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**KNOWLEDGE AS A SOURCE OF COMPETITIVE  
ADVANTAGE  
IN KNOWLEDGE BASED COMPANIES**

Review

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***Abstract***

*Modern company in today's economy is no longer solely dependent on its tangible assets such as real estate, factories or facilities. Doing business in today's global economy creates new types of companies which are becoming increasingly dependent on their intangible assets such as information and knowledge. Today's new economy has become global and information driven, and the first time in the history of the organization theory knowledge becomes companies the most valuable resource. Knowledge affects the creation of new value in the company, but it also affects on the creation of new knowledge. The use of the Internet enables its distribution in the global context. Knowledge can not be fully diminished. On the contrary, the more being used, it increases, expands and deepens. Therefore modern knowledge based companies need to continually work on their knowledge-based strategy as a source of the competitive advantage. This paper discusses the impact of organizational culture on creation of such companies.*

***Keywords: knowledge, organizational learning, knowledge based company, competitive advantages***

## 1. INTRODUCTION

The globalization process affected many companies to realize the only way to remain competitive is to use the knowledge as a productive factor in some new ways. Contemporary companies are changing from work-intensive to knowledge-based companies (Alvesson, 2004). In the past two decades there has been a rapid rise in the use of knowledge as a production factor. Newer knowledge management theories point to the fact that modern companies are increasingly selling knowledge or incorporate it in their intelligent products. Rapidly changing market and fast changes result in increased speed of new innovations, lower product and services prices and shorter product life cycles. These facts require the company to continuously adapt to changing market conditions in order to make their business more efficient. To accomplish this goal it is necessary to mobilize all company's knowledge resources. Accessibility and availability of the capital is no longer a primary concern of supreme management, yet it becomes available and accessible information. Creating a new value is achieved by creating new knowledge and its exploitation. Intellectual property becomes the company's most valuable asset. Permanent competitive advantage is achieved through knowledge alone. This is particularly true, as Denison (1990) and Barney (1986) state, in cases where the company's knowledge is difficult or hard to be copied at all. Know-how, patents, personal and organizational networks, and specific organizational culture that fosters cooperation and knowledge sharing are such examples. Hertog and Huizenga (2000) argue that the company's ability to learn and its ability to use relevant knowledge in everyday business, and not to forget what is learned, is the greatest competitive characteristic of Knowledge-Based Company. The term Knowledge Based Company was first introduced by Jemielniak and Kociatkiewicz (2009), distinguishing these companies from work intensive companies. These companies are also called the Learning Organizations.

## 2. THE ROLE OF KNOWLEDGE IN THE COMPANY AND CREATION OF ORGANIZATIONAL KNOWLEDGE

As Nonaka (2007) noticed in his work *The knowledge-creating company* in today's economy where the only certainty is uncertainty, the one sure source of lasting competitive advantage is knowledge. But the question is what truly represents the company's knowledge. Among other things it includes patents, processes, technologies, capabilities, employee's skills and experience, information about customers, markets and suppliers. Knowledge has the ability to emerge in a concrete context and can not be viewed as isolated factor because it is related to individuals and often occurs on an unconscious basis (Alpeza, 2010). Although it exists in individual's minds, it also exists in the company because it is woven into the organizational culture. Knowledge is company's crucial resource when it comes to its environment adaptation and its ability to create innovation. According to the Resource

Based Theory (Gant, 1991) strategic resources are crucial for the company's ability to maintain competitive advantage. It's specificity and complexity results in the fact that knowledge can never be completely stored and separated from the individuals who actually own it. This problem occurs when trying to measure the amount of knowledge in a company. The experience teaches us; something that can not be quantitatively expressed, has little or no importance at all in the business world. Some companies call their knowledge *intellectual capital* or *knowledge capital* and develop new ways to quantitatively express indicators related to customers, associates, processes, innovations, and financial capital. The so-called Balanced Scorecard designed by Kaplan and Norton (2001) for the purpose of managing the company's value for money is one of the solution for this problem. Knowledge management thus has the goal to optimize the use of existing knowledge, develop and implement new products, business processes and business markets. If we draw parallel and compare knowledge with financial capital, we can freely say that by increasing the capital of knowledge, we constantly increase the company's value. The knowledge capital is not just within the boundaries of the company, but it "goes further" and passes on to customers, suppliers, partners and other stakeholders. Knowledge management therefore simultaneously encompasses the company's „outside“ and „inside“ opening so-called "entropy of the enterprise."<sup>1</sup> Knowledge creation is not the objective by itself but it serves to meet company's goals, or better to say to produce "knowledge-driven companies."

