

# KNOWLEDGE AND QUALITY AS THE FACTORS OF THE BUSINESS SUCCESS

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**Abstract:** *The time we live in is complex, business conditions are more challenging and burdened by globalization. Always the question is how to find the solution for the growth and development of the organization in time of transition. The solutions we are using to overcome the problem clearly do not give good results, and they have an impact on economic growth. Knowledge in the economy today is the most important resource and source of competitive advantage. In addition to the quality, knowledge is a new business philosophy of the company and has become a key factor for success in the market; it is the organization's long-term investment rather than a quick way to solve the problem. Because of the need to adapt to rapid changes in a large number of companies, the world adopts the concept of total quality management (TQM). This paper clarifies the concept, importance and quality of knowledge in the modern business environment. The results of the application of knowledge and the quality of the organizations that participated in the development of SMEs in Serbia were analyzed.*

**Keywords:** *knowledge, quality, globalization, business*

## 1. INTRODUCTION

If we put an entire era of human existence in a single day, the changes that have occurred in the last 30 seconds are greater than all the previous ones. This time is the era of knowledge. The issue of predicting the future is increasing. History as a teacher of life is no longer reliable. The speed of change is such that any solution that is not immediate – is late, if it is not based on knowledge - wrong, if it was not proven in practice - worthless. Knowledge is an essential factor of economic and social growth and development of each country and occupies the most important resource in a new company that is transforming towards knowledge society. For the purpose of an adequate level of knowledge, a continuous education that is a long process is necessary as the necessity of learning throughout life. Countries that still have a large fund of scientific knowledge, that educated staff in a good way, which scientific knowledge puts in the function of the development, making progress in developing and coming into a position that, economically, culturally and politically subjugate the less developed and developing countries. That is the reason was why all countries worldwide seek the best opportunities regarding staff education and their inclusion in economic system state. Globalization causes rapid, complex and unpredictable changes that require a new way of organized behavior in solving problems. It means a force that shapes the life of the modern world that includes a society, the economy and education, the technological development, lifestyle changes, etc. Globalization has imposed a requirement that knowledge must be practical and changeable, and the knowledge that contributes to the competitiveness of businesses and creating greater profits.

Modern society with everyday sudden changes both in the economy and in science and technology affect the development of each individual, its position and role in society, and thus shaping of the modern society with new needs. All these changes require constant study and acquiring new knowledge, skills, values and attitudes, i.e. new competences of individuals. New

demands of society cannot be achieved through traditional solutions but requires new approaches. Market globalization had impact on intensification and growth of competition. Improving the quality of business is an imperative of the modern market, a built-in concept of quality is one of the most important factors influencing the placement of products on the domestic and international market. Improving the quality of business is becoming a major factor in achieving competitive advantage. The quality of business is based on the improvement of productivity and knowledge. Edwards Deming (in the early fifties of the last century) found that when quality is improving – the productivity improves too. This interdependence of business quality and productivity is called "chain reaction". If we analyze where our economy is today, we must ask ourselves how to overcome differences in the business models that exist in today's world and in our country, in order to ensure the competitiveness of the products of the world economy, and the solution and the answer is the application of knowledge and the introduction of quality management. Thus, we give the answers to two important questions of **what** and **how**.

## 2. KNOWLEDGE AS THE FACTOR OF BUSINESS IMPROVEMENT

Awareness of the importance of knowledge, its function, and the need has risen in recent decades. Practice shows that some needs are outdated, some resources are exhausted and that new needs arise. Therefore, the world is moving towards recognizing that knowledge is an important resource, and the only possible factor that provides solutions to optimize existing condition. Although knowledge awareness is not raised at a significant level, the fact there is significant efforts in this field is encouraging. What IT was in the last century, exactly that is the knowledge today. Knowledge is important because it unites the policies, goals, and practices creating a whole. It provides information on the effectiveness of operations, processes, outcomes, and the environment. There are two types of knowledge (Murray, 2000): *Explicit* knowledge that can be expressed in a formal language and exchanged between individuals, and can be used by anyone; and *implicit* knowledge, i.e. personal knowledge. It is personal and it is expressed through individual experience and abilities of individuals. It includes the skills and intangible factors of creativity, innovation, personal beliefs, perspectives and values. In addition to many other definitions of knowledge, it allows every individual and community to cope with reality. It provides the knowledge on the cause, functioning and predicting events. Bertrand Russell argues that knowledge appears in the form of observations, beliefs, memories, habits, beliefs<sup>1</sup>, scientific knowledge<sup>2</sup>, and expectations<sup>3</sup>. Russell says, "Knowledge is true belief." It is different kinds of knowledge: knowledge of the facts, the knowledge of the general relationship between facts, theoretical knowledge, practical knowledge, general, individual, impersonal, personal, immediate, knowledge by description. Today, the value of the company is not only the value of the property, but the value is based on the knowledge, skills and intellectual property that reside in the people. Today, knowledge is seen as a strategic resource with a reason. The resource cannot be consumed in time, but obtains value. Knowledge is a strategic role in shaping the future<sup>4</sup>. The developed world has an opposite strategy regarding the underdeveloped countries that discuss what to do with it when achieve it. It can provide answers to many questions in the areas of social and economic life, in order to avoid wandering and

