

# Knowledge Creation Process for Organizational Creativity and Performance in Nepalese Hospitality Industry

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## ABSTRACT

This paper analyses the relationships between the knowledge creation process and organizational creativity; organizational creativity and organizational performance in the hospitality industry such as hotel, travel and trekking agencies in Nepal. The study is based on primary data with 382 responses. The self-administered questionnaires were used to collect the perceptive opinions from the respondents. The study concludes that the key knowledge creation process such as socialization, externalization, combination and internalization do influence to the organizational creativity positively and organizational creativity influences to the organizational performance positively. Managers should promote socialization, externalization, combination, internalization and creativity for employees to get better organizational performance.

**Keywords:** Socialization, Externalization, Combination, Internalization, Creativity, Organizational performance, Hospitality industry

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# 1. INTRODUCTION

Knowledge creation is defined as a continuous process in which the knowledge created by individuals becomes available and amplified within the organization's knowledge system (Krogh, Nonaka & Rechsteiner, 2012). The success of companies in the today's competitive markets is highly dependent to the degree to which they create new knowledge. Integrating different types of knowledge and experiences is vital to foster innovation and learning (Passila, Uotila & Melkas, 2013). These facts highlight the importance of KCP in any company. Al-Hakim and Hassan (2012) proved that critical success factors of knowledge management had a statistically significant and direct positive effect on innovation and organizational performance. Soon and Zainol (2011) showed the importance of the knowledge creation process. It helped to demonstrate that knowledge management enablers, including learning and T-Shaped skills could promote organizational creativity and thus organizational performance. Thus, the present study has tried to assess whether, in the Nepalese context, knowledge creation process impacts organizational creativity or not and organizational creativity impacts organizational performance or not.

Hospitality industry is expected to be more creative than others in order to be able to provide effective service and satisfaction to clients. Therefore, the study concerning impact of knowledge creation processes on creativity and performance is relevant in the present context of Nepal. Chaudhary (2016) has conducted the research on strategic alignment of knowledge management for organizational performance and investigated the impact of strategic alignment of knowledge management and organizational performance in Nepalese commercial banks. Chalise (2006 & 2011) has conducted the research on knowledge management in public and private sector commercial banks and investigated the impact of knowledge management on banking innovation and performance in Nepalese setting. Shakya (2012) has conducted the research on organizational learning and performance in Nepalese service sector and investigated the impact of learning on performance in Nepalese service sector. Khadka (2013) has conducted the research on employee empowerment and performance in Nepalese banks. No study relating to knowledge management for creativity and performance has been undertaken in hospitality industry in Nepal.

This study attempts to examine knowledge creation processes, organizational creativity and their impacts on organizational performance in the hospitality industry in view of the identified gap. It focuses on how knowledge creation process following the SECI model of Nonaka and Takeuchi (1995), influences creativity in organizations and affect organizational performance. This study is based on Lee and Choi (2003) model, and Migdadi (2005) model, which explained an integrative view of knowledge management enablers, processes, knowledge management intermediate outcome and organizational performance within the framework of systems thinking test. In view of the research gap in the area, this study was initiated. This study deals with the research issues regarding the knowledge management for creativity and performance as mentioned in the following research questions.

The objective of the study is to evaluate the relationship between knowledge creation

process, organizational creativity and performance in the business enterprises of sectors such as hotel, travel and trekking agencies. Remaining part of the paper has been divided in four sections. Second section presents the review of literature, third section reveals the research methodology, four section reveals results and the final section presents the conclusion of the study.

