

Knowledge Based Strategies for Knowledge Based Organizations

Author: **Madalina Cristina Tocan**, Ecological University of Bucharest, madalina.tocan@gmail.com

In the present, we can observe that a new economy is arising. It is an economy based on knowledge and ideas, in which the key factor for prosperity and for creation of the new jobs is the knowledge capitalization. Knowledge capitalization, intellectual capital, obtaining prosperity in the market economy imposes a new terminology, new managerial methods and techniques, new technologies and also new strategies. In other words, knowledge based economy, as a new type of economy; impose a new type of management- knowledge based management and a new type of enterprise-knowledge based enterprise.

Taking in consideration these predictable evolutions, this paper will try to present:

- *The main ideas of the researches the field of the knowledge based economy*
- *The characteristics and principles of the knowledge based organizations and knowledge based management*
- *The challenges and opportunities for knowledge based organizations.*

The first part of the paper will present the principles of the new economy-knowledge base economy, the essential and interrelated elements necessary to build and to implement a strategy in a knowledge economy and the opportunities and challenges to the countries as they seek to build regionally and globally competitive knowledge-based economies.

The second part of the paper will present the characteristics of the knowledge based organizations, the principles and characteristics of their management. For many organizations, knowledge management is a relatively new concept, because they are discovering the knowledge value in their operations. Many firms have undertaken formal and informal knowledge management initiatives designed to improve process performance, increase customer responsiveness and spur innovation. But while some organizations have reaped significant benefits from their investment in knowledge efforts, others have run into noteworthy challenges.

Keywords: *Knowledge economy, knowledge based management, knowledge based organization, knowledge based strategy.*

Introduction

Taking into consideration the structure of the paper, we considered necessary to review the specialized literature in relation with the main concepts of the research, respective knowledge based economy, knowledge based organization, and knowledge based management

We can observe in the present the appearance of a new economy. It is an economy based on knowledge and ideas, in which the key factor of prosperity and employment is the superior knowledge capitalization. The new economy represents more than, we may think at the first glance, the creation of high technology. In the first hand it assumes the massive and efficient utilization of the new accomplishments. It represents “the fundamental changing from the economy based primordially on the physical resources to the economy based primordially on knowledge [1]. The wealth and power in the XXI century will devolve primordially from the intangible intellectual resources, from the knowledge capital. Thus, this transition to the economy based on knowledges represents a comprehensive and profound process which generates major changes in the components of the economic activities.

A number of international organizations and institutions were and are interested by the concept of knowledge based economy and by the tendencies manifested within the framework of this new type of economy. Thus OECD considers that „the knowledge based economy represents the type of economy based directly on the knowledge and information production, distribution and utilization” [2]. In the same time the knowledge are recognized as a “driver of productivity and economic growth, leading to a new focus on the role of information, technology and learning in economic performance [3].

The executive committee of APEC considers that “the production, distribution and the fructification of the knowledges is the main driver of economic growth, wealth, creation and employment at all industries levels”[2]. So, knowledge based economy it is not based only on few high technologies industries for the economic growth and wealth creation. They consider that all economic sectors can be knowledge intensive. So, APEC considers that “all the knowledges required by the knowledge based economy are wider than technological knowledge and for instance include cultural, social and

managerial knowledge” [2].

In 2002 European Commission set up the EU goal- “to become the most competitive knowledge based society in the world by 2010”. Starting from this goal EU considers that „The EU.s success in achieving this goal will help determine the quality of life of its citizens, the working conditions of its workers and the overall competitiveness of its industries and services” [4].

World Bank and OEDC cooperate in their activities to create knowledge based economies, being helped in their effort also by the transition countries. In the opinion of Carl Dahlman, manager of the programme knowledge for development from the World Bank Institute”: to benefit from the knowledge revolution are necessary clear strategies which can satisfy the 4 pylons of knowledge economy:

- An institutional and economic framework which promotes the knowledges efficient utilization
- An educated population for the creation and utilization of the knowledge
 - A dynamic information infrastructure
 - An efficient innovation system within the organizations and research centers which can satisfy the people new desires” [5].

