

## THE ROLE OF KNOWLEDGE MANAGEMENT IN MODERN BUSINESS

**Kopilović Radmila**

Faculty of Economy, Finance and Administration, University Union, Belgrade, Serbia  
rkopilovic@feffa.edu.rs

**Čilardžić Vesna**

Faculty of Business Economy and Entrepreneurship, Belgrade, Serbia

**Grbović Marija**

Faculty of Business Economy and Entrepreneurship, Belgrade, Serbia

**Abstract:** *This paper examines the role of knowledge management in modern business. Last decades indicate this is the time of great and rapid changes demand of organizations to adapt them if they wish to remain or become competitive. The concept of knowledge management sets the requirement for the creation and exchange of knowledge within the organization, and holders of knowledge are employed. Knowledge management is the effective management of information within the organization, but also effective potential management and skills of employees. Knowledge is the most important capital of an organization.*

*For successful business organization, it is necessary to identify knowledge, develop and put into operation of the organization's objectives. Knowledge management in the organization is realized with the use of processes and procedures for the human resources management.*

*The aim of this paper is to show that knowledge into practice business organization is treated as a resource that is essential and that has to be improving in the function of creating new values. The effect of human resource management in the application of knowledge management program includes the possibility of sharing knowledge, training, and the ability to evaluate and reward employees. The main factor in today's economy are people, i.e. human resources, their knowledge, application, development, opportunities, job satisfaction.*

**Keywords:** *knowledge, knowledge management, human resource management*

### 1. INTRODUCTION

Knowledge is the most important development resource management in the XXI century, which causes the most dynamic and most profound changes in organizations. In the rapidly changing and unpredictable environment in which organizations seek to create and survive on a competitive advantage, knowledge becomes the decisive factor in the battle for market supremacy, and in creating and maintaining an organization's competitive advantages.

The modern era is referred to as a knowledge economy; it is characterized by the creation of additional value efficiently utilizing the knowledge of employees, and less financial as-

sets of the organization. The combination of knowledge and information opportunities for timely action creates. Knowledge together with the information and experience of employees converts into value on the market that organizations use for successful business. Knowledge economy is characteristic of the economy of the XXI century in which knowledge has become the main source and driver of economic development.

Any company that possesses the knowledge wants to preserve it and continue improving. To achieve this, efficient structures must exist in the organization that promote teamwork and information sharing, a strong leadership that encourages innovations and a culture that demands exceptionalism and ethical behavior.<sup>1</sup>

## 2. KNOWLEDGE ECONOMY

Knowledge economy means changing the value systems, change of management mode, changing the organizational structure and culture of the organization. Knowledge is a complex resource, and the fact that from individual should develop into ownership of the organization makes it special.

Knowledge management, including its improvement becomes the biggest challenge of today's economy. Connecting employees who possess specific skills and knowledge becomes imperative for managers in an effort to secure a sustainable competitive advantage. New type of business relationship requires the development of skills that emphasize independence, communication skills and ability to build and maintain strong relationships between employees. The time for decision-making is becoming shorter. The reaction rate of a company to the turbulence of the environment and its changes is a key factor in its competitiveness, survival and development.

Information and communication technology is embedded in interpersonal interactions and business transactions.

Knowledge has become not only a symbol of all of man's achievement, but every day gets new dimensions and meanings, so Peter Drucker marked modern society as a „knowledge society”. Drucker has pointed out in his research that modern organizations operate in a knowledge society. In such conditions, the basic economic resource is no longer capital or natural environment, but knowledge. Drucker believes that knowledge is the only significant source of organization, a means to achieve social and economic goals.