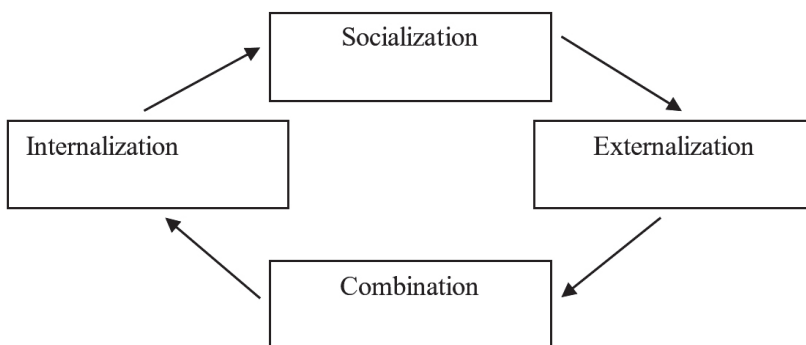
## 2. LITERATURE REVIEW

Wiig (1995) divided knowledge management processes into creation, manifestation, use and transfer. Creation and manifestation is related to how it is created and manifested in people's minds as well as procedures, culture and even technology. Use is concerned with how it is used in making decisions and other knowledge related work by individuals and businesses. Transfer is related to how we learn and how we otherwise can capture and exchange knowledge. Wijnhoven (1998) proposed organizational memory processes as made up of acquisition, retention, search, maintenance and dissemination.

To explore knowledge creation, this study adopts the SECI model by Nonaka and Takeuchi (1995) for the following reasons. First, their work has become widely accepted (Scharmer, 2000); it has been used in many research areas such as organizational learning, joint ventures, new product development, and information technology (Scharmer, 2000; Scott, 1998). Second, their model includes not only knowledge creation but also knowledge transfer. Nonaka and Takeuchi (1995) described knowledge transfer as a process of both internalization and externalization (Venzin et al., 1998). The transfer of existing knowledge and the creation of new knowledge are important, and both of them should be considered in knowledge management (Krogh & Grand, 2000). Figure 1 shows these four knowledge creation processes according to the SECI model by Nonaka et al. (2000).

**Figure 1**

*Knowledge Creation Process*



The SECI model explores knowledge creation through the conversion between tacit and explicit knowledge. This knowledge conversion process is made up of four intertwined activity modes; socialization(S), externalization (E), combination(C), and internalization (I).

Socialization relies on people to share knowledge through more traditional means such as direct person-to-person contacts, and fosters new tacit knowledge such as shared mental models and technical skills. Externalization codifies tacit knowledge into explicit concepts. Combination converts explicit knowledge into more systematic sets by combining key pieces. Internalization embodies explicit knowledge into tacit knowledge. High usages of interactive creation modes mean that the manager believes that the organization has many processes in place to support creation modes. For example, if a manager reports a high level of socialization, this means that the manager believes that the organization has many processes in place to support socialization.

Socialization (tacit to tacit knowledge) is a process of sharing experience (way of thinking or technical gestures) however creating knowledge. It is to share tacit knowledge and experience possessed by individuals with other group members, through practical exercise and physical proximity. To achieve these results there are two distinct and key activities (Nonaka & Konno, 1998): capturing knowledge through interaction with external agents (clients and suppliers) and internal (organizational members), from physical proximity or virtual interaction, and the dissemination of knowledge, transferring individual knowledge to other person. Selfdirected teams are very useful tools here (Nonaka, 1994; Nonaka & Takeuchi, 1995). Fattahi et al. (2013) stated that socialization is the process of converting tacit knowledge into tacit through shared experiences. Since tacit knowledge cannot be expressed by spoken language, the conversion has to take place through experiences, such as observation, imitation, and practice.

Socialization methods like group conferences, multifunctional teams as well as joint workshops helps in connecting people together, by means of resultant patterns in intimate communications generating networks in inter-reliant societal relations (Lawson et al., 2009). Lawson et al. (2009) continued to explain that this improves common confidence levels and value through new product development groups. These assertions are sensible because new product development teams often consist of cross-functional team members, which rely on knowledge sharing among different fields of experience in order to progress in their projects (Lawson et al., 2009).

Externalization (tacit to explicit knowledge) is a process of formalization of tacit knowledge in explicit concepts or understandable for organization or any individual, through the own articulation of this one and its move to support quickly understandable (Nonaka & Konno, 1998). Dialogue and deductive and inductive techniques such metaphors, analogies, or construction of archetypes and stories shared (Nonaka, 1991; Nonaka & Takeuchi, 1995) facilitated the expression of ideas or images in words, concepts, figurative and visual language and they are basic tools that support externalization. In socialization and externalization knowledge is shared within the organization. The socialization of tacit knowledge from collective experiences and mental models is disseminated in the company through externalization (Nonaka, 1994; Nonaka & Takeuchi 1995; Nonaka & Konno,

1998). To formalize explicit concepts, the externalization needs tacit knowledge achieved through socialization (Nonaka & Konno, 1998) to share it in the organization (Nonaka & Takeuchi 1995; Nonaka & Toyama, 2003). Processes of socialization affect processes of externalization because the participants of these ones must share time and space to work through direct experience for the interaction of this tacit and explicit knowledge (Nonaka & Toyama, 2003). Therefore, tacit knowledge of socialization is articulated into explicit forms through externalization activities (Li et al., 2009).

