

THE IMPORTANCE OF KNOWLEDGE MANAGEMENT IN CONTEMPORARY MANAGEMENT

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ABSTRACT

Abstract: It is an undisputed fact that this is the age of knowledge and a time of constant changes which are unpredictable. The globalisation trends and ever increasing networking of economy, information, technology, management (...) give rise to intellectual and group knowledge, namely to intellectual capital as the nonmaterial part of an organisation's capital. Formal education is not sufficient, and further training is required in line with contemporary requirements which the market imposes, in addition to it not providing development of personal skills which are necessary in everyday management, and which in synergy with professional knowledge provide for the proper results. Today, knowledge represents the most important capital of an enterprise, and it is necessary to develop an efficient and effective system of managing this resource, as it is that in particular which provides greater productivity, innovation, more qualitative performance of business activities, and provides competitive advantage. In previous periods the emphasis within organisations was on technology and technological changes, while today, in the age of knowledge technology continues to be important, but only as a product of internal engagement of intellectual capacities. Therefore, this imposes the fact that only through successful knowledge management enterprises are able to successfully manage their business.

1. INTRODUCTION

The possibilities of knowledge management become increasingly important in current conditions of business management and leadership. Motivation as a key element in knowledge management is assuming a greater function in the knowledge management programme because it leads to innovations and better, and with it, more successful interactions with the clients. However, the largest problem currently is that the carriers of knowledge are more focused on explicit knowledge and information technology rather than on

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implicit knowledge which individuals have. Taking into consideration that in contemporary organisations knowledge as a strategic resource is more important than strategy itself, its development can be encouraged only through proper and adequate management, namely qualitative running of human resource management. Knowledge and innovation are currently crucial drivers of the economy, while the management of human resources helps us to identify and secure the most effective flow of that knowledge through the organisation for the purpose of improving the effectiveness of the organisation. The success in adapting to globalisation processes and the unpredictable path of the economic crisis can be reflected through appreciation of knowledge as a strategic resource, while the main determinant of technological advancement is particularly in the gathering of knowledge and investment in intellectual capital.

2. KNOWLEDGE

Many organisations do not make a distinction between the meaning of the terms *data*, *information* and *knowledge* (Davenport T.H., 2000, p. 1). According to their thinking, making a distinction between these three concepts and the possibility of understanding which of these is necessary for the organisation and at which time, can lead the organisation to success or failure. All three concepts have to be understood in order to be used in the appropriate moment as the right solution.

Data can be defined as “a collection of separate, objective facts related to an event” (Davenport T.H., 2000, p. 2). This data is gathered by an organisation in accounting information systems and their use is relatively small.

Information can be explained as a message that has a sender and receiver (Davenport T.H., 2000, p. 3). And as the term itself suggests its objective is to inform the receiver who will decide if it is useful or not for him or her and the organisation.

Knowledge has definitions which present a challenge and hence there is no single comprehensive definition of knowledge. McDermott (McDermott, 1999, p. 105) highlights six characteristics of knowledge which make it distinct from information and data:

- Knowledge is a consequence of human labour
- Knowledge stems from thought
- Knowledge is created in real time
- Knowledge belongs to communities
- Knowledge circles through communities in many ways

- New knowledge is created at the boundaries where old knowledge ceases to be.

While most authors make a distinction between information and data depending on the context and the understanding of the derived data, information, and knowledge, this is exactly what for someone is seen as knowledge and for the rest it can be information.

2.1. Categories of knowledge

Knowledge can be classified in two types: explicit and tacit knowledge. (Management, 2009, p. 44). Explicit knowledge can be expressed in numbers and words, which are easy for communication and further distribution. It is manifested in various forms as part of books, manuals, rules, regulations, pictures, patents, databases, etc (figure 1).

Tacit knowledge different from explicit knowledge is found in the possession of employees, in their minds in the form of skills, experiences, expertise and similar. Tacit knowledge is difficult to document and share with others, hence it is necessary to manage such individual knowledge, and in some manner transform it into explicit knowledge in order to transfer it to others, mainly through communication and social interaction.



Figure 1: Categories of knowledge

Holders of tacit knowledge, when they wish to share it with others, must first turn it into explicit knowledge or knowledge that can easily be transferred to others. Their explicit knowledge represents only information for others until the recipient of knowledge internalises it as his/her own tacit knowledge through the learning process.

Explicit knowledge is only the tip of the knowledge iceberg, but both (explicit and tacit) knowledge are equally important and complement each

other. In order to better understand this complementary effect, it is important to understand the various methods of knowledge transformation and knowledge transfer.