Knowledge is a collection of facts, information, and skills acquired thru education or experience, with the aim of theoretical or practical understanding and solving problems.<sup>2</sup>

Drucker states, „in the knowledge society the right investments are not those invested in machinery and equipment but in knowledge of skilful workers.<sup>3</sup> Knowledge has become essential in all areas of decision-making. It contributes to the development of individuals, companies and organizations. Basic characteristic of knowledge is dynamicity because it appears due to mutual interactions between individuals and organizations. Knowledge flow within organizations creates new value achieving competitive advantage, and therefore knowledge is the intellectual capital of the organization. Knowledge of an organization determines its economic strength and ability to develop other resources and increase

<sup>1</sup> M. Albijanić, *Intelektualni kapital* (Beograd: Službeni glasnik, 2011), 99

<sup>2</sup> Petkovic, M. *Organizacija*, (Beograd: Centar za izdavačku delatnost Ekonomskog fakulteta u Beogradu, 2010), 34

<sup>3</sup> Yi-Chun Huang, Yen-Chun Jim Wu, *Intellectual Capital and Knowledge Productivity*, 2010 str.4

the efficiency of their need.<sup>4</sup> During the last decades of the twentieth century an increase interest in knowledge as the only form that can guarantee winning the competitive advantage of the organization was recorded. Knowledge management is a new business model that manages all aspects of knowledge within the organization, including the creation, codification and sharing of knowledge and the impact of these activities on the promotion of learning and innovation. Knowledge management in practice refers to a set of business processes developed in association with the aim of creating, storing, transferring and applying knowledge. Knowledge management is a structural element of the organization, thereby increasing its ability to learn from its environment and to build knowledge into its business processes.

Under the knowledge management, we mean the conversion of individual knowledge of employees in the organization of the collective, organizational knowledge, which would be available, at the right time and in the right way, to all members of the organization at all its levels.<sup>5</sup> Practices that have contributed mostly to knowledge management are information management, quality management and human capital and resource management.<sup>6</sup> In the organizational context, knowledge includes routines, processes, practices and norms of behavior, shaped by a system of values, experiences, information, knowledge and skills with which the conditions for the application of new experiences and information create.

### 3. KNOWLEDGE MANAGEMENT

“Knowledge management is based on the idea that the most valuable resource of the organization lies in the knowledge of its employees.”<sup>7</sup>

Knowledge management is a set of professional skills, rules and experiences that enhance the ability of the organizations and encourage them to interact, exchange information and experience. The knowledge management process has a number of related and integrated parts that make up its life cycle: creation of knowledge, the conquest of knowledge, storing knowledge, knowledge sharing with others, and use of knowledge.<sup>8</sup>

The goal of knowledge management is that this cycle is effective and efficient. Organizational knowledge must be in forms that are easily accessible to employees. These are the documents, processes and policies incorporated into human resources, information technology and manufacturing process.

„Knowledge management involves the recruitment and use of resources in order to create such an environment that will enable the availability of information to individuals where individuals will be able to acquire, share and use such information to develop their knowledge and where they will be encouraged to apply this knowledge to the benefit of organization as a whole.” For the organization to undergo successful implementation of knowledge management and its activities, access to the establishment of knowledge man-

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<sup>4</sup> Krstić i Vukadinović, “Upravljanje znanjem kao izvor održive konkurentne prednosti”, *Ekonomске teme* br.3, (2008): 56

<sup>5</sup> Đorđević-Boljanović, *Menadžment znanja*, (Beograd: Data status, 2009), 20

<sup>6</sup> Đorđević-Boljanović, *Ključni faktori uticaja na efektivnost programa menadžmenta znanja*, (Beograd: Univerzitet Singidunum, 2008), 46

<sup>7</sup> Đorđević-Boljanović, *Menadžment znanja*, (Beograd: Data status, 2009), 17

<sup>8</sup> Masić, B. Djordjević-Boljanović J. *Knowledge management*, (Beograd, 2006), 36

agement must be of strategic character. Knowledge management is the process through which organizations generate value of their intellectual assets based on knowledge. Brileid and Herman defined knowledge management as „the adoption and use of resources in order to create an environment in which the information is available to individuals who acquire, share and use it in order to develop their own knowledge. In such an environment, individuals are encouraged to implement their knowledge for the benefit of the organization in which they work. „