The company's adaptation to its business environment is considered to be the one of the key drivers of strategic management success (Buble, 2005; Hung, Yang, Lien, McLean, Kuo, 2010; Chakravarthy, 1982; Brandon, 2014) and organizational learning considers to be the fundamental way to implement its practice (Oppermann and Rasher, 1997; Frandsen, 2012). Learning is often associated with different aspects of advancement, in comprehended or cognitive changes (the mental process of interpreting feelings from the environment) and behaviors – both; present and future (Tsang, 1997; Huber, 1991). Therefore, it is commonly assumed that the organizational learning will improve the business (and others) results (Greve, 2003; Kim, 2003; Jiménez-Jiménez and Sanz-Valle, 2011). This implicitly implies that acquired knowledge is relevant to business operations. Edmonds and Moingeon (1999) describe two basic learning forms that can improve the business and work results; individual learning which is related to the development, change and/or adaptation of individual insights and their consequences (which primarily refers to the individual's behavior in the company) and organizational learning which is related to the entire company, viewed as a complete learning system, attributable to (individual) learning of it's members, but also to adjusting the organizational structure, plans and other company's organizational features. Learning results in creating new plans and influence on the new business features construction. Learning leads to new insights and a wider "repertoire" of available behavioral forms in the company. Therefore, the changes taking place in the company and it's adaptation to the environment are just repercussions of an effective learning. Better to say, without achieving "tangible" outcomes, no one could say learning is a function

<sup>1</sup>The Greek expression Έντροπή means "craftsmanship"

of improved work and operating company's results yet is the objective by itself and only individual's benefit of it. It is clear that, in successful companies, the intensity and complexity of organizational learning should be guided by the company's better performance nor by individuals prospers. Matic (2009) came to the same conclusion in his work "The Impact of Organizational Learning on Organizational Performance" when he tried to search the impact of learning culture in Croatian companies on their business success. García-Morales, Jiménez-Barrionuevo and Gutiérrez-Gutiérrez (2012) and Freeman, Eddy, McDonough, Smith, Okoroafor, Jordt and Wenderoth (2014) also came to the same conclusion. Obviously, learning is necessary because of the rapid changes in the environment, which the company has to adapt, and which implies the need for faster and more efficient development of new products and services. However, the very notion of learning can encompass various initiatives and forms of change and company's improvement, which is why learning from the early 1990s has become an interesting and frequently used concept of modern management (Dodgson, 1993). Some authors consider this concept so important and believe, without learning, it wouldn't be possible to make any changes in the company or improve its business. This particularly applies on the process of learning company's creation. This new concept was first introduced by Peter Senge (1997) in his book „The Fifth Discipline”. This kind of company is built up by using the set of principles that should be followed. All of them have the aim to encourage and stimulate the change in order to improve company's business. Thereby, a systematic approach is accepted, which implies the existence of certain company's legalities and internal policies and it's interaction with an environment. Although these changes could be difficult to adopt, they are not impossible. The companies need to develop new ways of thinking. It assumes new relationships within the system and change in "mental models." However, such a company can not be realized unless the greatest possible attention is paid to the promotion of individual learning and the development of human resources in order to create a culture where learning and change are commonly and widely accepted (Pedler, Boydell and Burgoyne, 1989). Theoretical guidelines differ when it comes to recommendations how to set up such a company. Some authors emphasize the importance of learning company's characteristics adoption, while others emphasize the importance of personal development in the company. The authors Marsick and Watkins (1999) in their scientific research tried to come up with a unique way to establish these two dimensions of the knowledge based company. They emphasize the learning dimension (continuous learning, dialogue, team learning, and organizational learning) and associate this dimension with structural changes followed by empowerment and effective leadership. These authors associate learning at the individual, team and organizational level in order to determine how effectively company learns to increase the amount of useful knowledge, resulting in increases in it's impacts or performance. They assumed that different management activities, especially those related to human resources management may have different impacts on learning and other forms of knowledge creation. However, the very unique characteristics of an employee, or a company as a whole, developed over a longer period of time, can affect on the effectiveness of learning, which is why the entire relationship between

