

## KNOWLEDGE AS A KEY RESOURCE OF COMPETITIVE ADVANTAGE

Izv.prof.dr.sc. Đuro Horvat, email: [dhorvat@vsfp.eu](mailto:dhorvat@vsfp.eu)

EFFECTUS Finance and Law Study - College of Law, J.F. Kennedy 2, Zagreb,  
Croatia

Leo Ivanjko, email: [leo.ivanjko5@gmail.com](mailto:leo.ivanjko5@gmail.com)

MA, ANDBRA GmbH, 1120 Wien, Austria

**Summary:** The hypothesis is that in order to realize a competitive advantage based on knowledge, it is necessary to articulate the mission, vision and appropriate strategy and to determine the key activities of the company on the basis of them. They must be systematically supported by all business processes. The functioning of the core activities depends on a number of elements, in our opinion knowledge is crucial for creating new added value. Knowledge as a resource should be stored and new ones collected, and its generation within the enterprise, which is most often done in R&D departments, is necessary. These processes can only be successfully completed by competent staff. In this respect, it is necessary to articulate a policy of recruiting suitable talented staff. Experts need to be motivated appropriately and different tools and knowledge sharing and teamwork encouraged. This is accomplished with the help of an appropriate organizational culture to better say value systems. At the same time, a system of continuous professional development of employees that can take place inside and outside the company should be developed. Continuous generation of new practical knowledge and skills enables a successful policy of marketing new products or innovations. It is innovation that is better at saying new products and services, deciding to achieve sustainable competitiveness in the modern economy. Profitable functioning of the company's core activities is not only possible without the launch of new products and services, but also the continuous innovation of production and other processes.

**Keywords:** knowledge, competitive advantage, innovation, new added value

## INTRODUCTION

Large corporations in the world often market several thousand different products and services. One consequence of such a business policy is a complex organizational architecture with many intertwined processes. This organizational complexity makes it difficult to manage, slows down business processes, which ultimately results in reduced productivity. Moreover, too much structural diversification leads to a loss of focus on core business processes that generate the bulk of value added. At the same time, the rational use of organizational resources is drastically reduced, which ultimately results in a decrease in competitiveness. In this way, it is not possible to stimulate the generation of knowledge necessary for the development of new products and services, and the assumptions for articulating effective learning processes are lost. We can also see such organizational relationships in many smaller companies. The scientific methods of analysis and synthesis, the method of concretization, the method of classification, and the methods of description and compilation have been applied in the paper.

### 1. Managerial models

#### 1.1. Business reengineering

Managers have various management tools at their disposal to correct these organizational relationships with a view to making more rational use of organizational resources, including knowledge, to increase productivity and ultimately realize a sustainable competitive advantage. During the 1990s, reengineering was popular in the business world as a management tool that accelerated the decision-making and functioning of other business processes. Business reengineering is a business model that integrates processes with the help of

multifunctional teams, thus eliminating the separation of organizational units and their almost completely autonomous operation. This model concentrates on processes rather than the formal organizational structure that has been popular as an approach since the time of Max Weber and his bureaucratic model.

"Processes that have undergone reengineering are based on cross-functional teams of authorized workers, which will always be an abnormal phenomenon in traditional, functional, hierarchical organization,"<sup>43</sup> noted Michael Hammer and James Champy. They advocate the abolition of the traditional hierarchical organization, which, as an organizational model, was dominant for most of the 20th century. Therefore, it is not surprising that the subtitle of their book "Company Reengineering" is "Business Revolution Manifesto". By insisting on processes rather than formal structure, they created the basic preconditions for the affirmation of knowledge and competences as fundamental elements of value generation.

Process management focuses on competencies and knowledge and integrating them into the corporate value chain whereby multifunctional teams have insight into overall business policy and realize complex projects. This includes the dispersion of power within the organization, which is a prerequisite for autonomous teamwork. In doing so, there are certain problems characteristic of the project structure, one of them being, for example, the mutual communication of experts of different profiles in multifunctional teams. In contrast, the bureaucratic organization insists on division of labor and simple work operations, external control, and the perception of the business unit depends on the position on the hierarchical scale. Only

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<sup>43</sup> Hammer, M, Champy, J., (2004), *Reinženjering tvrtke*, Zagreb: MATE d.o.o.; p.180

top-ranked executives are comprehensively familiar with business processes and policies.

## 1.2. Outsourcing

In the mass industry, up to the 1960s, the concept of vertical integration dominated. It is a business model that has insisted on a vertical connection that, for example, ranged from extracting raw materials through production to marketing the final products to the end customer through its own trading network. This orientation required the engagement of a workforce of different profiles and increased production costs, which reduced productivity. Oligopolistic market relations facilitated the operation of such a model, which was most visible in the oil industry, and there were frequent attempts to collude sales prices.