Actuality of the knowledge management concept is significant if one takes into account that for the last two decades the original concept of management knowledge and its practical application experienced progress. A pervasive digitization, particularly through the influence of social networks is changing the traditional form of knowledge management. Employees within their organizations are willing to access data and knowledge with the same ease as they do outside of work. Knowledge management can make use of „smart” devices that are constantly available to employees and thus brought the knowledge the employee needs to transfer within the required time. The concept gets the topicality and importance of taking into account the fact that planet „is getting old” and that a large number of people leave the work taking with them knowledge which needs to be transferred to younger generations. Knowledge management is focused on intellectual capital management strategy, the development of knowledge, skills and competencies of people through education, training and employment and to gain employment and professional experience. Knowledge management is the process of using available knowledge in the production or provision of services, the integration of knowledge in documents and databases storing knowledge, the motivation for the creation of new knowledge, transfer and use of knowledge at all levels of the organization, as well as the creation of new values of the organization.<sup>9</sup> Knowledge management is a set of professional skills, rules and experiences that enhance the ability of the organization and encourage them to interact, exchange information and experience.

The goal of knowledge management is to make the cycle more efficient and effective. Organizational knowledge must be in forms that are easily accessible to employees. These are documents, processes and policies that are incorporated into human resources, information technology and manufacturing process. Knowledge management is increasingly gaining in importance, due to the fact that organizations can be competitive only if they have innovative ideas and strategies. For the realization of these strategies are essential to high-quality resources in the form of strategic managers. Modern organizations need resources that are valuable, rare and irreplaceable, and that cannot be perfectly copied, so the organization could be competitive on a global level.<sup>10</sup>

The end of the last century and the beginning of this century characterized a shift in the planning and the scope of strategic management. Top management of the organization is first faced with intensifying dynamic environment and a greater amount of knowledge that is needed and available, both in the organization and in its competitors. In these circumstances, it is necessary to include the practical management of organizational knowledge in the process of making strategic decisions. Bearing in mind the fact that knowledge management requires people to be bearers of the concept, while the managers will be

<sup>9</sup> Albijanić, M., *Strategijski menadžment*, (Beograd: Univerzitet Singidunum, 2013), 194

<sup>10</sup> Kastratović Edita, Dragić Milan, Ahmić Damir, Mrkić Tanja, „Strategijsko planiranje i strategijski menadžment“, *International journal of economics and law*, Vol. 3, No. 8 (2013):

faced with new demands. They are reflected in the increase of individual competence that each manager has, and overall managerial competence of an organization in a way that allows the successful management of different types of knowledge. The process of knowledge management in the organization and the process of developing managerial competencies are complementary and taking place simultaneously. The strategy of knowledge management means designed knowledge management in order to achieve competitive advantage associated with supported business strategy.

Knowledge management is to ensure that employees have the knowledge they need, where they need and when they need to, i.e. the right knowledge at the right place and at the right time. Knowledge management comprises three inseparable entities – people, technology and processes. This relationship is best explained by the fact that the main goal of knowledge management is to identify valuable and useful knowledge of individuals and that detailed procedures and processes extend through the entire organization. Knowledge management needs to improve the effectiveness of organizations by increasing intellectual specialization and ability to work the right things, to increase efficiency, reduce rework, improve a focus and eliminate work that can be automated.

„Applying the knowledge management concept in practice, organizations, generally speaking, strive to achieve two goals:

- The creation of new knowledge in order to accelerate innovation and obtain competitive advantages on the market;
- Sharing the existing knowledge in the organization to increase its efficiency<sup>11</sup>.

Each organization has a specific structure, objectives, modes of functioning, resources and processes. The implementation of projects, plans or knowledge, create a business solution to meet the needs of the organization. Applications of knowledge management are related to the objectives of the organization, and their purpose is to achieve specific results.

Effective knowledge management can be organized to provide greater productivity and efficiency and is an imperative for successful business. On the road to a knowledge society that modern civilization aspires to, the education system represents one of the main levers of development. Education should create the conditions so the society is innovation oriented, to constantly learn and be trained for entrepreneurial integration into cooperative structure of the modern world. Innovative organization, as part of the economic system in the era of scientific and technological revolution, has become a basic prerequisite of development and competitiveness.

