

# KNOWLEDGE ECONOMY – THE NEW BUSINESS TREND

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## *Abstract*

*The main trend of today's economy is a rapid transition from the production to a knowledge economy. The phenomenon has many implications on different levels: national economy level, single firm level and also personal level of any employ. Knowledge assets predominate the traditional assets such as land, capital and work. In that context the structure and organization of any firm is have been changing. Knowledge management is becoming a dominant part of a firm's management and thus it is the bases of managing a new knowledge economy.*

*The new economy principles need a new business and market strategies to be followed by.*

*Strategy of value innovation is taking leading role from still actual, and in certain cases successful, strategies such as cost depreciation and differentiation. Creating a radically new value and the mass-market occupation are the bases of a firm's profitable growth today. Any firm, any business activity has to be adapted to a new knowledge economy conditions if it is aiming to be successful today and in the future.*

*Keywords:* knowledge economy, knowledge asset, knowledge management, value innovation.

## **1. Introduction**

For the past twenty years, a process of transition from the production to a knowledge economy has been held in many different ways and on the various levels. Theory and practice, mainly of developed western economies, became aware of the necessity of the process and of its specifics. There is no doubt that the process has an upward trend and that the future belongs to those, who are or will be soon, adapted on a new conditions.

The importance of knowledge asset today is as one that land and capital had in preindustrial and industrial era. In accordance with its domination over the other assets, there is a need for effective knowledge management and also for new business strategies. The leading one become value innovation based on well-managed knowledge.

On a national level knowledge economy implies an important state government's role in protection the rights of intellectual property and in maintaining and improving national

educational system. Without protection intellectual property rights there wouldn't be adequately regulated market of knowledge as the most important asset. Without good educational system there wouldn't be possible to make professionals capable to improve national economy.

On a firms level knowledge economy implies the transition from strictly hierarchical to more flat structures based on teams of professionals. One, the best and forever way of doing business exists no more. Experiments and improvements are the bases of a firm's success. Decisions are made on levels that are in direct contact with information's as an explicate forms of knowledge. Relationship manager-employ is one of respect and cooperation.

On a personal level knowledge economy brings a new power to the employees. They become owners of the main firm's asset - knowledge.

The new knowledge economy differs from a traditional production economy in many ways; main differences are presented in Table 1.

*Table 1.*

*Main differences between production economy and the knowledge economy*

<b>Economy factor</b>	<b>Production economy</b>	<b>Knowledge economy</b>
Main asset	Capital	Knowledge
Basic management	Process management	Knowledge management
Leading strategy	Market competition	Value innovation

## **2. Knowledge as the main asset in the knowledge economy**

The definition of knowledge is complex and controversial and can be interpreted in many ways. As a kind of a unique software of a firm the term involves the structured data, patents, programs and procedures, as well as the more intangible knowledge and capabilities of employees. The term can also include the way that a firm function, communicate, analyze problems, come up with solutions, make decisions and develop new business principles. Finally, knowledge also means issues of culture, customs, values and skills of firm's employees.

Knowledge is a peculiar asset that has some specific features different from other assets.

First, knowledge is a public property. It is the object of a no rival consumption. It is at disposal for all. Second, knowledge market is not homogeneous like other assets competitive markets. Every information as a unit of exact expression of knowledge is, by definition,

different from all others. Finally, for knowledge asset are more important future benefits than today's costs.

The last feature opens up a problem of measuring and expressing knowledge as invisible active item in a firm's balance sheet. The problem solution is a great challenge for today's economy theory and practice. Without adequate ways of knowledge asset quantification there wouldn't be effective knowledge management, which is identified as a second characteristic of the knowledge economy.

### **3. Knowledge management as the basic management in the knowledge economy**

Recent attractiveness of the term knowledge management has been prompted by three factors: increasing dominance of knowledge asset, the failure of financial models to represent the dynamics of knowledge and the failure of information technology to achieve benefits by itself.

Considering the firms level knowledge management may be defined as the conceptualization of a firm as an integrated knowledge system and the management of the firm's organization for effective use of that knowledge. Another definition emphasizes that the term is not only about managing knowledge assets but also the processes that act upon the assets. These processes include: developing, preserving, using and sharing knowledge to fulfill firm's objectives.

Process of knowledge management is a complex including following activities:

1. Identifying quality and quantity of knowledge asset a firm possesses;
2. Analyzing how the knowledge can be used to add value to a firm;
3. Specifying actions for achieving better usability and added value;
4. Reviewing the use of the knowledge to ensure added value.

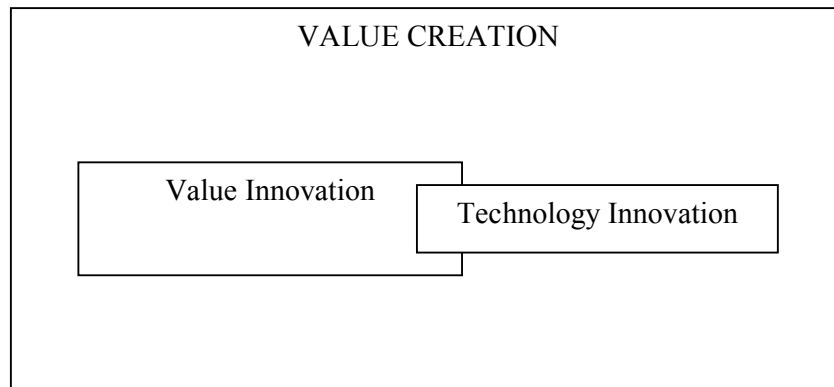
Knowledge management is one of the hottest topics in efforts of any business to meet the challenges of competition in the modern knowledge economy. It also provides a powerful way of looking at how society organizes itself and uses its intellectual resources. Finally it is a mean of humanizing approach to modern technology, putting the understanding of human intellect and motivation at the center.

### **4. Value innovation as a leading strategy in the knowledge economy**

Production economy based on a strategy of the market competition. Firms were focused mainly on beating the competition; according to the latest researches in the developed

economies the situation has been changed. Strategy focus of the successful firm's today shifts from competition to the value innovation. New strategy places the buyer not the competition at the center of strategic thinking.

Value innovation is a strategy that places equal emphasis on value and innovation. It anchors innovation with buyer value. It differs from value creation and also from technology innovation (fig. 1).



*Fig. 1. Relationship among Value Creation, Value Innovation and Technology Innovation*

Value innovation is a value creation but the opposite is not always. Technology innovation is not necessary value innovation. Value innovation is something else that can be introduced without technology innovation.

Value innovation, as a leading strategy of the knowledge economy is based on well used knowledge asset of a firm. It means that only a proper quality and quantity of a firm knowledge along with effective knowledge management may bring a value innovation that leads to the winning results in today's knowledge economy.

## **5. Conclusion**

Trend of transition from traditional production economy to a new knowledge economy is evident today and quite sure in the future. It means that the increasing importance of knowledge asset, knowledge management and value innovation will be the facts that any business activity will have to face with. A small business firm as well as a big mining company has to adapt its potentialities, organization and strategy to the new reality.

There are great opportunities of the new economy. Firms of any kind and industry may benefit on its principles and have to know that the efforts to follow them will be worthy. But also

benefits of the knowledge economy may be achieved on a personal level and on the national economy level. Future belongs to these who realize the facts on time.

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