

Banking industry is considered the most crucial financial intermediary in service sector in any state. The concept of knowledge management has been around for past many decades but its true potential has been realised in recent times. Despite of so much attention to this concept, its perfect description and explanation is still far from complete. As Knowledge Management (KM) practices have benefitted many business organizations from various industries, its adaptation to the banking institutions is still unrealised.

Ever growing global competition has introduced a new world order, 'Innovate or Die'. Constant innovation is an enormous challenge for modern organizations. Many of the organizations look for concepts and practices to enable themselves to develop and maintain sustainable competitive advantages over others. Knowledge management (KM) philosophy has gained importance in the business world as one of the critical enablers for innovation activities.

This study was conducted with the objective to investigate the impact of various dimensions of KM; knowledge acquisition, knowledge dissemination and responsiveness to knowledge on innovation in the banks of Faisalabad. The author used Structure equation modelling (SEM) technique to develop a model among three endogenous KM factors and one exogenous factor innovation and attempted to study this relationship with authentic empirical evidence and a firm belief that KM philosophy, if implemented in its true spirit, may improve the organization's ability to innovate and perform effectively.

One of the major findings of the study was the significant effect of all three dimension of KM on innovation. The empirical evidence acquired through test results of the Confirmatory Factor Analysis (CFA) and structural model showed that all factors support innovation activities but on a different proportion. The results of the study indicated that responsiveness to knowledge has the most favorable effect on innovation, in comparison to other dimensions of KM. Knowledge gives best results when it is shared and used purposefully. Knowledge must be put in use through processes, routines and systems to promote innovation. Innovation is a result of active use of knowledge and idle knowledge is of no help for innovation.