individuals and the company as a unique system, can be “read” from its culture (Alfirević, Talaja and Praničević, 2014). Therefore, the internal organizational culture plays a key role in creating a knowledge based company.

### 3. THE ORGANIZATIONAL CULTURE AND KNOWLEDGE CREATION

The concept of the learning culture can be described (very generally!) as a set of values and forms of behavior that facilitate the learning mechanisms application (Popper and Lipshitz, 1998). The learning culture is a set of values, processes and practices that have a strong influence on self-sustainable and continuous learning in the company. One of the most important indicators of the strong learning culture development is the simple and easy information sharing among individuals within the company. From the company’s aspect, the concept of knowledge sharing represents a *“fluid mix of framed experiences, values, contextual information and professional insights that make the framework for the assessment and incorporation of new experiences and information”* (Đula, 2010) because it offers tremendous opportunities which supreme managers should not predict if they want to contribute to company’s competitive advantage. Knowledge thus becomes an initiator for transforming intellectual capital into business value. In attempt to achieve this goal, it is necessary to follow the basic steps in creating a knowledge based company; building a foundation (awareness, environment, leadership, empowerment, and learning), determining the implementation strategy (possible ways to develop a learning company: random access, subversive or stated strategy), behavioral changes (five core disciplines of the learning company: team learning, personal mastery, mental models, shared vision and system thinking). The learning organizational culture can not be created overnight. It is created in several phases beginning with foundation building, continued by defining the implementation strategy and ending with behavioral changes. The best example of this process is attitudes and values, business processes, and obligations that are built in company over a long period of time, slowly but steadily. However, some changes could be made immediately. If some company wants to become the learning company, it should follow these two steps;

The first step is to create such an organizational culture that will stimulate and encourage learning climate. Employees should have enough time for reflection and analysis, strategic plans reviewing, customer needs reviewing, current tasks evaluation, and new products design. It is difficult for them to learn if they are criticized and discouraged. Rushing and criticizing cause discomfort and frustration. If supreme managers provide employees with the time designated for learning and training, they will use their skills and learning abilities to be more productive.

The second step on the road towards building a learning company is the borders dilapidation and ideas exchange stimulation. The boundaries prevent the information flow; they keep individuals and teams isolated and intensify

prejudice. By borders opening, conferences holding and meetings, team's project forming that connect different hierarchical levels in the company or even different companies, conditions for creating a new climate are established. Business success depends on the viability and efficiency of the communication channels within the company as well as among other companies on the market. It is dependent on the company's internal culture and its structure, the employees work engagement motivation and their familiarity with the strategy and company's vision. Particularly the information technology development offers great opportunities for increasing the employees' capacity in processing and information sharing. Still, capacity utilization is largely dependent on employees' mental models and their view of the importance of collecting and sharing information. Creating organizational culture of freely sharing information and knowledge is one of the biggest management challenges today. Once when managers set up motivating and stimulating learning climate, so-called „learning forums“ could be formed. Such forums have aim to help employees learn about specific goals. Each of these activities requires employees to acquire new knowledge and apply them in the practice.