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<sup>1</sup> Based on fantasy, interest, repetition

<sup>2</sup> Theoretically based and practically applicable

<sup>3</sup> Form of belief and confidence in a causal relationship

<sup>4</sup> Vera Krmpot, „New Economy – Knowledge economy“, *International Journal of economics & law*, vol. 2, no.4, pp. 60-65

failures that increasingly moving away and return. Strategy on the use of knowledge is a prerequisite for the development of modern society. For an understanding of business strategy, it is not enough to know only the views and beliefs of top management on business activities, but also to analyze what the company does, the extent to which there is agreement or difference between positive and normative, which in reality is expressed as the difference between the adopted strategy and strategic actions. Product-market approach strategy refers to how firms compete with their products and services. Approach to strategy based on resources starts from the fact that the company provides factors necessary to create the core competencies and skills as a basis for developing and maintaining competitive advantage. The difference between the current situation and what the company must do, provides us with the picture of strategic defect. When the lack of strategic is noticed, it is usually the potential lack of knowledge. It is always a gap between what the company must and what can do to compete, but also the gap between what a company needs to know to perform and what the company actually know. Based on the strategic knowledge and future options, organizations can identify areas of the various categories of existing knowledge that can be match their expectations. The result is a set of possible lack of knowledge, but sometimes organizations may even know more than necessary in order to maintain the position it has. In any case, the strategy of knowledge must emphasize any lack of potential regulation. The following table (O'Sullivan, 2008) a parallel between lack of knowledge or business is given<sup>5</sup>.

**Table 1:** *Lack of knowledge derived from the alignment of the strategic business lack*

<b>The current state</b>	<b>The lack</b>	<b>The future state</b>
What the company knows	The lack of knowledge	What a firm must know
What company is doing	The lack of business	What the company must do

In recent decades in our country big changes that arrived unexpectedly occurred, which had a profound impact on changing the living conditions of a large part of the population. Some of these changes have caused genuine shocks at the societal and individual level. There were changes in social and property relations, as well as in political pluralism. After the shock, a period of transition and the requirement for the introduction of European standards comes. The world today is moving towards a society based on information and technological development, thus improving the human knowledge. Future economic growth is inconceivable without knowledge. Therefore, it is an important factor in the transition countries to use, constantly improve and develop partnerships between education and the economy in line with the needs of a market economy. Successful organizations today realize that learning and acquiring new knowledge is a precondition for success. Although we live in a world with more knowledge-based products and innovative technology that is not in the databases, software programs or books - these are just information. It is in every individual who generate knowledge, increase it, apply, and teach others. It can be used for personal gain, benefit society or abused. The transition to the knowledge society is the goal of the European Union (Lisbon Strategy, 2000) and puts man to the center of attention. Expenditure on education as a percentage of GDP shows how a country treats education as compared to their overall allocation of resources. Expenditures on education are the most important investments of the state that can facilitate

<sup>5</sup> O'Sullivan, K., (2008), *Strategic knowledge management in multinational organizations*, Information science reference, New York, Hershey

rapid social growth, raise productivity, contribute to personal and social development and reduce social inequality. Without going into further analysis of geographic and topographic characteristics of others, the greatest value of Serbia is in human resources.<sup>6</sup>

