



The Role of Knowledge Based Economy On Business Institutions

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Abstract

A nation needs to be aware of the latest trends in the field of economy in order to be successful in the ongoing process of development to ensure maximum welfare of its citizens. In the modern world of science and technology, knowledge is the key word whether it is social life or economic life . Knowledge has taken up the key role in the deciding what is in store for a society and its people .Government, policy makers and educationalists have all the more increasing responsibility to ensure the best means of acquiring the required knowledge is imparted to the young generation who is the foundation of a nation's economy. Concrete plans and actions are the need of the day to prepare our people to meet the demands of the economic institutions and establishments. Knowledge Based Economy (KBE) have to pay prior attention for making investment in human capital and especially to business intuitions.

In spite of the importance of knowledge based economy now days to any institutions still there is a lack of knowledge among most of today's firms regarding knowledge based economy, therefore , this review paper will discuss and compare the extent to which literature to find out the role of Knowledge Based Economy On Business Institutions.

1. INTRODUCTION

In today's society, economy is not any more based on the conventional or traditional resources like the capital, The land or the physical labor. Knowledge has become the base . The knowledge is the resource. Modern companies are knowledge companies and the managers are knowledge managers. Today the success of a company depends on how corporate knowledge is appreciated. A company's ability to produce goods and services depends mostly on what it knows. The material assets are of no use to any company unless it knows what to do with it.

The knowledge based Economy has its basis mainly on three concepts. The first one is data – which is a set of fact to arrive at correct decision for a firm or an organization. The second concept is information which is derived from data. Data is transformed in to information when meaning is added to it by the creator. Information exists in the form of audio or visual documents. The third concept, knowledge, is derived from information. It is the sum of all the experiences gained and stored and information and values.

Knowledge is the basis of a knowledge based economy. Knowledge based economy is an anti-capitalist society where raw material derived from natural resources or the labor or the capital is no more of prime importance. It is 'knowledge' that is the most important resource in today's knowledge based economy- where generation and circulation of knowledge is the prime factor. What matters in this modern era is global influence and the speed of communication.

2. LITERATURE REVIEW

This section provides a theoretical literature as well as the realistic literature review of the study.

2.1. THE CONCEPT OF KNOWLEDGE BASED INSTITUTION

The newly defined approach of knowledge based organization takes in to account, the already existing theories, particularly the one based on organization founded on resources and the revolution of knowledge that is in progress now a days. The theory of knowledge based organization therefore looks at business association as a framework of markets of which the primary capital is knowledge.

An organization or business association will become much less complicated and much more adaptable. Optimum performance of a knowledge based economy can be ensured only by an appropriate implementation of knowledge and advancement of a new system. It can be accomplished successfully only by going through dynamic sates like re-evaluating and re-structuring periodically and careful evaluation followed by timely correction. The ultimate target is



the knowledge based Economy. The transformation is difficult. It needs real hard work. The route is often risky and unpredictable. But the result is promising.(12)

2.2. IMPORTANCE OF KNOWLEDGE BASED ECONOMY

In today's world the mankind needs long-term solutions to his basic needs. As the old saying goes "Give a man a fish, and you feed him for a day. Teach a man to fish, you feed him for a lifetime", has become quite true in today's world of economy. Provide the man with apt technology and market links, you feed him and his society for long. Using the new idea of knowledge economy, life seems to be promising and bright. The new idea of knowledge or intellectual capital are today's key to prosperity and success in business and industry. It has always been known that knowledge is very important for advance in industry and business. Knowledge dependent society or economy earned its importance and acceptance when a report was published by the organization for Economic Co-operation and Development knowledge Based Economies in 1996. Presently, economy based on knowledge is viewed as a substantial economic theory, worth pursuing although it has not proved itself as a substitute to the economy based on industry.(12)

For as long as ten years, there has been a great deal of efforts taken to present and propose knowledge based economies. But, both academicians and practitioners, the most people involved, consider KBE still as a theoretical concept for economic growth and wealth generation. However, day by day, KBE is turning out to be clearer and more specific. However, to be a fully realized fact, a very notable advancement has to be achieved.