#### **4. THE LEARNING COMPANY AND ITS BENEFITS TO THE ORGANIZATION**

Although there are different approaches to define learning company, some common features could be identified. First, all approaches assume that a company is an organic entity and thus has the ability to learn and adapt. Second, a learning company is considered to be the company's response to an unpredictable and dynamic environment. Below is an overview of the most relevant learning company's definitions in the literature:

*„A learning company is one that continuously manages its learning process through an inquiry driven orientation among all its members.“ (Kim, 1999).*

*“A learning company is a company where organizational learning is the intentional use of learning processes at the individual, team and organizational level to continuously transform the organization in the direction that is increasingly satisfying to its.” (Dixon, 1994).*

*“A learning company is an organization that facilitates the learning of all its members and continuously transform itself.” (Pedler, Burgoyne and Boydell, 1991).*

*“A learning company is a company where people are constantly expanding their capacity to produce the results they really want, where new and expansive thinking patterns are nurtured, where collective aspiration is set free and where people are continually learning how to learn together.” (Senge, 1990).*

*“A learning company is the one that has established systems, mechanisms and processes that are used to continuously improve their own abilities, as well as the abilities of those who work in it or for it and to achieve sustainable goals - for the community and the community in which it is participating.” (Ichijo and Nonaka, 2006).*

Huber (1991) states some important facts derived from the definitions above. He indicates that the learning company is; adaptable to its environment, continuously improves its ability to change/adapt, develops collectively, as well as individually and use learning outcomes to achieve better business results. The same author describes the four essential features or characteristics that each company needs to develop if it wants to achieve smooth and successful adaptation to a changing environment. These characteristics are as follows; the ability to perceive change and action as a sign of change, ability to manage complex and interconnected systems from multiple stakeholders, the ability to experiment - not only with products and services, but with business models, processes and strategies as well and the ability to motivate employees. The basic justification for creating such a company lies in the assumption that in time of rapid changes in the external environment only flexible, adaptive and productive company will survive.

A learning company is not the ultimate goal yet it is more philosophy or attitude about what the company is and what is the role of its employees. Following this philosophy, individuals in the company are involved in identifying and solving problems, company allows experimentation that leads to the business improvement through the individual's personal abilities growth and development. In such company the focus is on overall quality, customer satisfaction and performance. Job and any other performance is achieved through teamwork and commonality. Learning company is characterized (Senge, 2014) by; strong leadership, horizontal organizational structure, empowerment, communication and information sharing, emerging strategy and strong organizational culture. Leadership, or supreme management, plays the most important role in building such a culture towards learning company. Leaders in the company should be, among other things, teachers, coaches and visionaries, and their role is a triple. They are involved in creating a common vision, designing the organizational structure and empowering and motivating employees. Horizontal structure implies the existence of teams, project tasks and network organizations. The team is given the highest responsibility. Empowerment implies more freedom for employees in using their knowledge and skills in, not only decisions making, but in general work too. Communication is open and information sharing is facilitated. The learning company strategy is, as already emphasized, the emerging strategy as it derives from the dialogue between employees, the exchange of views and ideas of achieving company's goals. As Dujanić (2007) emphasize, the strong organizational culture is the basis for adopting the learning company concept. This is fundamentally changed by the role of a manager whose career development in the company takes place horizontally rather than vertically, which means that managers are expected to initiate changes in their career rather than passively waiting for the safety of advancement and climbing hierarchical ladders. In order to transform a modern company into a learning company, supreme management need to implement the empowerment process, at all hierarchical levels. Through the process of empowerment, employees receive freedom in decision-making, gain more responsibility, and their work becomes more effective. They are responsible for taken actions based on their personal knowledge and skills. While traditional management is based on the hierarchy, power, and