### 3. QUALITY MANAGEMENT AS THE FACTOR OF BUSINESS IMPROVING

New knowledge and technologies, new information and communication capabilities, global view of the competitiveness of the market and the possibility of loss of international competitiveness impose new business conditions that have to be adapted by all companies that want to survive. Only organizations that continually work to improve their performance can count on to survive and even improve its position in the global market. In today's business environment, quality is an important aspect of the company to adapt to changes. Today the question is not the introduction of quality, its improvement as a priority task for the management of all organizations and institutions, but the needs to realize the overall quality of life of people. Because of the need to adapt to rapid changes, a large number of companies in the world adopt the concept of total quality management (TQM). The emergence of a modern quality management is linked to the United States. The second stage of development is called quality control. The main difference is that the goal of the second phase is to identify and eliminate the causes of quality problems. Quality control is based on the following principles: no production without measurements, no measurements without data, and no data no analysis, no analysis without feedback and corrective actions. Time has changed and the responsibility for quality, so the quality management is the key to improving competitiveness in the market. Quality is considered characteristic of the product or service that meets the requirements. The term quality means meeting the needs of individuals and society as a whole. Quality in the broadest sense is the everyday human needs of present and future development of the entire human society. In different regions and countries of the world, quality is differently defined, so for example in Germany, the quality of the product is when it is consistent with the specification, in Japan, the quality is perfection and in America, the quality is when something works. The role of quality today is irreplaceable. Management through quality system can delegated the powers and responsibilities to the persons authorized for quality but not for the project. It is not enough just management decisions about initiating a project to establish a quality system, it takes its active participation in all phases. ISO definition - quality is the extent to which a set of inherent characteristics fulfills requirements. Quality product meets *defined or expressed needs*. The quality of the contemporary economy is viewed from the aspect of management. Quality management should enable the improvement of the quality of the entire business enterprise. The key to success is to achieve an optimal price-quality ratio based on the continuous improvement of business productivity. Holders of improving the quality of business are all employees and up to the top managers. Employees create quality business productivity based on their knowledge and work. Each individual employee must be responsible for its performance and productivity. Improving the quality of business is the basis for the improvement of all factors influencing the competitiveness of companies in the international context, (concretization and improvement in all areas of marketing, innovation, human resources, financial resources, physical assets, productivity, social responsibility, profit). Changes resulting from the development of quality are given in the following table:

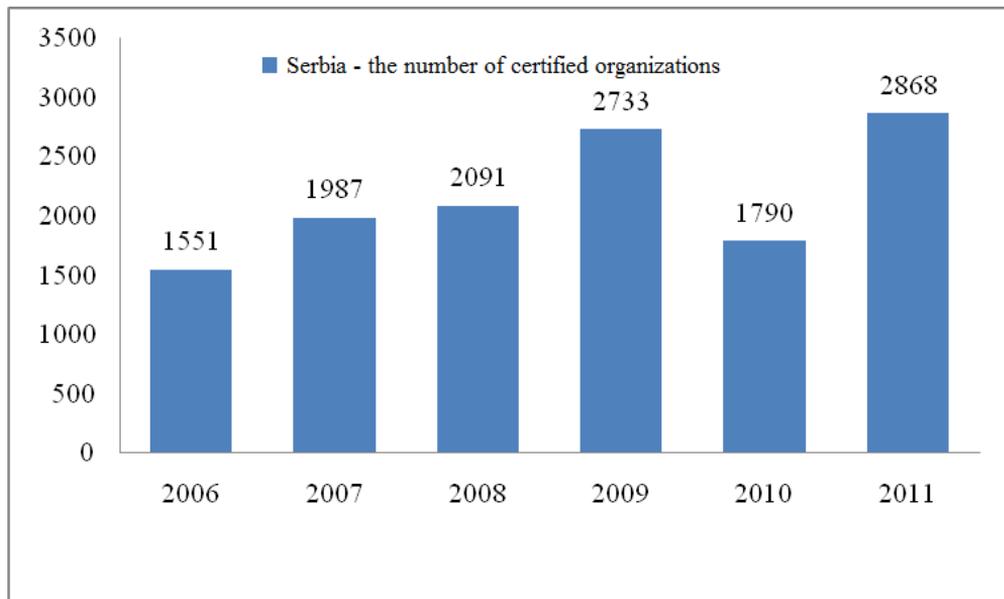
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<sup>6</sup> Radosavljević, Ž. *Menadžment znanja i (li) znanje u menadžmentu*, Centar za edukaciju rukovodećih kadrova, Beograd 2008

**Table 2:** Changes made of quality development

<b>From non-systematic access</b>	<b>Towards systematic access</b>
Errors are common	Errors are caused by poor performance
Errors can be removed	Errors can be prevented
Quality must be paid	Quality is free
We must act operatively on quality	We must act on quality by the long-term activities
The quality control cares about the quality	The whole company cares about the quality
To improve quality by introducing new technologies	To improve quality by constant improving
The emphasis is on the production volume	The emphasis is on the quality
Training for the task	Continual learning – everybody are responsible for the process

According to the latest report of the International Organization for Standardization (ISO) have been issued 2868 certificates of conformity with international standard ISO 9001. On the chart, you can see changes in the number of issued certifications in Serbia since 2006 to data from ISO.