In the changed method of managing an organization where the market accountability strengthens, in order to achieve market advantages, intangible „invisible” resource of the organization becomes the most important. Employees need to develop awareness of the value of knowledge and to constantly improve. Practical knowledge has particular importance. Only applied knowledge has value and ability to create value.

In the development and application of knowledge management, the manager’s role is crucial. Managers must to encourage employees to mutually share knowledge and experience, thereby achieving communication that is more effective and trust as the basis of cooperation. Through organizational learning, managers tend to heighten the desire and ability of the organization to understand the organization and its environment and the with the

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<sup>11</sup>Đorđević-Boljanović, *Ključni faktori uticaja na efektivnost programa menadžmenta znanja* (Beograd: Univerzitet Singidunum, 2008), 32

adoption of appropriate decisions contribute to the continual improvement of competitive position, to encourage training, education, and training employees, develop new methods, competencies, processes and products that are knowledge based. Knowledge management enhances human potential and allows employees to be more effective, they bring benefits to the individual level, but the effect is achieved at the level of the organization. Knowledge management includes the process of generating and disseminating knowledge which begins collecting data stored and processed in order to create information, which produce knowledge that are the basis for effective action. The advantage of applying the knowledge economy is the fact that knowledge, unlike physical goods, is an element whose value does not decrease with the time.<sup>12</sup>

In the battle to win a competitive advantage, organizations are turning to intensive knowledge they have. The need for continuous learning is indisputable because the changes are such that the knowledge gained yesterday, has less value tomorrow.

For the successful development of the concept of knowledge management and the overall organizational ambience, value system and the way we solve problems are essential. Applying the concept of knowledge management requires an appropriate organizational culture, with a system of values, beliefs, patterns of behavior that employees gain by working together. For the successful implementation of knowledge management, it is necessary to create organizational culture that will recognize, nurture and reward teamwork, trust and sharing knowledge among employees.

Knowledge management requires such a process of change in the cultural environment in which the organization will represent knowledge and the appropriate value will be the main criterion in all processes of management behavior and development of employees. The development of knowledge within the organization and effective knowledge management requires a combination of all the elements of knowledge management: people, technology and processes. None of these factors should not be neglected. However, often in practice the importance of people, processes and their initiatives are neglected.

Knowledge management involves a series of processes by which it creates, expands and strengthens the knowledge whose efficient management achieves organizational goals. For knowledge as the most important capital of the organization, it is necessary to develop an efficient management system that will lead to significant cost savings, increased productivity and achieving competitive advantage.

Establishing an effective knowledge management program involves the implementation of appropriate knowledge. At the direction to which knowledge management concept is moving to, the greatest impact undoubtedly, have the modern technologies where the essential role belongs to the social networks. They are based on the external environment, which in terms of knowledge management has its advantages, but disadvantages also. The exchange of knowledge and creation of new ideas through effective and efficient approach, on the one hand, and the need for continuous monitoring, on the other hand, represents a challenge for the management of organizations that promote the use of social networks in order to improve knowledge management.

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<sup>12</sup>Krmpot Vera, „New Economy – knowledge economy“, *International journal of economics and law*, Vol. 2, No. 4 (2012): 62

#### 4. RESUME

The importance of applying knowledge management is not only reflected in the increase of efficiency by dividing the existing knowledge, but in the successful creation of new knowledge. Thanks to expertise (know-how) many organizations are maximizing their market value in relation to the book value (e.g. Google, Yahoo, eBay etc.).

Knowledge has becoming the key factor for the creation of competitive advantage of an organization, because it allows the creation of added value for the organization. Due to the rapid changes that affect each organization, organizational learning has become a vital organizational process. Knowledge is a strategic resource that is not consumed during usage, but gains in value. Thanks to its knowledge, the organization is in a position to create an opportunity for improvement and to adequately respond to all business challenges. The growth of the market value of the entire concept of its existence based on knowledge justifies the importance given to knowledge in recent years.

Key potential in modern conditions become people with their knowledge and skills, while capital, labor and natural resources go into the background. Knowledge has become the key factor that gives the value to products and services, thereby creating additional value for the organization.

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