## L'Association 1901 "SEPIKE"



# <u>Social Educational Project of Improving</u> <u>K</u>nowledge in <u>E</u>conomics

Journal L'Association 1901 "SEPIKE"

Ausgabe 8

Osthofen, Deutschland Poitiers, France Los Angeles, USA

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## **Bibliografische Information / Bibliographic Information:**

Die Deutsche Nationalbibliothek (Germany) sowie die Library of Congress (USA) verzeichnen diese Publikation in den jeweiligen Nationalbibliografien; detaillierte bibliografische Daten sind im Internet über www.sepike.com abrufbar.

The German National Library (Germany) and the Library of Congress (U.S.) run this publication in the national bibliographies; detailed bibliographic data are available in the Internet on www.sepike.com.

Journal is indexed by "INDEX COPERNICUS" ICV 5.15.

## Herstellung und Verlag / Editor and Publisher:

L'Association 1901 "SEPIKE" Tempelgasse 10, 67574 Osthofen, Deutschland

**Herausgeber / Publisher:** © 2013 L'Association 1901 "SEPIKE" 8, Allee de Marigny, 86000 Poitiers, France www.sepike.com

**p-ISSN: 2196-9531:** Journal L'Association 1901 SEPIKE **e-ISSN: 2372-7438:** Journal L'Association 1901 SEPIKE, US Edition

## Key Title: Journal L'Association 1901 "SEPIKE"

Poitiers, Osthofen, Los Angeles, den 31.03.2015

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# Part I: ACTUAL ISSUES IN MODERN PEDAGOGY

# KNOWLEDGE AS A KEY ELEMENT OF THE ORGANIZATIONAL EXCELLENCE'S MODEL IN THE PROCESS OF CHANGE MANAGEMENT

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Abstract: The article investigates the key element of the organizational excellence's model, knowledge management. Article contains description of the process of "knowledge management"; its role and functions are discovered; the knowledge value and its place in the organization's assets structure are defined. The author differentiates the concepts of "data", "knowledge" and "information". Moreover, the analysis of capital investment in intangible assets of enterprises in Ukraine in 2004-2014 has been done. Ways to improve the formal training in organizations are presented that makes possible to use knowledge as a strategic tool to ensure the success and competitive capacity of the organization.

*Keywords:* knowledge, knowledge management, changes, organizational excellence, information, intellectual capital, tangible and intangible assets, innovation, global innovation index (GII)

#### **INTRODUCTION**

Constant changes of the internal environment characterize the present stage of economic development under conditions of globalization, integration and high level of competition of the world market. It makes the functioning of all entities more difficult. Change is the issue that is always actually to the top-management of all business entities. According to American scientists D. Cotter and L. Schlesinger [8], a lot of companies and firms have to take a reasonable reorganization once a year and a full-scale reorganization for each four or five years. Modern business entities are functioning under influence of knowledge economy. Therefore they should decide a complex issue: how to achieve organizational excellence under constant changes, based on the rational use of knowledge?

The famous leader in the practical application of methodologies for improving business processes, ex-president of the American Society for Quality J. Harrington has developed the model of organizational excellence [13, 16]. The author noted that the organizational excellence manifests itself in the synergy of efficient processes, projects, rational changes, as well as knowledge and resources, which are necessary to provide them.

The concept of organizational excellence is aimed at the constant changes in companies, when their attention is focused on the coordinated management by the key components of their activity. Our attention is focused on one of them, the knowledge management. Although the knowledge management (as well as other elements) is not new either in theory or in practice, we should recognize that today there is a problem: modern organizations do not have enough time for processing knowledge as an information, its sorting and selecting those, which has the real value. Therefore, the availability of the necessary knowledge and their skilful using makes the modern organization successful.

## MATERIALS AND METHODS

Statements and conclusions of domestic and foreign scientists in the field of knowledge management, results of applied research on this issue, statistical data of the State Statistics Service of Ukraine, data of the World Intellectual Property Organization, as well as research methods, including the dialectical method, methods of problematic and systemic analysis, analytical method and other methods have been used while writing the article.