control system, the employees empowering delegate's tasks, power, and assume responsibility for decision making and taken actions. According to Ellis-Stoll and Popkess-Vawter (1998), who have been studying employees empowerment, the process of self - empowerment begins by encouraging decentralization in decision - making. Employees in learning company are considered as a potential source of competitive advantage. Hence, supreme management wants to retain above average individuals in the company using various kind of benefits such as; job security and stimulative pay, profit sharing, ownership share and/or the ability to improve and acquire new skills. Increased emphasise is on the individual learning in promoting company's flexibility and willingness to respond on environmental changes. The learning company also places emphasis on communication, especially on information sharing. Employees, not just supreme managers, have valuable informations, as it was not the case in traditional companies. According to Maurer (2001), the transformation into the learning company is possible through the so called „open-book management“, which is a method that starts from the assumption people are doing their best when they have all information they need. In the learning company the accent is on the individual's participation in all business processes thus creating an atmosphere where employees are informed about all supreme manager's actions and decisions. Decisions making has been moved to lower levels. In those companies employees are not just workers. They are rather called associates and the differences between the managers and the employees role are less noticeable. There are numerous researches during the 1980's (Driscoll, 1978; Miller, Monge, 1986; Hrebiniak, 1974) which point to the link between employee involvement in decision-making process and workplace satisfaction. This resulted in fact managers were encouraged to involve employees in decisions making process. It led, that in today's modern business, as Argyris (2001) noted, it is not unusual practice that managers completely allow employees making decisions for the job they are responsible for. There are more and more companies where self-management teams are formed. In those teams employees, partly or even completely, work without interference of their superiors. Such empowerment through power delagating helps managers learn how to give up of their usual control while employees learn how to take responsibility for their job and taken actions. They all contribute in the development of businesses concept characterized by unique business processes and organizational culture which foster continuous learning (at all levels) creating, what is known in the literature as a learning company.

In modern business economy, it becomes increasingly apparent that knowledge becomes one of the most important competitive advantages. Possessing the necessary knowledge enables companies to respond faster and easier to environment changes as well as to successfully link their resources with their clients and customers needs. Numerous authors tried to link the implementation of the learning concept in the company with the company's business success. For instance, Vargas-Hernandez and Noruzi (2010) identified the existence of a positive relationship between intellectual capital and the concept of a learning company with the company's performance. The authors find out, among other things, that a company which applies this concept responds faster to environmental

challenges, and uses knowledge more effectively. This company links resources to customer needs, improves output quality at all organizational levels, accelerates the pace of change within a company, has a better corporate reputation and is more focused on people than on processes. If we try to consolidate the different opinions of different authors on the effects of introducing the concept of a learning company we come to the conclusion that the advantages of this concept are multiple. The advantages are; more successful adaptation to changes in the environment and an increase in innovation related to work processes, products and technology (Watkins and Marsick, 1993), encouraging leadership at all levels; positive leadership forms in managerial positions (Watkins and Marsick, 1996), ability to manage ever greater amounts of knowledge in the enterprise as well as open access to knowledge bases by employees (Garvin, 1993; Marquardt, 2002), satisfying the needs of existing customers, facilitating access and conquering new markets and increasing new customers (Slater and Narver, 1995; DiBella and Nevis, 1998), greater opportunities for personal and employees's professional development and encouraging use of novel knowledge and skills in innovative ways (Senge, 1990) and ability to improve company's performance (Ellinger, Ellinger, Yang and Howton, 2002). There are numerous examples, as Marquardt and Reynolds (1994) state in their book *The Global Learning Organization*, a large - scale companies in the world that started to adopt this learning company concept accomplish to achieve quality in sustainable organizational change using learning capacity for continuous growth and development.

## 5. CONCLUSION

Over the past three decades, there have been significant changes in the way companies operate. The business world is changing rapidly and the environment is no more predictive and stable as it used to be. Modern companies face pressure to increase their performance and learning inside organizations and organizational culture plays a crucial role in that process. The task of these new companies is to constantly seek for new ways of improving learning processes and creating such internal climate that promotes employees to learn and develop their full personal potential. This requires the flexible, learning and adaptable culture. Companies that succeed to develop this type of culture would be able to faster and easier adapt to changes in their environment. Creation of such a culture requires the supreme management engagement and unique leadership styles as well as the specific skills (Vrdoljak Raguž, Borovac Zekan, 2016). In order to remain competitive, companies should be familiar with the benefits of implementing learning company concept and the way to introduce it in their everyday practice.

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