Combination (explicit to explicit knowledge) is part of the process that synthesizes explicit concepts and brings them to a knowledge base through the following procedures (Nonaka & Konno, 1998): capture and integrating new essential explicit knowledge, through collection, reflection and synthesis; dissemination of this one through the transfer process commonly used in the organization, such presentations, meetings or emails; processing by documents, plans, reports and market data. Thus, externalization needs combination “to embody knowledge in a form that is concrete enough to facilitate further knowledge creation in a wider social context” (Nonaka et al., 1994). In combination the knowledge from externalization is shared within the organization, thus new superior explicit knowledge is disseminated in the company (Nonaka & Konno, 1998). The combination activities edit and integrate knowledge from externalization by using documents or databases to generate new knowledge application (Li et al., 2009). Firms can use a combination process to create new knowledge from the existing knowledge from externalization and generate new knowledge application (Nonaka et al., 2000).

Internalization (explicit to tacit knowledge) is the absorption of explicit knowledge into tacit. It is very similar to learning through practice. Internalization is facilitated if individual knowledge is explained in words or documented. Simulations are another way to achieve this conversion. This internalization requires, firstly, the updating of the concepts or methods explicit and, secondly, the inclusion of such explicit knowledge into tacit (Nonaka & Konno, 1998) using some tools such as metaphor. But it is also necessary that explicit knowledge is lived or experienced, either from the personal experience of doing an activity, either through participation, simulations, or role-playing exercises, so that they internalize it in their own style and habits. In this way individuals use this stage to expand, extend and transform their own tacit knowledge, starting again a new cycle (Nonaka, 1991). New explicit knowledge created by the combination should be assimilated by the members of the company in order to be used properly (Nonaka, 1994). Combination allows explicit knowledge to be captured in the phase of internalization by individuals that extend, expand and transform this knowledge explicit (Nonaka, 1994; Nonaka & Konno, 1998). Through internalization, knowledge from the combination is transformed into organizational memory and is actualized in practical operations such as a new product development or manufacturing procedure (Nonaka et al., 2000). So, new higher explicit knowledge obtained and shared through the combination is applied and used in practical situations that are the basis of new organizational routines, and then new tacit knowledge is made by individuals

of the organization through the process of internalization (Nonaka, 1991; Nonaka, 1994; Nonaka & Takeuchi 1995; Nonaka et al., 2000; Nonaka & Toyama, 2003).