**Graph no. 1:** According to the latest report of the International Organization for Standardization (ISO)

Companies that want to opt for quality must start from the application of the quality management system (ISO 9001:2000), the environment (ISO 14001) and health and safety at work (OHSAS 18001). These systems make the gradual construction of TQM (Total Quality Management). TQM implies that the quality cannot be produced but it is managed. The point is that TQM has to be focused on quality, with the participation of all members of the organization, aimed at achieving long-term success through the satisfaction of all members of

the organization and society. A prerequisite for the success of TQM is management's willingness to put the quality of the environment in all activities of the organization and to confirm their example. Modern TQM has enabled development of the business philosophy in which the company, and all internal production and business processes striving to one goal, i.e. to continuously improve its structure and performance.

**Table 3:** *Differences between organizations with and without TQM*

<b>Organizations without TQM</b>	<b>Organization with TQM</b>
Orientation to manufacturing	Orientation to customer
Measurements of the results based on opinions	Measurements of the results based on facts
Activities are focused on methods and tools for quality improvement	Activities are focused on the objectives
Amateur leadership	Professional leadership
Training for quality is done only for employees as a function of the quality	Training for quality is for all employees
Intuitive goals without measuring	System approach for establishing goals
Short-term views on the strategy, mission and vision	Long-term view on strategy, mission and vision
Sporadic and unsystematic problem solving	Chronic problems are systematically identifying, analyze and solve
Reactive acting to the problems	Preventive acting to the problems
Individual involvement	Inclusion of and participation of all employees

EFQM Excellence Model was introduced in 1992. The creator of the EFQM excellence model is a European organization in Brussels (European Foundation for Quality Management). EFQM Excellence Model consists of nine criteria, five of which enables the organization to achieve excellent results (leadership, policy and strategy, employees, vendors, resources, and processes) and four shows the results (with respect to employees, customers, and society and key performance). The value of the EFQM model lies in the fact that directs the organization, provides a tool for its constant self-examination, progress, and achieves quality work in all nine criteria, at pace that suits the organization. For the estimation of the level of excellence, there are mechanisms in the form of a matrix of points and self-assessment. Specifics of the EFQM is - self-assessment, - Scoring per reached stage (approach, scope, measurement and learning, results, achieving goals, steady progress and trends at least 3 years) - compared to the competition and the best ones.

The principles of the EFQM model: - The focus on the results - to develop real factors, - Focus on customers - to recognize them (all) - Leadership and consistency - management based on facts - to collect and analyze them, - The development and involvement of employees - motivation - Permanent learning, innovation and improvement - for everything - Developing Partnerships - to identify all the partners - Social responsibility - toward their social environment.

#### **4. THE RESULTS OF APPLYING THE EFQM METHOD IN PRACTICE**

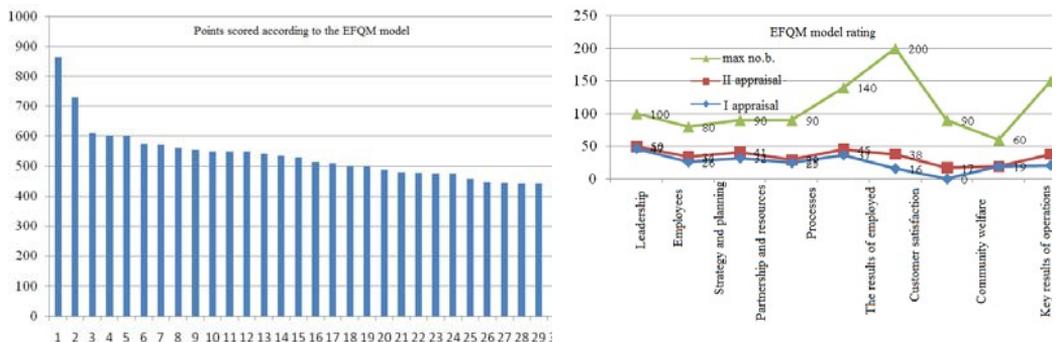
The need and the obligation to apply the quality management system are no longer limited to large manufacturing companies. New conditions and the demands placed before the small enterprises from all economic, but also non-economic activities. These requests come primarily

from the market, but the owners who want to make business based on modern principles recognize the needs. However, the specificity of small organizations, which are reflected primarily in the limited financial and human resources, often make many services in the field of application of the quality management system inaccessible to such an organization. This primarily refers to the necessary financial resources and time for the training, consulting, internal costs of program implementation and more. Recognizing the fact that the introduction of quality systems in the SME is a specific form of work, which requires expert knowledge and engagement of consultants and to establish the system up and running to provide initial results, it is often abandoned just because of misunderstanding of the company management and their belief that the processes and established system can function by inertia.

