC-GENERAL KNOWLEDGE INTERACTIONS IN THE RESTRUCTURING PROCESS OF A TURKISH BANK

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Since 2000 the Turkish financial sector has been undergoing a major restructuring process. As a part of this restructuring, loss-bearing state-owned financial institutions, such as the Bank that is the subject of this case study, have aimed to operate as private profit-making banks. However, in our case the benefits of the Bank privatization process have yet to be realized. Although an extensive effort has been made, so far it can be argued that the organizational transformation has not been accomplished. In our work we want to explain this unachieved transformation in the organization, using an organizational knowledge creation approach and highlighting what was wrong and what was done wrong in terms of unsuccessful knowledge interactions. To do so, we will first develop the widely used tacit-explicit knowledge conversion SECI model to include specific-general knowledge interactions that can occur across contextual boundaries. Then we will provide significant organizational examples and discuss our case according to this theoretical model. At the end we hope that an interesting organizational restructuring case that signifies the various knowledge interactions in both theory and real life will have been presented.

Background Information about the Sector, Bank and the Restructuring Process

The Turkish financial sector is a typical oligopolistic market with 50 banks; the five largest dominate the sector. The financial system is characterized by the existence of a Saving Deposits Insurance Fund, a low volume of transactions and assets, the existence and determinacy of public banks, an inadequate capital structure, and low profit margins. The sector inherently bears operational, market, and interest rate risks, which is reflected in the two recent financial crises that the economy has experienced. Yet, within the sector there is severe competition to survive in a highly unstable economy and a shallow market structure.

The operation of public banks in Turkey is driven by the government and state rather than the market and concerns for profit. Currently the public banks constitute 38% of the Turkish financial market by asset volume, which automatically grants a deterministic role to these banks, as well as making the market vulnerable to the effects of their actions. The Ziraat Bankası, which is the subject of this paper (referred to as either the Bank or Ziraat throughout the text), is the largest public bank and the largest financial institution in Turkey. It is the

major debtor in the inter-bank market, controlling a substantial portion of the cash flow in the financial sector.

Established in 1869 with the mission of subsidizing agricultural production in Turkey, the Bank was nationally organized, with over 33,000 employees and 1,300 branches. Reflecting both formal/overt, and informal/covert political interventions it continuously experienced a substantial duty loss, which put a heavy burden on the state budget and obstructed the healthy functioning of the financial market. After two major financial crises in 1999 and 2000, the government submitted to an economic stabilization program by the International Monetary Fund which dictated numerous actions, including the rehabilitation and further privatization of state banks. The part of the restructuring program that concerned the public banks aimed to transform the orientation of these banks from loss-bearing organizations to competitive and profitable ones, thus establishing a sound financial system and enhancing the well being of the entire economy. The restructuring program included revolutionary changes in the public banks, ranging from financial to organizational processes, which would ultimately enable the banks to operate like private financial institutions.

Before the restructuring the Bank was characterized by its formal and tall organizational structure, inefficient business processes, job security, and bureaucratic culture. The restructuring process within the Bank abolished job security, attempted to create a totally new corporate culture and establish new norms, established extensive and intensive education programs, and brought in new managers who were well known professionals in the sector. Managers from outside the Bank have been assigned to critical positions in key departments to accelerate the change process. The organizational structure has been redesigned, with a matrix structure replacing the traditional functional organization; the branches were reorganized with a marketing focus, obsolete technology was upgraded, and the business processes were rehabilitated. These actions had numerous subtasks and they were structured in the form of projects to be carried out by interdepartmental teams. Great emphasis has been put on the education and training programs, which covered a wide range of topics, from purely technical issues such as credit rating to softer issues such as the importance of corporate culture or interpersonal relations and communication. The General Manager systematically conducted branch visits countrywide during the first year of the restructuring, explaining the need for and framework of the change to branch personnel and trying to be a role model for the managers. At times, the change process that came with the restructuring was regarded as a cultural transformation, a transition from a culture that is specific to state institutions or bureaucracies to that of a typically competitive market oriented firm.