There has been a conscious attempt from the part of a number of developing nations to establish themselves as knowledge based and have taken initiatives towards this target. The best examples are PRC, India and Malaysia. These countries have already drafted plans to equip themselves to fully utilize the advantages of mass-producing of knowledge. While the initial focus was on information and communication technology development, the present focus is on knowledge based development. It can be possible by countries only through the establishment and promotion of a concrete educational system set up on a strong foundation of research, information and communication technology, initial capital provision, network and rights to one's intellectual property.(9)

An increasing financial and economic benefit has been achieved from service industry than from traditional industries or farming, a trend that started in the early 20th century. Wealth creation through extracting and processing natural resources are gradually being out spaced by creating wealth through implementation of knowledge. Value creation by the means of human knowledge and creativity has steadily become important. The capacity of business corporation are no more attributed to their concrete assets but to their abstract assets namely, the knowledge. The knowledge content of goods and services are increasing and knowledge has largely become the repository value. Dramatic changes, differentiations and synergies are occurring due to the manner in which information and knowledge is acting as economic property. In numerable nations, domestic economies are developing in to a more knowledge based economy, relying on knowledge for productivity and growth. This knowledge era was largely unplanned. Nations, organizations and business men consciously or unconsciously were driven to it.(14)

2.3. NEW PARADIGMS FOR MANAGERS AND POLICY MAKERS

There has to be a revision in our attitude towards economy and development in order to understand and manage KBE

2.4. KNOWLEDGE AND INFORMATION

Knowledge refers to ability or capacity for effective actions. Knowledge is defined by Karl Erit as 'Capacity to act' and Ikujiro Nonaka of Yerox University of California defines knowledge as "Justified belief that increases an entity's capacity for effective action". For Peter F Drucker who is known as the founding father of management study, knowledge is information that transforms a thing or a person, a change based on more effective action. Fruitful information for creating results or value is knowledge. The difference between information and knowledge is that information is 'what is known' and knowledge is to know how something can be done or how something can be put in to action. Knowledge is an instrument that helps to create economic or social value. (13)

2.5. RECOGNITION AND MANAGEMENT OF THE INTANGIBLES

The conventional accounting system which records past transactions are insufficient to record financial details of organizations and business institutions which are established on foreseen returns in the future. An all-inclusive accounting system has to be invented in order to recognize and evaluate property and capital that are intangible. In the moderns knowledge based economy, creation and destruction of value is a long process, done through many months



and years. Today's accounting system takes in to account only the business dealings. A wider aspect to identify and assess intangible assets is required urgently. A new accounting systems to measure and evaluate intellectual capital is needed to be developed.(11)

2.6. STAKEHOLDER CAPITAL IN A NETWORKED ECONOMY AND SOCIETY

The knowledge management practitioners now recognize some factors that a society which enhances competent activity practices. They include both tangible belongings and three types of intangible assets. The tangible assets include machineries, tools, assets, money and savings.(14)

The Intangible assets are

- a) Human capital –Investment in education -Knowledge , skill, training and experience-talents needed to do something and works attitude.
- b) Structural capital – information, various backing systems, - the production process
- c) Stake holder capital – the sum total of the chin of relationships in the business world.

Stakeholder capital may be credited with the majority of the market value of an organization which functions on networks. Stakeholder capital has its basis on mutual confidence, honor and goodwill. Value creation through network and mutual confidence beneath the process will be highly decisive in international success as global and national economics are becoming more and more networked.(6)

2.7. VALUE DRIVEN DEVELOPMENT

Technology has played a major role in the number of global changes that has taken place since the early 1970s. The introduction of computers, internet and speedy communication have dramatically transformed the scenario of trade, power and life in the society. In a ICT driven development – the order of value creation is the opposite of what normally was. First come the ICT hardware followed by knowledge content and then by value creation at the end. But what is surprising is that only a minor portion of the organizational knowledge is managed by ICT.(1,14)

2.8. CONSIDERATION TO TACIT KNOWLEDGE

Tacit knowledge is knowledge that is not recorded, which is inherent in human beings and ingrained in unofficial work process or gained by contact at work outside. This kind of knowledge is of great importance for an organization for three reasons.

- a) It attributes to more than seventy five percent of all the organizational knowledge.
- b) The utmost type of knowledge like proficiency and skills belong to this category and
- c) Focusing to this is of much importance in aiding the early phases creation of novel items

2.9. FOUR PILLARS OF KNOWLEDGE BASED ECONOMY

Formation and definition of KBE vary and an apt model could be different for each country. A commonly accepted KBE replica has been recommended by the World Bank which pin points for pillars of KBE

2.9.1. EDUCATION FOR SKILLED WORK FORCE

The demand for human capital has increased very rapidly. The steady improvement of social and economic sectors rely more on construction and implementation of innovative ideas and knowledge. Research on economic growth over a long period of time in the 20th century, brings to our attention that human capital has grown most rapidly when compared to other factors of production. The percentage of profits to stakes in education and training shows a steady upward growth. The knowledge economy is bringing forth a rapid change in the labor market demand around the world. A more creative and innovative work force is need for both the established industries and emerging industries. There is a high demand for investment in education - a system of education that can encounter the transforming proficiency and expertise requirements. There is a need for strengthening the relationship between education and high-tech scientific knowledge which can be attained by relevant policies and establishment of novel, research oriented academic establishment. (1&3)