The specialists’ opinions regarding the definition of the knowledge based economy or new economy are different from one to another. For example O. Nicolescu synthesizing the definitions from the specialized literature, considers that “the knowledge based economy is characterized by the transformation of the knowledge in base material, capital, products, production factors essentials for the economy and through economic processes in which the generation, selling, acquisition, learning, stocking, developing, splitting and protection of the knowledge became predominant and decisive for the profit obtaining and for the assurance of the economic sustainability on the long term” [6].

Thomas Stewart considers that knowledge based economy has in view, because it is an economy, the money, in the context of knowledges acquisition, production and selling. In his opinion, knowledge based economy the fundaments, which are the essence of this new type of economy, are:

- “The knowledge become the content of acquisition, production and selling processes
- The knowledge assets, intellectual capital components, had become more important than financial assets or technical-materials assets

- Knowledges and intellectual capital fructification, the obtaining of prosperity within the market economy requires a new terminology, new managerial methods and techniques, new technologies and not in the end new strategies. In other words, knowledge based economy, „as a new type of economy requires a new type of management - knowledge based management and a new type of organization – knowledge based organization.“ [7].

Stewart underlines the fact that in knowledge based economy remains essential the economic factor, reflected in the situation in the fore-ground of the economic performances. What it is changed it is the fundament of economic performances achieving, these being achieved through the superior fructification of the existing knowledges. The knowledges are approached following their economic finality, the generation of added value, regardless of their nature, sophistication and modernity degree of the contained information.

Drucker considers that in the future the success factors it will be others. „The traditional production factors- land, work and capital - had not disappeared. They had become secondary factors. The knowledge becomes the only relevant resource today. The new economy reclaims a rethinking of the production factors theory. The knowledge becomes the essential component of the contemporaneous economic and social development system. The innovations dissemination and the high technologies convergence will play a key role in the acceleration of the knowledge importance in the context of the globalization process. The knowledge in comparison with work, land and capital it is an asset which is appreciated according as it is utilized. As much as are utilized, as much the knowledges become more efficient and productive [8].

Knowledge based organizations and knowledge management

As. T. Stewart stated” Knowledges and intellectual capital fructification, the obtaining of prosperity within the market economy requires a new terminology, new managerial methods and techniques, new technologies and not in the end new strategies. In other words, knowledge based economy, „as a new type of economy requires a new type of management- knowledge based management and a new type of organization – knowledge based organization”. [7] For this reason the definition and conceptualization of the terms knowledge based organization and knowledge based management had imposed. Like in the case of knowledge based economy there is a variety of approaches regarding

the knowledge based organization. Thus, Raghu underlined that “the way for building a effective, dynamic and competitive knowledge based organization starts with the employees satisfaction, which requires:

- Constant and fast processes of individual and organizational learning
- Visionary and intellectually leadership
- Company’s reengineering, transforming it in a flexible organization
- Creation of an innovative and participative environment for all the employees
- Developing of new ways for the knowledge based employee’s attraction, retaining, developing and motivation, harmonizing their individual objectives with the organizational objectives” [9].

Drucker [8] considers knowledge based organization as the organizational model of the XXI century and contemplates its main characteristics: component dominated by professionals, reduced level of the hierarchic management intermediary levels, and coordination assurance through non-authoritarian means (standards, norms, and cooperation rules). And O. Nicolescu [6] considers that the main role of the knowledge based organization consists in the specialized knowledges obtaining, protection, integration and fructification. To realize this role, are designed and implemented mechanisms through which knowledges which confers power and competitiveness to the company are obtained, protected, integrated. Its capacity to utilize knowledges depends in an important measure on the rapports between them, company’s products and processes.

The transition to the knowledge based economy, the design and functioning of the knowledge based organization it is impossible without a knowledge based management. Thomas Clarke and Christina Rollo[10], defines knowledge based management as “the organizations’ dedication to develop the knowledges production and flux, to transmit and utilize the knowledges with a view to create economic value”

Uit Beijerse[11] considers that “the knowledge management can be defined as a strategic orientated way of motivation and facilitation of the company’s members engagement in the development and utilization of their cognitive capacities through the valorization of its information sources, experience and capabilities of its members.