Throughout its history, managers whose career began as internal auditors had ruled the Bank. Typically this generated an inspection-oriented mindset, and favored a control culture which

was not compatible with the customer or market-oriented focus that restructuring has aimed to develop. In fact, the extant view saw the customer as a “burden that had to be served”, and through both training and branch visits, the restructuring program worked hard to shift the mindset to one that valued serving customers. This customer-oriented mind and work frame required and tried to achieve improved service quality, which roughly meant quicker service; a problem-solving approach to customer needs, and better quality in customer relations. However, so far customer complaints about service quality have seemed to be never-ending, a disturbing fact that reveals the real impact (or non-impact) of the change efforts.

This cultural change in the organization created personal concerns about identity and career, which on many occasions led to or exacerbated some important sources of conflict within the Bank community. Reactions to the restructuring varied significantly among Bank personnel. The comment of one employee, who joined the Bank in 1999, can be summarized as follows: “In the past, everything was worse. The change process has been very quick, but not bad. Qualified personnel did not have unfavorable thoughts about the change, but the change was more drastic for less qualified people.” For another staff member, “*Restructuring is a big lie, I cannot see any change.*”

Opposing views can be heard about the performance of the Bank, as well. In the early stages of restructuring, the Bank announced that for the first time in its history it made profit in real terms. Nevertheless, despite this formal announcement, several people informally argued that in reality no profit at all was made. The Bank now has no duty loss with regard to the unreturned credits provided under political rather than financial considerations; it receives treasury bonds granted as a compensation for government debts, which have also been a source of guaranteed high-level interest rate income. Meanwhile, it continues its core banking activities such as providing agricultural credits to farmers and paying the salaries of public sector employees. However, some staff members note that its financial services and products are still not competitive in the market. Most customers work with the Bank because of either the state guarantee on deposits or other necessities that force them to do business there.

Although there are many, often opposing, arguments about the restructuring process and its results, we have reached the following conclusion as a common ground upon which to base our arguments in this paper. The restructuring program aimed to make the Bank operate like a *private* bank, but this *privatization* has not been accomplished. The overall organizational transformation process of the Bank still has not been achieved, despite all the extensive efforts and hard work.

The recent comments of the General Manager in a daily newspaper (2004) reveal hints of this: “Until now there was a road map, the first three years was the preparation process for

privatization. There were two parts to the restructuring. One is financial, the other is operational. Financial is completed. Operational restructuring is a never-ending process anyway.” One way to privatize the Bank would be to sell the Bank to private shareholders, ending state ownership. The other way is to transform the Bank, so that it is able to act like a competitive private entity, acting according to the rules of the market rather than being restrained by government and state politics. For the moment, however, neither of these ways seems to be working. The organizational transformation process cannot be concluded, and, as the General Manager also admitted in the same newspaper interview, there is no demand for the shares and ownership of the Bank.

In our research, we have tried to investigate and understand the major determinants of this result. Although our analyses in this paper are focused on the internal dynamics of the Bank, external effects or triggers are impossible to ignore. For instance, the general elections at the end of 2002 in Turkey and the political influence of the elected government on the cadre of the Bank must be highlighted. Following the elections, executives of the Bank have been changed and the restructuring has started to lose momentum. After this turning point, training programs have received less emphasis, while some of the organizational changes have simply been “undone”. Consequently, the Bank has started to regain its “state bank” identity, contrary to its original goal to reconstruct itself as a competitive private bank. The determination to change into a market-oriented Bank has diminished and finally reached inertia. As a member of the human resources staff says,

“Everything about the restructuring is becoming a scratch pad, hence a great deal of distraction has emerged regarding the change efforts. This is why the restructuring projects lost their significance and pace. Their efficiencies are far less than expected. The whole restructuring process has lost its significance.”

Research Methodology

In our research for assessing a change program in a public financial institution we have tried to benefit from an embedded single case study approach (Yin, 2003). One of the co-authors has already been working at the organization as an employee of the Organization Department and Program Management Office, providing easy access to a rich source of data and information. As an outsider, the other researcher has tried to enable a wider perspective, using his experience and knowledge in the business sector and the academic field. In order to be able to conduct a longitudinal study, which has been necessary to make sense of such a large-scale transformation, our data collection and analysis have been spread into the time frame of 2002-2004. To triangulate our findings we used multiple sources of evidence and data collection methods. These include informal open-ended interviews, both direct observations and those of participants, official documents, literature review, and Internet

sources. It is almost impossible to keep the identity of the organization anonymous, owing to its exceptional characteristics; however we have tried to maintain the anonymity of our contacts in the Bank and do not identify most of our primary sources and interviewees. Nevertheless, it could be noted here that most of our primary data has been collected from personnel working in headquarters and about 53 branches in Ankara.