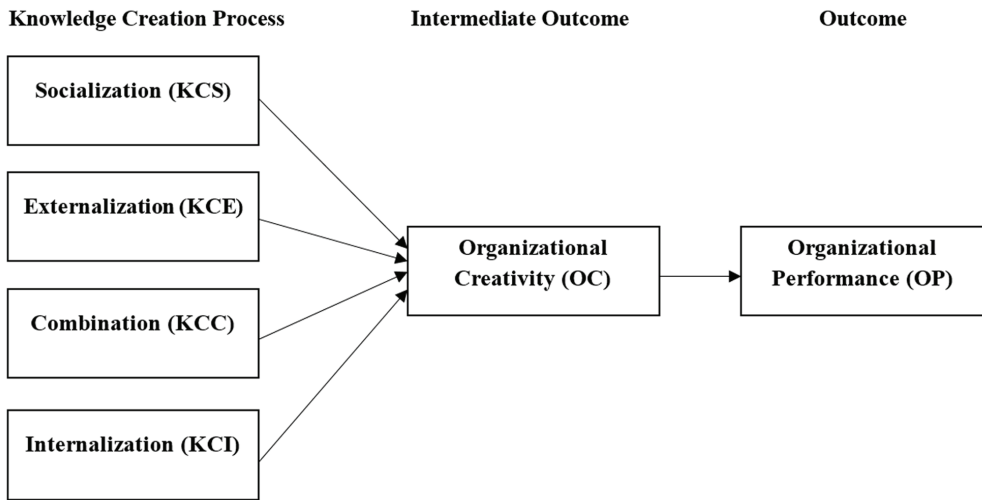
An important intermediate outcome is organizational creativity, which provides a key to the understanding of organizational effectiveness and survival (Woodman et al., 1993). Our model incorporates organizational creativity because it is the seed of all innovation (Amabile et al., 1996) and at the very heart of knowledge management (Gurteen, 1998). Organizational creativity transforms knowledge into business value. Neglecting organizational creativity can quickly undermine a business. The relationship between knowledge creation and organizational creativity has received relatively little attention despite its high potential (Vicari & Troilo, 2000). Furthermore, the relationship is all the more interesting for a country like Korea or Italy, which is seen as having remarkable talents and capacities in terms of creativity; however, it is rated lower in terms of the creation and diffusion of knowledge (Lee, 1999; Vicari & Troilo, 2000).

Organizational creativity is the capability of creating valuable and useful products, services, ideas, procedures or processes by individuals working together in a complex social system (Amabile et al., 1996; Woodman et al., 1993). Knowledge plays an important role in the ability of the organization to be creative (Vicari & Troilo, 2000; Woodman et al., 1993). Thus, organizations with more and better knowledge diffusion and a creating mechanism are more intelligent (Glynn, 1996). Organizational creativity also connects and rearranges knowledge to create new, often surprising ideas that others judge to be useful (Koh, 2000). Creativity is not necessarily related to the amount of knowledge that an employee possesses, but rather the way in which knowledge is created and shared (Amabile, 1988). The processes of knowledge creation unleash organizational creativity. Several studies have investigated the impact of knowledge creation on organizational creativity. For example, Koh (2000) insisted that knowledge creation is positively correlated with organization creativity. Naturally, organizational creativity has a strong link with knowledge creation (Vicari & Troilo, 2000). Organization performance may be defined as the degree to which organizations achieved it is objectives (Elenkov, 2002). An effective knowledge management adds more value to the overall performance of the organization (Toften & Olsen, 2003). The measures of organizational performance are classified into four categories namely financial measures, intellectual capital, balanced scorecard, and tangible and intangible benefits (Gold, et al. 2001). Organizational performance is measured with the use of customer and financial perspective indicators of balanced scorecard in comparison with key competitors (Arora, 2002; Deshpande, Jarley, & Webster, 1993; Drew, 1997; Gooijer, 2000). Typically, the goals of organizational change include the various aspects of organizational performance such as organizational effectiveness, survival, improvement, or innovation. Organizational performance can be thought of as the output of knowledge processes that encourages these aspects. Thus, improvements of knowledge processes could lead to better organizational performance (Davenport, 1999; Quinn et al., 1996).

Bavon (1995) defined performance measurement as the collection of information about effectiveness and productivity of individuals, groups and larger organizational units. Performance measurement is related to the key areas of the organization, such as expansion, innovation and productivity, which is critical to the development of prosperity of an organization (Carneiro, 2000).

**Figure 2**

*Knowledge Management Process for Creativity and Performance*



Hence, the objective of the study is to examine the impact of knowledge creation process on organizational creativity; and impact of organizational creativity on organizational performance.

### 3. METHODOLOGY

To examine knowledge creation process for organizational creativity and performance in Nepalese hospitality industry, the study used the descriptive research design based on the survey. The quantitative research design is applied to develop an understanding of the research issue.

The study has used primary data collected from executives, managers, department heads, sales officers, marketing officers, finance officers, guest relation officers, public relation officers and human resource managers in the hospitality industry organizations. In the process of gathering information, a set of structured questionnaire was used as the main instrument. The primary data were collected by 'delivery and collection' methods.

The total of 458 responses was collected from 97 firms. Due to incomplete data, 76 responses were eliminated. Consequently, 382 responses from 97 firms were taken for further analysis. The total response rate was 83 per cent. Self-administered questionnaires were used to collect the perceptive opinions from the respondents.