## RESULTS

The concept of "knowledge management" appeared in the mid of 1990s among the large corporations that have experienced the problems of information processing. It became obvious that the weak point is the knowledge selection accumulated by specialists, as they give certain advantages over competitors. Often the information is stored in the company more, than it could be processed. Therefore, business entities are trying to solve this problem its own way, improving the efficiency of knowledge processing. Knowledge is the main resource and the main component of the organizational development; thereby they affect its competitiveness. They are considered as the main resource at both micro- and macro levels. Therefore, the economy of developed countries is the "knowledge economy". Its distinguishing feature is that the increase of knowledge contributes to economic growth. According to World Bank estimates, more than 50% of the GDP of developed countries are based on knowledge [15, p. 74].

To manage knowledge means to manage the processes of creating, processing and use of knowledge within the organization. Effective knowledge management, which is intellectual capital of the company, allows making profit (the product of mental, intellectual work or the product of creative efforts).

The question arises: how to get this profit? It can be made under the condition that it is possible to use accumulated knowledge more effectively. I.e. knowledge management (as well as traditional methods of reengineering) will give the financial result to the company; while costs and production cycle are reduced, financial flow are increased. It should be noted that knowledge always have been important in human life, but their role is increased nowadays. The influence of traditional factors (land, labor and capital) through the effective use of knowledge is characteristic for the modern economy development. Knowledge management encourages the search for intellectual capital, i.e. information and knowledge that are "collective brain", accumulating scientific and ordinary knowledge of employees, intellectual property and experience, communication and organizational structure, informational networks and image of the company.

Some scientists identify the concept of "knowledge" and "information" that is wrong [5]. Such researchers as B. Kogut and V. Zader have defined information as knowledge that can be transmitted without integrity loss [7]. Thus, these researchers imagine information as a form of knowledge. Moreover, some scientists define the concept of "knowledge" through the concept of "information" and "data". However, in management there are different directions, such as data management, information management and knowledge management; thereby, this identification is inexpedient. Data is a collection of certain information recorded on a certain medium in a suitable format for permanent storage, transmission and processing. Information (latin "informatio", i.e. information, clarification, explanation) is the result of conversion and data analysis. Distinctive features of the data are a representation of fixed information about events and phenomena that are stored in a certain medium; information comes from the data processing in decision making for specific tasks. Knowledge is the form of results existence and systematizing of the human cognitive activity. Knowledge (explicit and implicit) [2] constitute the intangible assets of the company. Intangible assets are non-monetary assets without physical substance; they are part of non-current assets.

Capital investments analysis in intangible assets of Ukrainian enterprises in 2004-2014 indicates unevenness of their flows. Most of their flows were observed in 2012, 2013, 2014 and 2007. If we will take 2004 as a base, then the amount of capital investment increased by 5000,1 mln UAH or almost in three times (*Figure 1*).

At the same time, numerous and multi-scale enterprise surveys show, that tangible assets form only visible, quite small part of the enterprises property and their market value [9].

Knowledge is classified by various criteria [2, p. 96]. They can be integrated from different sciences, including management disciplines, humanitarian sciences and informational sciences. In the knowledge management process, management disciplines answer the question: how to create the added value and competitive advantages based on existing organizational knowledge?

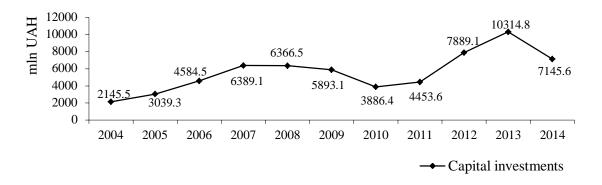


Figure 1: Dynamics of capital investments into intangible assets of Ukrainian enterprises in 2004-2014

*Source: created by author according to [9]* 

The main object of management in this case is an enterprise as an open socio-economic system. Company has a pragmatic interest in knowledge as a strategic resource. Management sciences give the opportunity to create added value and provide competitive advantages. Humanitarian sciences allow finding ways to correct the human behavior as the main subject of knowledge management. Informational sciences are aimed at finding an effective means to work with information. The main object of study and management here is information. I.e. these three elements of knowledge management encourage the formulation and solution of the problems for the studied object. In this case all objects interact with each other.