In our analysis we evaluate our theoretical perspective in terms of its applicability to a practical case. On the other hand, our empirical findings have a useful role in the evaluation and evolution of theories in the fields of organizational learning, knowledge management and communities of practices. Meanwhile we also hope to contribute to the emergence of these fields in Turkey. Our analysis and conclusions mainly reflect the subjective perspectives of the researchers, although we try to provide a balanced, fair perspective to the private matters of the organization and to the interpretation of the relevant theoretical models. Still, we hope that the resulting work can be found *generalizable* and stimulate more ideas and discussion within a wider audience of colleagues.

Theoretical Framework

We can explain the Bank's unachieved restructuring attempt as a failure to learn. The following comments from one of our interviewees are very stimulating in that sense:

“The market itself is the source of organizational learning. The market teaches, shapes the attitude of individuals toward their jobs and the organization, I mean, we are all subjugated to the market. However, in our case, we do not have this *market*, at least we have not been able to truly be inside the market and we could not learn and we won't be able to learn...In other words, the business market has not been teaching and educating, because the Bank has never been inside the market in real terms.”

By relating corporate learning to its source, the market, these ideas imply that sustainable development, even the existence of the organization and its members, is interconnected to the rules and forces of the market, which is what the Bank has failed to realize. Although it has been a player in the market, it has not bothered to learn about it, satisfied to be in an isolated position. This knowledge, which is important for the well being of the organization and its community, includes various kinds of tacit or explicit knowledge and an awareness of how this knowledge can be managed. We can thus discuss this restructuring case with regard to the organization's learning and knowledge management processes, attempting to explain some important realities in terms of knowledge interactions within communities of practice.

The organizational knowledge creation model of Nonaka & Takeuchi (1995) is one of the most influential works in organizational learning and knowledge management literature.

According to this model, the continuous and dynamic interaction between tacit and explicit knowledge that happens at the individual, group, organizational, and inter-organizational levels can be significant for the sustainable development of any social or organizational setting. Tacit-explicit knowledge interaction is identified as the epistemological aspect, while the interactions among different levels of individual, group and organization correspond to the ontological aspect of the model. When the authors first introduced their model; at the epistemology level they identified four distinctive knowledge interactions between tacit and explicit knowledge: socialization, externalization, combination, and internalization. Socialization is the process of creating tacit knowledge from tacit knowledge, whereas externalization is that of articulating tacit knowledge into explicit concepts. Combination involves the process of systemizing concepts into an explicit knowledge system. Internalization is a process of embodying explicit knowledge into tacit knowledge. This knowledge conversion framework has become widely recognized in the academic and business worlds, and Nonaka & Takeuchi's organizational knowledge creation model has become known as the "SECI model". However, when the model was introduced there was no such distinctive classification of knowledge interactions or conversions at the ontology level, nor did the knowledge conversions of the SECI clearly identify the ontological aspects of the knowledge interactions.

Interactions among various personal and social levels and entities are just as important for organizational knowledge creation as the tacit explicit knowledge interaction. This is especially true in the change management context within a large institution. Benefiting from their experience in a case study of a large-scale bank, Whelan-Berry et al. (2003) suggest that conceptualizing the relationships between the change processes at the different individual, group, and organizational levels is important to comprehend complex organizational change, and that the existing literature needs to be developed to fully describe these interactions. We have yet to see a comprehensive analysis of this ontology of cross-boundary interactions, which could be systematically used along with the already well-articulated epistemology of tacit-explicit interactions to improve our understanding of knowledge management and creation in organizational transformation.