Questionnaire items developed included a list of 44 items to measure the different constructs in the study: socialization, externalization, combination, internalization, organizational creativity and performance. The development of the items was done by re-evaluating intensively the literature review related to the concepts and constructs stated in the integrative view. The aim of this empirical research is to test whether the dimensions proposed in the above-mentioned integrative view support a significant distinction between different kinds of knowledge creation process.

To validate the proposed research model, this study conducted a pre-test. The pre-test was conducted in the month of November, 2014. For the pre-test survey, this study developed questionnaire and collected data from 36 potential respondents of the selected samples: both hotels (20) and travel/trekking agencies of 16 respondents. Based on the findings of the pre-test survey, research questionnaire was modified to improve reliability and validity of the study. After the pre-test, the questionnaire was finalised and the main study was conducted.

The study used regression analysis to test the interrelationship of knowledge creation process (independent variables) similarly their impact on organizational creativity (dependent variables) and impact of organizational creativity (independent variable) on organizational performance (dependent variable). The application of regression analysis to the present study is desirable as they significantly help researchers evaluate the causal effect of one variable on other variables.

### 3.1 Hypotheses

The study hypotheses were largely derived from theoretical statements made in the literature on knowledge management. In the first hypothesis, the study analyzed the socialization dimension of knowledge creation process. In the second and third hypotheses, the study analyzed the externalization and combination dimension. In the fourth and fifth hypotheses, the study analyzed the internalization and organizational creativity dimension

#### 3.1.1 Hypothesis 1: Socialization

The study proposes to evaluate the socialization for organizational creativity. To test the socialization for organizational creativity, the testable hypotheses have been formulated:

*Null hypothesis,  $H_0$ : Socialization does not affect organizational creativity.*

*Alternative hypothesis  $H_1$ : Socialization affects organizational creativity positively.*

The acceptance of alternative hypothesis associated with hypothesis 1 implies that socialization will have positive effect on the organizational creativity and it points to the effective role of socialization for organizational creativity. On the other hand, if the tests reject the alternative hypotheses and it may suggest that the socialization does not play important role for organizational creativity.

#### 3.1.2 Hypothesis 2: Externalization

After determination of the socialization for organizational creativity, the study proposes

to evaluate the externalization for organizational creativity. To test the externalization for organizational creativity, the testable hypotheses have been formulated:

*Null hypothesis,  $H_0$ : Externalization does not affect organizational creativity.*

*Alternative hypothesis,  $H_2$ : Externalization affects organizational creativity positively.*

The acceptance of alternative hypothesis associated with hypothesis 2 implies that externalization will have positive effect on the organizational creativity and it points to the effective role of externalization for organizational creativity. On the other hand if the tests reject the alternative hypotheses and it may suggest that the externalization does not play important role for organizational creativity.

### **3.1.3 Hypothesis 3: Combination**

After determination of the externalization for organizational creativity, the study proposes to evaluate the combination for organizational creativity. To test the combination for organizational creativity, the testable hypotheses have been formulated:

*Null hypothesis,  $H_0$ : Combination does not affect organizational creativity.*

*Alternative hypothesis,  $H_3$ : Combination affects organizational creativity positively.*

The acceptance of alternative hypothesis associated with hypothesis 3 implies that combination will have positive effect on the organizational creativity and it points to the effective role of combination for organizational creativity. On the other hand if the tests reject the alternative hypotheses and it may suggest that the combination does not play important role for organizational creativity.

### **3.1.4 Hypothesis 4: Internalization**

After determination of the combination for organizational creativity, the study proposes to evaluate the internalization for organizational creativity. To test the internalization for organizational creativity, the testable hypotheses have been formulated:

*Null hypothesis,  $H_0$ : Internalization does not affect organizational creativity.*

*Alternative hypothesis,  $H_4$ : Internalization affects organizational creativity positively.*

The acceptance of alternative hypothesis associated with hypothesis 4 implies that internalization will have positive effect on the organizational creativity and it points to the effective role of internalization for organizational creativity. On the other hand, if the tests reject the alternative hypotheses and it may suggest that the internalization does not play important role for organizational creativity.