However, over time, competition becomes more intense and globalization processes further exacerbate them. Improving productivity and ultimately competitiveness requires a focus on core processes performed by the top experts. This requires a focus that is blocked by engaging in supportive processes that are not of greater importance for value creation. As a result, such processes begin to be outsourced to the core businesses and can provide top quality and competitive pricing. This is one of the reasons for the concept known as outsourcing.

Outsourcing is applied for a number of reasons, such as enhancing the positive effects of reengineering, realizing business excellence, eliminating process-related managerial difficulties, improving corporate focus on core processes, reducing operational costs and reducing risk<sup>44</sup>. Externalization of individual production processes enables, among other things,

<sup>44</sup> Burkholder, N., (2006), *Outsourcing*, New Jersey: John Wiley & Sons, Inc.; p. 49-50

access to a workforce with specific and top-notch knowledge that is more cost-effective to outsource. This enriches the business ecosystem of the company and creates the conditions for continuous improvement of competitiveness.

## 1.3. Slim production

Lean production today is an extremely popular method of increasing competitiveness. This concept is also process-oriented and is a specific version of process thinking and process management. All organizational processes seek to eliminate time-givers and minimize organizational levels. In doing so, systematic attention is paid to the value creation flow that extends to suppliers and distributors.

To realize the maximum value from the available organizational resources, it is necessary to determine the target costs that will enable this<sup>45</sup>. Knowledge is a resource that permeates all processes and organizational units whose value is not diminished by use but grows. In addition to knowledge, this managerial template emphasizes the importance of experience and prescribed protocols of conduct that enable the accomplishment of work tasks in the shortest time.

The concept that preceded this model, which James P. Womack and Daniel T. Jones rely on, is just-in-time production originated in Japan. The timely production model eliminated raw material, semi-finished and finished goods warehouses, thereby increasing productivity and ultimately accelerating profit realization. The operation of these production methods requires the establishment of a quality control system that was not taken into account until the 1960s.

<sup>45</sup> Womack, J., Jones D., (2003), *Lean Thinking*, London: Simon & Schuster UK Ltd ; p. 35

## 1.4. A learning organization

It is a meaning-making concept that is also process-oriented, with special attention paid to the learning process, ie the exchange of knowledge and skills. A learning organization is an appropriate structural form of action in a dynamic environment that requires constant adaptation and correction of its own functioning based on others' and its own mistakes. This creates the preconditions for the effective functioning of innovation processes.

Particular attention is paid to individual learning and networking of individuals with diverse but compatible knowledge and skills. However, it should be emphasized that this individual knowledge and experience is directly linked to the realization of strategic and operational organizational goals<sup>46</sup>. In this way, individual learning is transformed into a strategic process and enables effective adaptation to market challenges.

Thus, learning becomes one of the fundamental organizational processes that significantly contributes to the creation of new added value. Therefore, investing in human resources is no longer treated as a cost that is characteristic of the mass industry, and it is considered an investment. This should be accompanied by innovative processes whose generator is talented individuals, without which it is almost impossible to achieve sustainable competitiveness in the modern economy better tell the new economy. The learning organization develops specific organizational values that stimulate risk-taking, knowledge sharing and affirm trust as one of the key components of organizational relationships.

## 2. Planning

### 2.1. Mission

It is a document that summarizes future business. Today, it is increasingly difficult to formulate long-term pursuits of a particular business, as not only breakthrough innovations are becoming more common, but also completely new technologies and scientific disciplines are emerging, such as genetic engineering, biotechnology, robotics, nanotechnology, biomedicine and artificial intelligence.

The mission of an oil company such as Royal Dutch Shell is to search for oil, produce, process and sell oil as well as a wide range of petroleum products from diesel to chemicals. However, the intense pursuit of alternative and renewable energy sources as well as the development of fusion technology will call into question Royal Dutch Shell's core business. A possible answer to these challenges, or threats, is for this corporation to become involved in the development of these new energy production technologies.

Therefore, the mission must be subject to adjustments and sufficiently broadly defined so as not to miss market opportunities. In the case of Royal Dutch Shell, the mission of the corporation should be focused on the production and delivery of energy, without regard to its specific phenomena, such as solar or nuclear.

On the other hand, the mission of the police is to ensure the security of citizens and the military to safeguard the established order and sovereignty of each state. This mission will be realized in about twenty years with completely new technological means, such as humanoid robots, but it will not affect the content of the mission of these civil services.