So what exactly is knowledge management? The American Productivity & Quality Center says, “Knowledge management is a business

strategy, best practice transfer, personal learning, customer intelligence, intellectual asset management and innovation.” Dow Chemical says it’s “providing the right information to the right decision maker at the right time, thus creating the right conditions for new knowledge to be created.” Gartner Group states, “Knowledge management is a coordinated attempt to tap the unrealized potential for sharing and reuse that lies in an enterprise’s collective consciousness.”

The essence of knowledge management is built on intellectual capital, which includes Human Capital, Social Capital and Corporate Capital. All three are essential components of Enterprise Knowledge. Human Capital is our greatest resource. It is made up of an individual’s past, present and future. Each of us brings a unique set of characteristics and values from the past. These include expertise, education and experience. Built on these characteristics and values from the past, which are a set of capabilities and ways of seeing and living in the world (such as creativity and adaptability). Just as important as things from the past and skills of the present, we each have a future capacity and a particular potential for learning.

Social Capital is the stuff of communications and more. It includes human and virtual networks, relationships and the interactions across these networks built on those relationships.

Corporate Capital includes intellectual property, both formal and informal (e.g., patents, ideas, etc.), and corporate functional and organizational processes. It also includes all the data and information captured in corporate databases, all that has been made explicit.

Knowledge management, then, can be viewed as a process for optimizing the effective application of intellectual capital to achieve organizational objectives. The knowledge management challenge is to discover and capture our tacit intellectual capital (that contained in our people), share this capital through Enterprise-wide connectivity, and leverage Corporate Capital (that which is visible or explicit).

Without question, knowledge management, and the awareness of it, has become increasingly important in today’s business environment. Over the last several years, we have witnessed the emergence of what has increasingly become a knowledge-driven economy and society. Knowledge assets have often become more important to companies than financial and physical assets and are often the only way for a company to distinguish itself from its competitors and gain a competitive advantage.

Evidence that the importance of KM is a significant issue may be found in many areas, and can easily be illustrated with some examples. The results of several surveys that probed the views of executive managers are intriguing. For instance, one survey found that 87% of European business directors believe they could enhance their company's competitiveness with improved KM and 76% believe that building and sharing knowledge is important for their company. Another study of 500 firms conducted by KPMG illustrated that 80 % of senior executives feel that KM is strategic to their organization and 78 % feel that they have missed business opportunities. The study estimated that, on average, 6 % of annual revenue has been forgone due to missed knowledge opportunities; that their average spending on knowledge programs is < 2 % of annual revenue; and over 64 % said that their ROI on their knowledge efforts was unknown.

What strategies are companies adopting to maximize the returns on their knowledge asset? In a study of international best practice two types of strategy were found. The first is to make better use of the knowledge that already exists within the firm, for example by sharing best practices. Very often leading managers comment: "if only we knew what we knew". Too frequently people in one part of the organization reinvent the wheel or fail to solve customer's problems because the knowledge they need is elsewhere in the company but not known or accessible to them. Hence, the first knowledge management initiative of many companies (between a third and a half according to surveys) is that of installing or improving an Intranet.

The second major thrust of knowledge focused strategies is that of innovation, the creation of new knowledge and turning ideas into valuable products and services. This is sometimes referred to as knowledge innovation. Many managers mistakenly believe this is about R&D and creativity. The research found no shortage of creativity in organizations. The real challenge is not to lose these creative ideas and to allow them to flow where they can be used. This needs better innovation, knowledge conversion and commercialization processes. This thrust of strategy is the most difficult, yet ultimately has the best potential for improved company performance. It is effective commercialization of ideas that has taken companies like Netscape and Formula One to multi-million dollar corporations in just a few years.

One of the practical problems of developing knowledge strategies or adding a knowledge dimension to other strategies is the complex nature of knowledge. As we now know from many disappointing artificial intelligence

initiatives of the 1970s, you cannot easily package knowledge into a black box and have it perform miracles. A potentially worrying trend about today's knowledge management movement is that IT managers, information professionals and software suppliers are jumping on the bandwagon and merely substituting the word 'knowledge' for 'information'. That is not to say that information is unimportant, since a good IT infrastructure, good information management (in the library sense) and effective information solutions, such as data mining, decision support tools, document management and groupware, are essential foundations. However, they do not go far enough.