### **3.1.5 Hypothesis 5: Organizational Creativity**

After determination of the internalization for organizational creativity, the study proposes to evaluate the organizational creativity for organizational performance. To test the organizational creativity for organizational performance, the testable hypotheses have been formulated:

*Null hypothesis,  $H_0$ : Organizational creativity does not affect organizational performance.*

*Alternative hypothesis,  $H_5$ : Organizational creativity affects organizational performance*

positively.

The acceptance of alternative hypothesis associated with hypothesis 5 implies that organizational creativity will have positive effect on the organizational performance and it points to the effective role of organizational creativity for organizational performance. On the other hand if the tests reject the alternative hypotheses and it may suggest that the organizational creativity does not play important role for organizational performance

### 3.2 Regression Equation Model between OC and KCPs

Regression equation between the organizational creativity and knowledge creation processes as follows:

$$OC = \alpha + \beta_1 KCS + \beta_2 KCE + \beta_3 KCC + \beta_4 KCI + E \dots\dots\dots$$

Where,

- OC = organizational creativity
- $\alpha$  = constant number
- $\beta_1$  = change in organizational creativity associated with unit change in knowledge creation socialization
- $\beta_2$  = change in organizational creativity associated with unit change in knowledge creation externalization
- $\beta_3$  = change in organizational creativity associated with unit change in knowledge creation combination
- $\beta_4$  = change in organizational creativity associated with unit change in knowledge creation internalization
- KCS = knowledge creation socialization
- KCE = knowledge creation externalization
- KCC = knowledge creation combination
- KCI = knowledge creation internalization
- E = prediction error (residual)

Regression equation between the organizational performance and organizational creativity as follows:

$$OP = \alpha + \beta OC + E \dots\dots\dots$$

Where,

- OP = organizational performance
- $\alpha$  = constant number
- $\beta$  = change in organizational performance associated with unit change in organizational creativity
- OC = organizational creativity
- E = prediction error (residual)

## 4. RESULT AND DISCUSSIONS

### 4.1 Regression Equation Model between OP and OC

The regression results of organizational creativity on knowledge creation socialization, knowledge creation externalization, knowledge creation combination and knowledge creation

internalization. The alternative specifications of the models reveal the positive relationship of organizational creativity with knowledge creation socialization, knowledge creation externalization, knowledge creation combination and knowledge creation internalization. Models 1 to 4 show that, there is a significant relationship between organizational creativity and knowledge creation socialization, knowledge creation externalization, knowledge creation combination, knowledge creation internalization. Model 5 shows the combination of various fundamental variables.

**Table 1**  
*Estimated Relationship between OC and Fundamental Variables*

Models	Intercept	Regression Coefficients of				R <sup>2</sup>	Adjust- ed R <sup>2</sup>	F	DW	
		KCS	KCE	KCC	KCI					
1	1.552 (000)*		0.704 (000)*			0.442	0.441	301.094 (000)*	1.573	
2	2.220 (000)*			0.593 (000)*		0.390	0.389	243.102 (000)*	1.472	
3	1.576 (000)*				0.688 (000)*	0.544	0.543	454.240 (000)*	1.698	
4	2.799 (000)*				0.476 (000)*	0.288	0.286	153.650 (000)*	1.250	
5	0.591 (0.002)*		0.229 (000)*	0.130 (.003)*	0.412 (000)*	0.125 (000)*	0.631	0.627	161.079 (000)*	1.624

Source: Questionnaire survey, 2015

Notes: Figures in parentheses are p-values.

\* and \*\* denote that the results are significant at 1 percent and 5 percent level of significance respectively.

The results are based on pooled cross-sectional data of 97 enterprises with 382 observations by using linear regression model. The model is  $OC = \alpha + \beta_1 KCS + \beta_2 KCE + \beta_3 KCC + \beta_4 KCI + E$ . Where, OC, KCS, KCE, KCC and KCI are organizational creativity, knowledge creation socialization, knowledge creation externalization, knowledge creation combination and knowledge creation internalization respectively. Results for various subsets of independent variables are presented as well. The regression results of organizational creativity on socialization, externalization, combination and internalization are presented in Models 1 to 4 include various combinations of the fundamental variables. Model 5 includes all the four fundamental variables simultaneously.