It is known that knowledge management has two main objectives: 1) efficiency (use of knowledge for productivity growth by increasing speed performance or cost reduction); 2) innovation (creating new products and services, new companies and business processes). By itself, knowledge management in economic revolutionary conditions equates to the new function. Having considered function as an appointment, action, property, as well as semantic, semiotic or valued role of thing, it is possible to classify the knowledge management functions: analytical, distributive, secure, integrative and function to create new knowledge. Properties of listed functions are multifaceted (*Table 1*).

Intellectual capital as institutionalized knowledge gives the opportunity to obtain a synergistic effect, which company can use. It is the main factor for innovative development in the context of the knowledge economy.

Intellectual capital refers to intangible assets. Both scientists and practitioners distinguish different components of intellectual capital. I. Prosvirina distinguishes human capital, structural capital and customer capital [14]. T. Stewart, L. Edvinsson & E. Brooking describe its four components: organizational, social, human and managerial capital. We share the point of view of Yu. Nikolaeva, who believes that the human, social, managerial, organizational and intellectual capital are interrelated, formed and developed according to the stages of the life cycle of an organization [12].

One of the key challenges for most companies today is to strengthen the global competition for the factors that determine the competitiveness of innovation systems. Observations show that only few companies achieve success in innovations.

To measure the level of innovation in the country, scientists use the Global Innovation Index (GII). It should be noted that a study of Global Innovation Index (GII 2014) has been provided under the auspices of the International business school INSEAD (France) in cooperation with Cornell University (USA) and the World Intellectual Property Organization (WIPO). The main focus of this edition is the role of the human factor in innovations. GII 2014 covers 14 countries that produce 98.3% of world GDP and where 92.9% of the world's population lives [4].

According to the survey, Switzerland, United Kingdom, Sweden, Finland and Netherlands have headed the top five innovative economies.

Knowledge		
management functions	Substantive content	
1. Analytic	- Search for knowledge among the informational flow, i.e. its filtering;	
	- Choice of the effective informational resources;	
	- Analysis of operational methods, experience and skills of staff;	
	- Providing additional value to the available information by identifying,	
	selecting and summarizing	
2. Distributive	- Generalization of knowledge;	
	- Evaluation of their usefulness;	
	- Classification of available knowledge by certain criteria, experience,	
	working practice and skills of staff;	
	- Filling of corporate memory with well-systematized knowledge	
3. Secure	Barriers to the knowledge outflow and information are divided into:	
	- Production processes;	
	- Knowledge about customers;	
	- Financial results;	
	- Accumulated experiences,	
	- Strategic plans and goals, etc	
4. Integrative	- Extracting knowledge from corporate memory through the exchange of	
	knowledge between departments, various levels of management, as well as	
	the exchange of expert knowledge and employees' experience, etc;	
	- Ensuring the knowledge availability in management decisions making,	
	search and generation of ideas, training	
5. Creation of new	- Monitoring of customers;	
knowledge	- Analysis of feedback;	
-	- Benchmarking, as well as various studies and experiments and so on	
Source: systematized by author according to [2, p. 21]		

Knowledge management functions and their substantive content

Source: systematized by author according to [2, p. 21]

In comparison with Ukraine let us take two post-Soviet countries as examples: Estonia and Russian Federation. Estonia is a member of the European Union and the Euro zone, Russian Federation is a member of APEC, BRICS, WTO, EAEC, CIS and SCO.

Among the post-Soviet countries that joined the EU after the collapse of the Soviet Union, Estonia has the highest rank 24 (rank 25 in 2013), Latvia 34 (33 in 2013), Lithuania 39 (40 in 2013) [4]. Russia ranked five places after Estonia (24), Latvia (34), Lithuania (39) and Moldova (43), after them Belarus (58), Ukraine (63), Armenia (65) and Georgia (74) followed. Tajikistan closed the rank (137) [4].

Among the BRICS countries (Brazil, Russia, India, China and South Africa) four countries have upgraded ratings. Brazil has risen by three positions and took rank 61; The Russian Federation has risen by thirteen positions and took rank 49, China has raised the result by six positions and took rank 29 and South Africa has risen by five positions and took rank 53. It should be noted that the increase in the ranking of China and Russia is more significant among the BRICS countries; now China's ranking can be compared with the rankings in developed countries. It should be noted that India's ranking fell by ten positions; in 2014 India took rank 76. According to report, the strengths of Russia are related to the quality of human capital (rank 30), business development (43) and development of knowledge and technology (34). Indicators of infrastructure development are at an average level (rank 51). Imperfect institutions (88), low results of creative activity (72) and the internal market development thinder the innovative development (111).