Knowledge Based Economy demands for an increased production by a smaller group of employees. They must be competent in creativeness, responsiveness, productivity and be able to adopt to a fast changing environment. Along with Infotech capabilities, the employees must possess the knowledge to look for and get the needed information at the right place in the right time. The workers must possess the capacity for critical thinking, problem solving, and constant learning and upgradation, effective communication and independent and team work. Critical skill for 21st century according to the ‘International Commission on Education’ are as follows. (2)

- a) We are learning in order to do things in our life.
- b) We are learning to achieve our goals in life.
- c) We are learning in order to relate things .
- d) We have to learn to learn many more things.

Although professional and social skills are presently handled by academic establishments, there is a call for new teaching strategies to impart new set of crucial skills that is required by the new economy. The teachers role as the sole source of knowledge in the traditional education system where the teacher imparts knowledge to the student must change. The teacher must serve as a promoter or coordinator where student learns how to acquire knowledge. The teacher must be facilitator who guides the students to enable them to choose the right way to obtain the right information and knowledge. (8)

2.9.2. NATIONAL INNOVATION SYSTEM

The national innovation system refers to “a subsystem of national economy in which various organizations and institutions interact and influence each other in carrying out of innovative activity. NIS has the duty to give a clear picture of a nation’s modernization process which include the education system, motivation structure, co-operation and communication and the relationship between various agencies engaged in the modernization course. Innovation and improvement in technical field is a result of a complicated relationship between various agencies building, obtaining, circulating and administering different types of knowledge. The prim players in the field are universities, research institutes, private enterprises, technical parks and financial institution. Governments have a crucial role to play as they facilitate coordination and link between all modernization and introduction of new methods and ideas, by diverse players in the economy. Interacting for the purpose of Research and (14)

2.9.3. BUILDING NETWORKS

Complicated interchange of struggle and co-operation among players in the economy is the characteristic of modern economics. Acquisition of modern and emerging technologies are decisive in their everyday success. This demands for breeding and accepting systematic knowledge and latest technologies. This raises the need for as vast co-operation and exchange of information with significant counterparts around the globe. ICT cater efficient acquisition, holding, stocking and circulating and using regional as well as external knowledge on an international level. The ICT revolution has increased the pace of research and decreased the expenditure to flourish devices and mechanisms for research. In business, networks provide opportunity for borderless transactions in a very short time. Global financial transactions can be done in seconds.

ICT also facilitates diverse circumstances for scientific and modern learning and education. Students can choose not to go to a college or educational institution and learn at the comfort of their home with the latest online courses and virtual classrooms.

In order to set up ICT, a relevant administrative and legal support is very necessary and is one of the basic requirement to attract private sector to ICT zone. Also educational and training has a vital role to play in the success of ICT as it requires willingness and resources. (9&14)

2.9.4. SETTING THE POLICY AND REGULATORY ENVIRONMENT

A swift advancement in technology is making some laws and regulations out of date. The government ought to act wisely and quickly to cope with the rapid technological developments. Government must act quickly to provide liability, accountability, rights to one’s property and proper maintenance of rules and laws – in order to entice business venture, bring down the cost of business dealings, and maintain economic progress. There is an urgent requirement for creating legal atmosphere to develop trust and confidence between business establishments and consumers as there is a shift of commerce towards a more online transaction. Monopoly or oligopoly in the field of communication network, Social



media and other service sectors must be strictly dealt with by the concerned parties as such trends will direct lead to shoot up the costs involved in business.(9)

3. RESULTS , RECOMMENDATION AND CONCLUSION

The world has seen a stunning advancement in the field of business and trade in the past few decades. Business institutions and trade organizations have been trying their best to implement novel ideas and techniques in order to be in the fore front of business. A quick glance at the companies and business firms that fare well shows that they are the ones who have realized the importance of a knowledge based economy. Startups as well as the established companies must consistently try to make use of the latest trends in a Knowledge Based Economy in order to make sure of an acceptable place in today world of competition. They should be vigilant enough to make sure that their employees undergo constant learning and up gradation. The companies must realize the importance of investing more money for education and training of its work- force to meet the demand for a more creative and innovative team of employees who can readily cope up with the advancement in the modern world of business and trade. It is high times for educational institutions and business firms to work hard in hand so that educational institutions are also to produce the apt type of employed needed by business institutions.

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