3. KNOWLEDGE MANAGEMENT

By knowledge management we think of improvement of work based on the use of employee knowledge. Hence we can say that knowledge management is a range of actions through which we use the organisation in order to identify, create, present and transfer knowledge for further use and learning through the organisation. Knowledge management is an important business concept integrated into the business and organisational structure of those participating in the market. Factors which are conditions for the initiation of knowledge management are the increase in business size and complexity which make it more difficult to obtain information and circulate such information within the organisation.

We can also say that knowledge management is a business philosophy which considers knowledge and innovation as its strategic weapon. Integral parts of knowledge management are insuring effective creation of knowledge, communication between the employees and sharing of knowledge, its compilation and “preparation” for further use.

In order to understand knowledge management it is important to comprehend a number of common elements which were highlighted in a number of definitions by practitioners and theoreticians of knowledge management:

- Knowledge management is organisational strategy
- Knowledge management is an integrated and systematic approach
- Knowledge management is closely related to knowledge processes which include: identification, creation, preparation, and sharing of knowledge application.
- Knowledge is the improvement lever of organisational performance

If the organisation or those who manage knowledge are able to implement knowledge processes, productivity, profitability and growth of the organisation will considerably improve.

Knowledge management is a process which is developed continuously. New knowledge is created based on the old, and similarly this new knowledge becomes old and is replaced by new knowledge, and so on.

Basic forms of knowledge management which are most often highlighted in literature are:

- Knowledge creation
- Knowledge storing
- Knowledge transfer
- Knowledge utilisation

Knowledge creation is conducted at the individual and group level, through learning, team problem resolution and workplace learning. It begins with explicit and tacit knowledge based on which through work new knowledge is created as a consequence of the previous one.

Knowledge storing is performed by placing it in the appropriate bases, in a form that is acceptable and suitable for learning. Tacit knowledge is the most important, but as we have highlighted it is difficult to transform it into explicit knowledge and is difficult to transfer to other members.

Knowledge transfer represents every kind of knowledge exchange between individuals, teams and organisations. It is a unidirectional process where the source and recipient of knowledge are clearly defined, the objective of which is previously determined and defined: *transferring knowledge to others*. Knowledge which is transferred can be explicit or tacit, or a combination of these. As the name suggests, knowledge transfer represents the conveying of knowledge from the source in a manner that the recipient can learn and apply it. The source and recipient of the knowledge can be individuals, groups, teams, organisational units or organisations as a whole, in any of these combinations.

Knowledge utilisation is a phase in which value is added only when knowledge is in use. Knowledge is often insufficiently utilised, hence it is necessary to find the right manner of using the available knowledge. Often routine and procedures which are used for long periods prevent the creation and utilisation of new knowledge, due to those who use them not wishing to change a proven system and avoiding the risks of experimenting.

The most important form of knowledge management in particular is knowledge transfer. The most common form of knowledge transfer is discussion and direct contact between the source and the recipient of knowledge, even though we should not underestimate the transfer of knowledge through sharing of documents and databases, intranet, libraries, etc. The biggest hindrance to knowledge transfer comes from the carriers of knowledge themselves, in particular of the tacit one, as most of them find it difficult to transfer this to others as they consider this to be a loss for them and that their importance and status in the organisation will diminish. There is different thinking on how to resolve this problem. While some think that it necessary to institutionally oblige in some manner the carriers of knowledge, in order for them to share their knowledge with others, others state that free will and the wish to exchange and transfer knowledge which exists with

individuals is the best example of sacrifice for the success of the organisation.

Therefore, we can say that knowledge management is a discipline that promotes the creation, sharing and utilisation of organisational knowledge. On the other side, knowledge management is related to the strategy for ensuring maximum yield from intellectual and informational resources. Whilst the final goal of knowledge management is the creation of new values through improvement of efficiency and effectiveness of both individual knowledge and that which is created through teamwork, which at the same time improves innovation and the swiftness of decision-making.

3.1. Knowledge management strategies

Knowledge management strategy represents the governing of knowledge with the aim of creating competitive advantage. Hence it must be linked to business strategy, as well as support it. We will formulate three knowledge management strategies:

1. Technological knowledge management strategy – designed for structuring organisational knowledge. It focuses on information, specifically on explicit knowledge. It is in fact an attempt to record and store tacit knowledge, which enables its most credible application at future time periods without the possibility of it being lost or escaping the organisation.
2. Personalisation as a knowledge management strategy – designed for the emergence of knowledge. Through it knowledge is closely related to the person that creates it. Also the transfer of knowledge follows the principle of face-to-face, i.e. direct contact. The aim of the strategy is to assist learning through experience sharing. Based on this we can say that this strategy supports the transfer of tacit knowledge from person to person. The transfer of tacit knowledge represents one of the most difficult tasks in knowledge management and it requires the physical presence of both the source and recipient of knowledge, the readiness of the knowledge source to unveil knowledge and the ability of the recipient to absorb knowledge.
3. Socialising as a strategy for knowledge management – represents a combination of the two previous strategies. It is based on the idea of establishing groups of people which will “inhabit” the same knowledge space, and which will be in continuous mutual interaction. Socialising as a knowledge management strategy is designed for sharing and pooling knowledge.