During the 2007-2008, according by program of developing chains of local suppliers that is part of the promotion of investments in Serbia program (SIPP) funded by the EU, realized by the European Agency for Reconstruction (EAR) and implemented by FIAS – a part of the World Bank in collaboration with the Serbia Investments and Export Promotion Agency (SIEPA), with the participation of 99 organizations from Serbia.

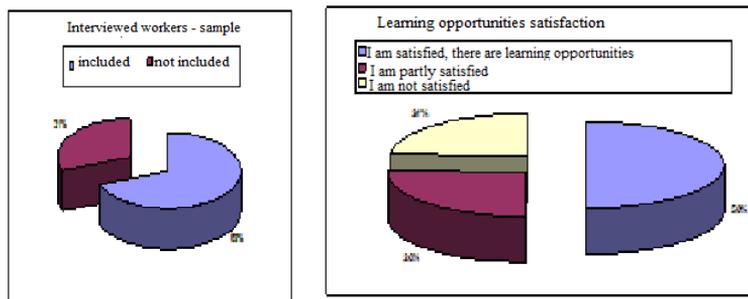
There is a space for improving the organization being assessed for which the knowledge is necessary. The results achieved can be significant basis for quality improvement in the future. The problem arises if the organization management is lost or the importance of models for survival and improving the organization it is not recognized. Based on the achieved results of the second round of programs, conditions were fulfilled by 31 organizations judged by the EFQM model.

Each criterion is weighted in accordance with the experience of more than 200 companies that are valorized the specific weight of each criterion based on their business. The results in the evaluation by 31 organizations was given on the Graph 2, and out of that number, one organization was separated on the Graph 3



**Graphs 2 and 3:** The results of the assessment by the EFQM model made by the Serbia Investments and Export Promotion Agency (SIEPA)

During the implementation of the ISO 9001:2000 quality management in the organization engaged in the production of furniture and woodwork, an anonymous survey was done during which workers spoke on the issues presented in the survey. Asserting workers in terms of opportunities for learning and progress is 50% satisfied, 26% partially satisfied and 26% were not satisfied, which reflects the significance of learning in the organization. Graphs 4 and 5 illustrate the number of surveyed employees and their satisfaction with learning opportunities.



**Graphs 4 and 5:** The results of the survey, the number and percentage of workers included by the sample and declaring on the opportunities for learning and advancement within the organization.

## 5. RESUME

The knowledge represents the power and the fact based on which operations between successful and unsuccessful companies differ. Due to this fact, very important factors of any organization are the employees and especially management and its expertise. In the economy, a qualified worker has a crucial role. Today, the value of the company is not only the value of the property, but the value is based on the knowledge, skills and intellectual property that reside in the people. New knowledge and technologies, new information and communication capabilities, global view of the competitiveness of the market and the possibility of loss of international competitiveness impose new business conditions that have to be adapted by all companies that want to survive. Because of the need to adapt to the rapid changes, it is necessary to adopt the concept of total quality management. Holders of quality improvement must be all employees, from the top management up to the employees. Improving the quality of business is the basis for the improvement of all factors influencing the competitiveness of companies internationally. Companies that want to opt for quality must start from the application of the quality management system, the environment and health and safety at work. These systems make the gradual construction of TQM. TQM implies that the quality cannot be produced, it is managed. The point is that TQM has to be focused on quality, with the participation of all members of the organization, aimed at achieving long-term success through the satisfaction of all members of the organization and society. Respecting knowledge and the quality, every organization includes itself in the global competition in order to survive and to improve its business, which is very important for the society and the state. Practical experience shows to this problem is not encompassed in a sufficient way, there are young and qualified people on the labor market who are not involved in the economy, are not agents of changes in organizations. However, we are caught in a situation of SMEs that the decision makers - do not have the necessary knowledge, those who know do not make decisions, and no one cares about the opinion of those who doesn't work.

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