Rating GII 2014 was calculated as the average of two sub indices. Sub index of innovative expenses allows evaluating the elements of the national economy, where innovative activity is embodied; it is divided into five main groups: 1) institutions; 2) human capital and research; 3) infrastructure; 4) the level of the market development and 5) the level of business development. Sub index of innovative results reflects the actual results of such

activities, which are divided into two main groups: 1) results in the field of knowledge and technology and 2) results in the field of creativity [4].

It should be noted that a group of twelve dynamic developing countries with emerging economies, which outstrip the other countries with corresponding income, authors have classified as "new innovators." There are: Moldova, China, Mongolia, Vietnam, India, Jordan, Armenia, Senegal, Malaysia, Thailand, Ukraine and Georgia. Among the countries with low income Kenya, Uganda, Mozambique, Rwanda, Malawi, Gambia and Burkina Faso have outrunning indicators. These countries demonstrate increasing level of innovative results by improving the innovative legislation, skilled workforce with the advanced higher education and more effective innovative infrastructure, deeper integration with the global credit, investment and product markets and high-developed business community. However, progress to these directions is not observed with the same trend among the represented states.

Thus, our study confirms the continuation of global innovative gap. Rankings of the leading 10 and leading 25 countries have changed, but the list of countries is unchanged. Difficult for overcoming gap is persisted due to the fact that countries with less innovative economies do not match the progressive pace in countries with a high ranking despite the fact that they have achieved success. It is explained by the fact that it is difficult to achieve economic growth and to preserve human resources necessary for sustainable innovations.

Ukraine joined the group of countries-innovators. GII Ukraine increased from rank 71 in 2013 to rank 63 in 2014. Main "failures" are points "State of cluster development" and "Joint ventures and strategic alliances". If the cluster creation requires considerable resources, then the reason for the backlog of Ukraine by indicator "Companies offer formal training" is not clear. Here: formal training is official training of its own staff by the company. The share of such companies in Ukraine is 22%, in other countries about 43% [4].

Perhaps the answer is: departments of vocational training at the enterprises must deal with the problem of formal vocational training. If the company wants to achieve success in knowledge management, it should invest in staff about 10% of wage fund, as developed foreign companies do. These funds can be considered as expedient investments. The state has a major role in innovations implementation (including financing). Conducted analysis of financial sources for innovations in Ukraine showed that in 2000-2013 the State budget for the financing of innovations has emitted the most amount of money in 2008 (336.9 million UAH) and lowest in 2000. It should be noted that the share of funds allocated by the State Budget of Ukraine, is considerably less than own enterprises funds and funds of investors [8].

The process of knowledge management requires the active external support. It is government assistance, contacts with higher education institutions, which are engaged in training and rising skills. The system of vocational training of employees in the enterprise requires the active participation of teachers-experts, i.e. the best specialists of enterprise and self-learning. This approach to training involves guaranteed creation, dissemination and use of new knowledge that contributes to the maintenance and development of the company's competitiveness. An important task of the educational division in the enterprise is to train teachers-experts who can effectively organize the educational process and research work in the field of modern knowledge technologies use. Therefore, enterprise preparation to use knowledge management technologies should start with creating of own training division and database of structured information to train professionals. Enterprise's passage to the modern technologies of production and management is impossible without such training center [1, 3, 6].

## CONCLUSION

Thus, nowadays enterprises can avoid problems if they will use existing knowledge to solve them. They should provide staff with the necessary information and skills that will help to avoid mistakes in their duties' performance. Therefore enterprises must develop a knowledge management system. The main resources for companies' development are the people and the knowledge they possess, intellectual capital and increasing professional competence of staff. The need is increasing for new methods of the enterprise development, based on the integration of humanitarian and engineering approaches that will yield a synergistic effect of their interaction. This approach is based on the modern achievements of informational technologies, cognitive technologies of companies' development.

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