Nonaka & Takeuchi's classification of tacit and explicit knowledge interactions follows the logic that identifies *from which knowledge to which knowledge the knowledge interaction occurs*. The same distinction can be applied to the various individual, group, organization, and society levels in order to develop the ontological perspective. One way of doing this can be the realization of a knowledge dimension of general versus specific (or global versus local) knowledge besides that of tacit versus explicit (or codified) knowledge (Stiglitz, 2001). Specific knowledge can mean the knowledge of one specific individual, group, society, time, or location. General knowledge, on the other hand, can be understood as the knowledge that

goes across or is shared by particular individuals, groups, societies, times, and locations. These definitions can then be incorporated into the conceptualization of the organizational knowledge creation model. Knowledge is now seen not only as Tacit or Explicit, but also Specific or General. Like Tacit-Explicit Knowledge, Specific-General (Local-Global) Knowledge is not a discrete dichotomy, for actually all knowledge is both specific and general to some degree. At the ontological level the recognition of knowledge as both specific and general comprehensively takes into account individual, group, organization, society, collective, and locative perspectives. This is also a relative understanding: knowledge that is general for one social setting can be specific for another. Moreover there can be found four distinct, different knowledge interactions like those within Tacit and Explicit Knowledge: Local To Local, Local To Global, Global To Global, and Global To Local. Together, the Tacit-Explicit and Specific-General Knowledge Interactions can nurture efficacious knowledge management and creation in institutions and socio-economic systems. We can reinterpret the SECI interactions in the light of the knowledge conversions between specific and general knowledge in addition to those of tacit and explicit knowledge.

Knowledge and learning processes are based on and situated in context, making knowledge interactions across entities an essential issue. In the discussion of Communities of Practice, Wenger (1998) points out that knowing in practice involves an interaction between local and global. Explaining organizational knowledge creation as simplified tacit-explicit knowledge conversions does not highlight the significance of this cross-boundary interaction, often placing too much emphasis on solutions that cannot take advantage of the “landscape of practices”. Nonaka et al (2003) also suggests that at the foundation of SECI modeling lies *ba*: the context that knowledge needs in order to exist, in which it is shared, created, and utilized. The authors try to differentiate *ba* from communities of practice according to the nature of the learning and participation that takes place. Nevertheless, both communities of practice and *ba* highlight the importance of context for learning and knowing; and the conceptualizations of SECI and *ba* can be integrated and contribute to our understanding of communities of practices. The dynamic interaction between tacit and explicit knowledge can be matched well with the mutual existence of learning and practice, or the duality of *participation* and *reification*. However, in the communities of practice we should recognize knowledge not only as Tacit and Explicit but also as Specific and General (or Local and Global), and identify the distinct Specific-General knowledge interactions to be considered together with the Tacit-Explicit knowledge interactions. Then we can research the ways that enable/disable the conversions of knowledge in the communities of practice, which can lead to the learning of existing knowledge or generation of new knowledge, together with the development of community and its members.

The Malpractice of Ziraat Bank as a Learning and Knowledge Creating Community

As we discussed in the Background section, Ziraat Bank has never considered itself as a part of the market and got stuck on its specific *contextuality*. Serious attempts were made to cross boundaries and obtain knowledge of the environment in which it claimed to be operating. A committee of well-known professionals from the finance sector, temporarily assigned by the government, administered the initial stages of the change process, while the restructuring efforts were actually carried out by the extant personnel together with some consultancy support. Unfortunately, however, these attempts were bound to be limited, and at the end they could not be fulfilled. The imported managers were unable to sufficiently internalize their general knowledge of the markets. They also have had limited success in extending their specific expert knowledge to the higher levels of the Bank. Restructuring has been carried out by projects, in which different project teams were formed to create knowledge for the needs of the Bank. However, the attempts to create the Bank's own organizational knowledge and then make use of it got stuck in isolated projects that could never make their specific-tacit knowledge become explicit-general enough to be embraced by other levels and units of the organization.

Benchmarking has been a major source of knowledge for the Bank, and several systems have been adopted from other banks. Nevertheless, the contextual knowledge of Ziraat and other banks were not sufficiently taken into account during this process. The resulting mismatches have seriously affected the operations of the Bank, creating critics of the entire change process in return. The best example of this flaw is that the model for the new organizational structure was adapted from a much smaller bank. The Bank was reorganized into a matrix organization, which it was hoped would increase not only communication and coordination among the departments, but also operational efficiency. However, the actual result was even greater chaos, especially in term of communication. Personnel regarded this structure as "not being compatible with the realities of the *Turkish style* of doing business."