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<sup>46</sup> John, S, (2009), *Strategic Learning and Leading Change*, Oxford: Butterworth-Heinemann; p. 45-46

## 2.2. Strategy

The strategy is a military term and refers to the comprehensive planning of the possible action of the enemy, which determines both the preparation of the response to these threats and the planning of the conquest of enemy territories. The business vocabulary, especially the marketing one, is full of military terms because the mass economy was based on a market battle and even customer contact was treated as a front line. In the new economy, the importance of cooperation and joint ventures, which take many forms and are often realized by direct market competitiveness, has grown dramatically, which was unthinkable only a few decades ago. The main reason for cooperation and fiercest market competitors is the generation of new insights necessary to market new products. For example, several billion US dollars are needed to develop next-generation drugs, which is difficult for even the largest pharmaceutical corporations.

The dictionary describing relations in the new economy is also changing, and military terms are being abandoned and concepts in biology are increasingly used. Today, for example, the term business eco-system or intelligent organization has already become popular. Business organizations are understood to be living organisms that, through intelligence, are better able to tell knowledge evolutionarily and adapt to a dynamic environment. In such a business ecosystem, cooperation such as clusters and alliances is dominant in order to survive and develop together, although it should be emphasized that the market struggle has not disappeared but is taking place in a completely new context.

Today's business strategies must primarily focus on gathering and generating new

insights. For this reason, universities, research institutes and business organizations are increasingly strategically linked. These efforts greatly facilitate modern information technologies that enable the rapid exchange of information, the formation of databases and business platforms, but also the collaboration of experts on a global scale in real time.

Benchmarking is one of the methods focused on internal activities, functions and operations with the aim of their continuous improvement<sup>47</sup>. This managerial tool collects data and information from the organizational environment, which makes modern information technologies drastically easier, and at the same time enables computers to perform complex analyzes in a short time. A similar role is played by business intelligence, which systematically collects useful and meaningful information. These and other similar strategies have become a business imperative today.

In doing so, the information collected must be current and allow for timely and profitable action that will ensure earnings for all stakeholders<sup>48</sup>. In the new economy, it is necessary, among other things, to systematically monitor the results of the latest scientific research, as they find practical application at increasingly short intervals. Therefore, information and knowledge should be treated as strategic resources managed through appropriate strategies and management models.

## 2.3. Policy

Policies define the area within which to make decisions, ensure consistency of decisions with goals, and we would add

<sup>47</sup> McNair, C.J., Leibfried K., (1992), *Benchmarking*, New York: John Wiley & Sons, Inc; p. 1

<sup>48</sup> Friedman, G., et.al., (1997), *The Intelligence Edge*, New York: Crown Publishers, Inc; p. 50-51



with strategy and mission<sup>[49]</sup>. Modern companies, especially in the high-tech segment, must have comprehensive and well-developed methods of generating knowledge and new insights. Practice has shown that no company is able to independently produce all the necessary knowledge for organizational development, which must be specified in documents that will allow defining operational policies in order to eliminate this weakness.

Thus, many companies are articulating acquisition policies in the R&D segment as a component of realizing sustainable competitiveness. Internet companies, which are a specific component, and in some ways a trademark of the new economy, are no exception. Some analysts call the new economy the Internet economy, and we are witnessing the emergence of a number of huge Internet companies such as Google and Amazon. A characteristic of the new economy, that is, the Internet economy, is the fragility or vulnerability of the Internet organizational colleges, as they can be threatened by the original idea of a teenager, which can be realized without major financial investments. One of the Internet giants Facebook is also pursuing a policy of downloading original ideas that have the potential to become a strong market competitor. For example, Facebook managers in 2012 bought Instagram for \$ 1 billion, which at the time employed only 13 employees. Identical reasons prompted them to buy WhatsApp, a \$ 19 billion messaging platform, in 2014. At the time, WhatsApp had 450 million users and employed more than a modest 55 people<sup>50</sup>. In these business transactions, Facebook managers did not buy technology, but above all ideas that managed to attract a large number of users with their originality and quality. Generating new ideas in the

Internet economy can be relatively easy to turn into a big business, since they usually do not require large human, financial and material resources at first.

### 3. Human resources

Our hypothesis is that articulating managerial models, planning and defining a mission, strategy and policy in a new economy must first and foremost be based on knowledge and key competences. It is a platform for recruiting creatives and professional staff who need to be involved in the processes of continuous learning, improvement and innovation. We believe that this applies to all employees in the company who must at all times be aware of the strategic orientation of the company, which implies the openness of communication channels or the complete information of all employees. Only in this way can a company be competitive in the new economy.

In this context, we point to a relatively simple fact, as pointed out by David Hutchens, who says: "Organizations learn only when people learn. And when people choose to learn, they embark on a journey that will never lead them to a specific destination. True, on this journey, they embrace new ways of working and acting, and more importantly, new ways of living and looking at reality - changing worldviews<sup>51</sup>. Please note that this journey can only be realized with the help of sophisticated methods of motivation and work engagement that enables them to self-confirm.