In the context of the knowledge creation process, knowledge creation socialization, knowledge creation externalization, knowledge creation combination and knowledge creation internalization are found to be essential for organizational creativity. Knowledge creation socialization is a positively significant predictor of the organizational creativity ( $\beta = 0.704, p < 0.05$ ), it also supports  $H_1$ . It indicates that the sharing experience through group conference and joint workshops promote creativity. It indicates that the hospitality industry must give more precedence to group conference and joint workshops for creativity.

This result is similar to Choi (2002), Lee and Choi (2000), Fattahi et al. (2013) and Migdadi (2005) from the all knowledge creation modes. The  $R^2$  (0.442) suggests that 44.20 percent of the variance of organizational creativity is explained by knowledge creation socialization. Since F value is 301.094, which is statistically significant at 5 percent level. It indicates that the model is statistically fit for further analysis.

In model 2, knowledge creation externalization is a positively significant predictor of the organizational creativity ( $\beta = 0.593$ ,  $p < 0.05$ ), which supports  $H_2$ . It indicates that the organisation must promote the expression of ideas or images in words and concepts to grow creativity. Similarly, the result is consistent with Choi (2002), Lee and Choi (2000), Fattahi et al. (2013) and Migdadi (2005) from the all knowledge creation modes. The  $R^2$  (0.390) suggests that 39 percent of the variance of organizational creativity is explained by knowledge creation externalization. Since in model F value is 243.102, which is statistically significant at 5 percent level. It indicates that the model is statistically fit for further analysis. From the table, it is clear that knowledge creation combination is a positively significant predictor of the organizational creativity in model 3 ( $\beta = 0.688$ ,  $p < 0.05$ ), which also supports  $H_3$ . It indicates that the conducting regular meeting, presentation and e-mail encourage creative thinking power. So to develop new ideas, products and services the hospitality industry must give priority to conduct regular meeting and presentation. The result is similar to Choi (2002), Lee and Choi (2000), Fattahi et al. (2013) and Migdadi (2005) from the all knowledge creation modes. In model the  $R^2$  (0.544) suggests that 54.40 percent of the variance of organizational creativity is explained by knowledge creation combination. Also from the table, it is clear that F value is 454.24, which is statistically significant at 5 percent level. It indicates that the model is statistically fit for further analysis.

In table knowledge creation internalization is a positively significant predictor of the organizational creativity in model 4 ( $\beta = 0.476$ ,  $p < 0.05$ ), which supports  $H_4$ . It indicates that the internalization promotes to capability of creating valuable and useful products, services, ideas, procedures or processes. Similarly, the result is consistent with Choi (2002) and Migdadi (2005) from the all knowledge creation modes. But the study contradicts with Lee and Choi (2000), which found that knowledge creation internalization, is not a positively significant predictor of the organizational creativity. The  $R^2$  (0.288) suggests that 28.80 percent of the variance of organizational creativity is explained by the knowledge creation internalization. Since in model F value is 153.65, which is statistically significant at 5 percent level. It indicates that the model is statistically fit for further analysis. Berraies et al. (2014) found that knowledge creation processes has a positive and significant influence on innovation performance. They found in particular, socialization and externalization are significant predictors of innovation performance. However, combination and internalization have not a significant influence on innovation performance.

When all the fundamental variables are simultaneously included, the p-statistics of knowledge creation socialization, knowledge creation externalization, knowledge creation combination and knowledge creation internalization have been found to be significant

and have higher predictive power of the organizational creativity in model 5. The result suggests that the knowledge creation socialization ( $\beta= 0.229, p< 0.05$ ), knowledge creation externalization ( $\beta= 0.130, p< 0.05$ ), knowledge creation combination ( $\beta= 0.412, p< 0.05$ ) and knowledge creation internalization ( $\beta= 0.125, p< 0.05$ ) are more important in predicting the organizational creativity. The  $R^2$  (0.631) suggests that 63.10 percent of the variance of organizational creativity is explained by knowledge creation process. Also from the table, it is clear that F value is 153.65, which is statistically significant at 5 percent level. It indicates that the model is statistically fit for further analysis. Paul (2011) stated that knowledge creation process had an equal and significant impact on innovativeness and customer satisfaction; likewise, knowledge creation process also had a positive but lesser impact on financial performance.