Irrespective of the nature of results (quantitative or qualitative) a successful knowledge management strategy has a positive effect and gain for all

stakeholders. Additionally, it must contribute to the creation new value within the organisation.

3.2. The importance of knowledge management

Organisations are increasingly engaging in knowledge and in the training of employees by providing them different programmes in order to obtain and develop various knowledge and skills. Recognising the importance of knowledge and permanent learning for successful business, leading global companies have begun to establish their own schools as special centres for learning, training and development of their existing employees, but also other potential workers.

The permanent employees in management positions are overwhelmed with the large extent of information, thus knowledge and information management represents a very important part of the manager's work. There are three key reasons which make knowledge management increasingly important:

- Facilitation of decision-making possibilities
- Developing of an organisation which learns, making learning a routine
- Encouraging innovation

Knowledge management in the organisation is a process of research, identification, generation, storing, utilising and transferring knowledge which the employees can create, improve and apply, all for the purpose of creating competitive advantage.

Knowledge management is a key element of the economy of knowledge, which is the topic of artificial intelligence technology through computing technology and communication and information technology (Makarov, 2003, p. 450). According to Makarov, knowledge on its own cannot provide competitive advantage to the organisation, but rather proper knowledge management.

Efficient knowledge management drastically reduces the cost of managing the organisation. In order to avoid "reinventing the wheel", specifically the phenomena where employees attempt to do something which has been done in other places long before.

Benefits from efficient knowledge management are reflected in:

- Reduction of organisational management costs
- Potential for organisations expansion and growth
- Increase in profitability
- Improvement of products and services
- Swifter reaction to changes in the surrounding environment

- Improvement of services provided to consumers

Knowledge is simply interwoven in everything we do, while its proper management leads us towards innovations. Almost all modern products represent an innovation from an older version which is based on knowledge. Organisations which are dealing with efficient knowledge management with individuals and teams which want to learn, lead to learning of individuals, development of their confidence and abilities, and with it the increasing of possibilities for the emergence of ideas which will be turned into innovations. Knowledge management is the practice of mobilising and exploiting intellectual capital in order to create competitive advantage and loyalty of consumers through efficient, swift and effective decision-making..

4. CONCLUSIONS

Human knowledge is a dynamic category which is obtained and perfected, while knowledge management is a specific process which continues, due to which the concept of permanent learning becomes one of the dominant goals of business. In order for the contemporary organisation to gain and maintain the established competitive advantage, it is necessary for it to continuously develop knowledge, creativity and innovation amongst all employees.

Viewed from the economic perspective for the purpose of achieving and improving competitive advantage as a precondition for development, modern organisation create opportunity for a more efficient use of knowledge which is reflected in the realisation of innovation, reducing this the time which is required for their practical application.

All the developed countries in the world base their development strategy in the expansion of intellectual capital as the main resource which can secure competitive advantage in production. Knowledge as intellectual capital has become the basic source for establishing sustainable competitive advantage of organisations, and the fulfilment of the dynamically growing consumer demand. In circumstances of globalisation, the market competitiveness of a country depends on the level in which society and the economy are based in relation to creating new and applying existing knowledge. The transition towards a society and economy which is based on knowledge represents an aligned modernisation of all the societal sub-systems, in particular the political, economic, educational and cultural ones.

Knowledge and effective organisational knowledge management encourages creativity of the employees which is realised through different innovations. An effective knowledge management strategy will lead to the creating of knowledge which will be able to be transformed into market value of the

innovative products, services and business processes. The only manner in which competitive advantage can be created is through a continuous creation of new ideas and application of innovations, as innovations have become the main factor in organisational performance and competitiveness, irrespective of whether we are dealing with a commercial (profit-making) or the non-profit sector.

The key words of successful business in the modern market environment are adaptability, flexibility, knowledge, creativity and innovation. And in order for the modern organisations and companies to create competitive advantage, they must do away with the hierarchy, bureaucracy and similar, and must listen to the ideas of employees, hire talented human resources, invest in knowledge and training of employees, and ensure adequate rewards for contributions to business success.

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