As our interviewees noted, the transformation attempts have mainly focused on headquarters, and have not yet transferred to the branches. From the beginning of the process to the present, a knowledge-interaction gap has existed, and even widened, between the central management and the staff at the shop floor who are in closest contact with the outer side of the Bank. The internal transfer of the knowledge being generated about the restructuring from the headquarters to the countrywide branches has been limited to the early branch visits of the General Manager. As a result the impact of the restructuring to the branch level has been very limited. For example; statistics in the internal reports state that the education level has increased since the restructuring began, but our respondents comment that this improvement is only experienced in headquarters, while the level of education still remains low among the branch personnel. The fact that *transformation knowledge* is not shared and spread outside the headquarters is still a major impediment to a successful restructuring.

The training and development programs that have been carried out with the restructuring are also worth discussing here. Although the Bank has invested intensively in them, their design and implementation were heavily criticized. They have not accomplished much beyond the transfer of some explicit general knowledge, while their usefulness is continuously questioned with regard to the selection of content, trainers, and participants. While these programs, which many claim to be ineffective or unsuitable for the Bank, began with the restructuring, Ziraat's original Banking School program, which had already been provided not only a reputable nationwide banking education, but also an invaluable learning and practice community for the Bank, ceased to function until very recently. This was in addition to the continuously experienced changes in the organizational structures, accompanied by physical, virtual, mental space changes (Nonaka et al, 2003), all of which worked against the usual informal learning and socialization interactions.

With the restructuring; the employees, whose jobs were previously secure, were offered a new job contract that abolished this security, and those who did not accept the contract were transferred to other state institutions. This was a major revolution with several positive and negative consequences, which will likely to continue to affect future operations. The contract was designed to be an effective *conditioning* tool for the learning. At the early stages, explicitly or tacitly, the contract offer was very efficacious in developing or justifying beliefs and commitments as well as in molding the identity of the community members. Individuals who were able to perceive their personal future with that of the Bank chose to accept it. Those who were more risk-averse chose to stay outside the contract system. Simply, it seemed that the organization would retain the people most suitable for its course, even if not as many as was initially thought. In time some of the people who signed the contract and some of those who did not both regretted their decisions. Furthermore, the means and ends of this conditioning mechanism and its consequences for individuals and for organizational development became less clear and straightforward, and began to be questioned and criticized. People who refused the contract and were transferred have now begun to openly and officially confront the Bank's top management, and their efforts are becoming increasingly organized. Designed to be a tool for participation and learning for the new and better Bank, the new contract eventually lost its momentum and has even started to become an obstacle to transformation.

During the restructuring of Ziraat enormous efforts were made for betterment of the Bank by its own human and financial resources. Many troubles and problems have been borne by its people, but most of the expected benefits are still not realized. A lot of money has been spent, but the return on this investment has yet to appear. Important good practices have been established; but in most cases the real positive impact of these practices remains inadequate.

For instance, the obsolete technology infrastructure of the Bank was upgraded in the early stages of the restructuring. Along with substantial hardware and software support for both the branches and the headquarters, a corporate portal connected to an intranet and the Internet was introduced. For most of the personnel, these technological advances are regarded as highly favorable outcomes of the restructuring, but to a large extent they still cannot be used effectively. These opinions were reflected by one staff member, who said, “There is an intranet as a means of knowledge sharing, yet we do not use it effectively enough.”

New measures should be introduced which can promote and facilitate different tacit-explicit knowledge interactions that can reach the entire organization throughout its various levels. Much of the important learned knowledge either has been forgotten or is retained only within the limits of specific parties, without being shared. In fact, most of the existing communities of practices available for knowledge interaction in the Bank have, at least temporarily, ceased to work as a consequence of the restructuring process. To gain or regain the proper functioning of these communities will require time and effort; an awareness and application of a framework for *tacit-explicit and specific-general knowledge interactions within the communities of practice* could prove to be very useful in achieving the desired outcomes of new knowledge creation, learning, and transformation for the Bank. Within this framework, future research that will continue to track Ziraat’s path can also bring further insights and guidelines for the organization, which will most likely continue to follow its own unique process of restructuring for some time to come.

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