The regression results of organisational performance on organisational creativity are presented in Table 2. The organisational performance is positively influenced by organisational creativity and significant relationship between them.

**Table 2**

*Estimated Relationship between OP and OC*

Models	Intercept	Regression Coefficients of OC	R <sup>2</sup>	Adjusted R <sup>2</sup>	F	DW
1	1.514 (000)*	0.693 (000)*	0.442	0.441	301.263 (000)*	1.652

Source: Questionnaire survey, 2015

Notes: Figures in parentheses are p-values.

\* and \*\* denote that the results are significant at 1 percent and 5 percent level of significance respectively.

The results are based on pooled cross-sectional data of 97 enterprises with 382 observations by using linear regression model. The model is,  $OP = \alpha + \beta 1OC + E$ . Where, OP and OC are organisational performance and organisational creativity. Results for various subsets of independent variables are presented as well.

In the context of the organisational creativity is found to be essential for organisational performance. Organisational creativity is a positively significant predictor of the organisational performance ( $\beta = 0.693, p< 0.05$ ), which supports  $H_5$ . Organisational creativity is found to be essential for the organisational performance. The result suggests that the organisational creativity is more important in predicting the organisational performance. It indicates that the organisational creativity promotes the organisational performance. Therefore, the Nepalese hospitality industry must give more priority to grow new ideas and services.

The result is similar to Choi (2002), Soon and Zainol (2011) and Migdadi (2005) from the all organisational creativity viewpoint. Likewise, Lee and Choi (2000) found that organisational

creativity has a strong positive relationship with nonfinancial performance. Mills and Smith (2011) found that of the knowledge infrastructural capabilities, only organisational structure was significant for organisational performance; technology infrastructure was not expected to be significant. They stated that contrary to expectation, organisational culture was not significant. They also found that knowledge process capability as knowledge acquisition; knowledge application and knowledge protection were significant for organisational performance. Knowledge conversion capability was not significant. In the table  $R^2$  (0.442) suggests that 44.20 percent of the variance of organisational performance is explained by organisational creativity. Also from the table, it is clear that F value is 301.263, which is statistically significant at 5 percent level. It indicates that the model is statistically fit for further analysis.

Knowledge creation socialization, knowledge creation externalization, knowledge creation combination and knowledge creation internalization are positively significant predictor of organizational creativity. Likewise, organisational creativity is a positively significant predictor of organisational performance. This finding confirms that an organization can achieve strategic benefits of knowledge management through effective knowledge creation. The strength of these associations indicates a very significant relationship between knowledge creation processes and organizational creativity as well as organizational creativity and organizational performance.

## 5. CONCLUSION

The study has concluded that the key knowledge creation process such as socialization, externalization, combination and internalization do influence to the organizational creativity positively. The study result supports to Choi (2002), Lee and Choi (2000), Fattahi et al. (2013) and Migdadi (2005) from the all knowledge creation modes. Thus, for effective knowledge creation and sharing, managers should focus creating a work environment that allows peers to understand the craftsmanship and expertise. They should share new knowledge through socialization by interaction and face-to-face practices. They should develop processes for transferring organizational knowledge to individuals and absorbing knowledge from individuals into the organization.

In respect to creativity the survey concluded that the employees of the hospitality industry think creatively and seek new services and new techniques to satisfy guests (customers). Employees seek new service techniques and methods thus they are creative member of their team. Organizations offer incentives or promotions to employees involved in the development of new businesses because only incentives or promotions encourage the employees involved in the new businesses. Migdadi (2005) study found company has produced many novel and useful ideas (services/products) and Hu et al. (2009) found that people at work seek new service techniques or methods. Organizational creativity is a positively significant predictor of organizational performance. These results are similar to Choi (2002), Soon and Zainol (2011) and Migdadi (2005) from the all organizational creativity viewpoint. Similarly, Lee and Choi (2000) found that organizational creativity has a strong positive relationship with nonfinancial performance.

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