Today, business practice and scientific analysis have proven beyond doubt that the generation of new insights and ideas requires highly talented individuals and

<sup>49</sup> Weihrich, H., Koontz, H., (1994), *Menadžment*", Zagreb: MATE d.o.o.; p. 123

<sup>50</sup> Keen, A., (2017), *Internet is not the answer*, Zagreb: Naklada Ljevak; p. 134-135

<sup>51</sup> Hutchens, D., (2011), "Outwitted wolves: a deeper insight into the story", *qLife*; No.1, Vol. III; p. 75

creatives. Members of this segment of the workforce are also referred to as players because they represent an elite capable of continuously creating new economic value through creativity, so recruiting them is better to say recognition is an essential prerequisite for the successful functioning of the basic processes of an enterprise in the new economy. They are a critical point in realizing the sustainable advantage of both David J. Collins and Michael G. Rukstad<sup>52</sup>. Creators also require the articulation of a specific organizational structure, and we believe that the pattern of the network is appropriate for affirming new organizational relationships characterized by creative chaos.

Such a way of evaluating knowledge and human potential has not existed in Croatia until recently. As an example, we refer to St. Marusic's book "Human Resources Management", which, when analyzing human resources, does not mention talented individuals or creatives but uses an egalitarian dictionary that averages employees and differentiates them primarily based on formal education and work experience. Such a way of treating the workforce has been prevalent until recently in our literature but also to a great extent in foreign literature<sup>53</sup>. With the development of the creative industry, which is today a respectable economic factor, and with the growing importance of innovation, terms such as talents, elite workforce or A players are increasingly used in professional terminology.

The concept of elite or selected individuals works in business practice. So, for example, Steve Jobs viewed himself as a special, chosen, enlightened individual. Walter Isaacson states: "Although Jobs's style was demoralizing, he was also strangely

inspiring. The original Mac team taught me that five-plus players like to collaborate with each other and are not happy about accepting four-figure work.<sup>54</sup> "In other words, above-average talented individuals like to cooperate with one another and do not like to cooperate with less talented employees.

#### 4. Culture

Effective generation or management of knowledge, in addition to the defined documents for their development and application, including the articulation of a stimulating organizational culture or value system. The broader social context also influences the formulation of corporate values but may not be crucial. In doing so, the new economy requires the affirmation of some new principles and mechanisms of motivation

Knowledge management, as well as its creation and sharing, takes place in informal organizational relationships. It is essential to eliminate all forms of external control and to strengthen confidence at all organizational levels and units. Managers become coaches who lead employees who are fully committed to the business, with an organizational culture that stimulates them<sup>55</sup>. Encouragement of creativity is often implemented through play, which, as a motivational mechanism, is extremely important for young generations.

The new economy in terms of workforce is characterized by the diversity of better said belonging to different cultures, religions and age groups, which ensures different aspects of looking at a specific problem, which is often the trigger for creativity and innovation. Collaboration and the exchange of knowledge and experience must be

<sup>52</sup> Collis, D., Rukstad, M., (2008), "Can You What Your Strategy Is?", *Harvard Business Review*, Number 4, Volume 86; p. 87

<sup>53</sup> Marušić, S., (2001), *Human Resources Management*, Zagreb: Adeco d.o.o.; p. 116-117

<sup>54</sup> Isaacson, W., (2011), *Steve Jobs*, Zagreb: Europapress Holding; p. 124

<sup>55</sup> Munro-Faure M., Munro-Faure, L., (1996), *The Success Culture*, London: Pitman Publishing; p. 162

imperative and should be systematically encouraged, as well as lifelong learning, better said training that must become intrinsic personal values. The value system should motivate entrepreneurship and take risks, and any failure should not be penalized. Failure must become the object of study in order to identify its causes and eliminate it in the future.

## CONCLUSION

The new economy, called various terms such as innovative economics or the internet economy, operates on new principles that are still in the initial stages of practical development and theoretical elaboration. Practice has already confirmed that knowledge is a pivotal component of realizing sustainable competitiveness in the new economy and must therefore be subject to strategic reflection to ensure all necessary conditions for its development. In this respect, creativity and appropriate organizational architecture are of great importance. Therefore, the basic hypothesis was confirmed because the paper established that in order to realize a competitive advantage based on knowledge, it is necessary to articulate the mission, vision and appropriate strategy, and on the basis of them it is necessary to determine the key activities of the company. They must be systematically supported by all business processes. The functioning of the core activities depends on a number of elements, in our opinion, knowledge is crucial for creating new added value. For the time being, this practice is most successfully implemented in developed countries, so it is essential to systematically analyze their business practices.

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