The difficulty comes, not through handling 'explicit' knowledge, but 'tacit' knowledge which is harder to express and codify. Very often the most valuable knowledge that an organisation has is in the heads of its people, and those of its stakeholders, especially customers. However, "people walk", so forward looking companies continually to seek ways of locking it in to their organisation. The two complementary approaches are:

- Converting it to a more explicit form - in documents, processes, databases etc. This is often referred to as "decanting the human capital into the structural capital of an organization". I call this the "Western tendency" since it's the main emphasis of many European and US knowledge programmes.
- Enhancing tacit knowledge flow through better human interaction, such that the knowledge is diffused around the organisation and not held in the heads of a few. In Japan various 'socialization' activities support this kind of knowledge flow, which by its very nature also sparks the generation of new ideas and knowledge. Add some basic elements of good human resource management, including a stimulating environment, personal development plans, motivation and suitable reward and recognition systems (such as knowledge sharing awards and stock options), then there is less chance of your best knowledge workers wanting to leave.

When a company knows the value it intends to provide and to whom, it is easy to begin to link its knowledge resources in a way that makes a difference. Companies that want to differentiate their products and services respond quickly and effectively with the right solution the first time, and serve customers in a coordinated, consistent, intelligent, innovative and knowledgeable way will be driven to embed knowledge management into their culture. A Knowledge Management strategy should take into consideration the aspects:

- Gain stakeholder financial and resource support

- Appoint a Knowledge Management leader who will be responsible for the ongoing maintenance of the data, both tacit and explicit
 - Follow a Change Management Plan to reduce resistance (implementation costs)
 - Map out service resolution processes to determine what information is needed by who and when, then decide the best way to present it
 - Determine your data management and metadata management plan
 - Choose a technology platform that will support the service resolution process at your company
 - Integrate the Knowledge Management strategy into existing organization strategy
 - Develop user acceptance via a learning organization culture
 - Educate customers on self-service

Conclusion

This paper addresses the issues of why and how managers can conduct knowledge management in their knowledge based organizations, because in the present days knowledge management is too important to be ignored by managers. Knowledge content, process and context all need to be carefully managed in order to preserve or create value for an organization.

As a part of the knowledge management program, a knowledge management strategy must connect people and leverage their know-how. The goal is to create combinations of people and technology to produce networks of people who transform themselves into Braintrust Collaborative Networks.

The knowledge management strategy needs to be integrated into the strategic management of the organization. This can be achieved by building knowledge management awareness, determining its intended outcomes, auditing and valuing knowledge assets and resources, and finally by developing and implementing those knowledge management solutions that have the best potential to enhance knowledge and add value to the organization.

References

- [1] A. B. Jones, *Knowledge Capitalism-Business, Work and Learning in the New Economy*, Oxford University Press, Oxford, 1999;
- [2] OCDE, *The Knowledge-Based Economy*, 1996;

- [3] APEC Economic Committee, *Towards Knowledge-based Economies in APEC*, 2000;
- [4] European Commission, *Towards a knowledge-based Europe- The European Union and the information society*, October 2002;
- [5] D. H. C. Chen and C. J. Dahlman, *Knowledge and Development A Cross-Section Approach*, http://info.worldbank.org/etools/docs/library/117333/37702_wps3366.pdf;
- [6] Nicolescu O., *Economia și managementul bazat pe cunoștințe*, Editura Economica, Bucuresti, 2006;
- [7] Thomas S., *Leading Edge: a New Way to Think about Employees*, Forum Magazine, 13.04.1998;
- [8] Drucker, P. F., *From Capitalism to Knowledge Society, in the Knowledge Economy*, ED. D. Neef, Butterworth-Heinemann, 1998;
- [9] Raghu, A., Vinze, A., *A business process context for knowledge management decision support systems*, 43, 1062–1079, Elsevier B.V., 2007;
- [10] Clarke Th., Rollo C., *Capitalizing Knowledge: Corporate Knowledge Management Investments*, Creativity and Innovation Management, nr. 3, 2001;
- [11] Beijerse U., *Questions in knowledge management: defining and conceptualizing a phenomenon*, Journal of Knowledge Management, 1999.