

## Business strategies within the knowledge economy context

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**Abstract:** *Competitive strategies in the fast-changing information economy are distinct from strategies in more traditional sectors of the economy.*

*Today, the reason the entity must consider their intangible asset is because it supports and gives coherence to the strategy itself, and if strategically exploited can be a source of sustainable competitive advantage through time.*

*Strategy deals not just with the unpredictable but also with the unknowable. Consequently, the essence of strategy is to build a posture that is so strong, but in the same time, potentially flexible in selective ways that the organization can achieve its goals despite the unforeseeable ways external forces may actually interact when the time comes. The essence of strategy formulation is to deal with competitors. However, goal development is an integral part of strategy formulation.*

**Key words:** Business strategies, the SWOT analysis, knowledge economy, knowledge society, the innovation economy, competition, competitive.

### Role of Enterprise Strategy

Ever since the days of Adam Smith's "indivisible hand" the idea that a free and decentralized market economy will generate

a socially optimal allocation has been alive among economists.

Obviously the successful businesses are those that are able to well-formulate their strategies (Grant, 2005) for innovations or op-

erations; after this, implementation and measurement follows.

Strategy is the way in which a company orients itself towards the market in which it operates. It is a plan formulated by a company to gain advantages over the competition. There is a central strategic issue: why different companies, facing the same environment, perform differently?

Successful companies are those that focus their efforts in a strategically way that's why strategy should be a stretch exercise, not a fit exercise. It is a necessity for every company to have a successful strategy that must add value for the targeted customers over the long run by consistently meeting their needs better than the competition does.

In the mean time, every strategy has to answer to some questions, like these one:

- what are the sources of the company's sustainable competitive advantage?
- how a company will position itself against competition in the market over the long run to secure a sustainable competitive advantage?
- what are the key strategic priorities?

Strategy is an agreed-on guide to action that should lead business to success in the marketplace by satisfying customer needs better than the competition does.

### New Goals for Strategic Planning

Our days are characterized by a business environment of rapid changes, heightened risk and uncertainty. That why is critical to develop an effective strategy. Executives must be prepared in order to face the strategic uncertainties ahead and serve as the

focal point for creative thinking about a company's vision and direction.

However a lot of companies get little value from their annual strategic-planning process, which should be redesigned to support real-time strategy making, to encourage creativity and so to meet new challenges.

To make sure that decision makers have a solid understanding of the business, its strategy, and the assumptions behind that strategy, a good way is **to build prepared minds** which must to respond swiftly to challenges and opportunities as they occur in real time. So, **to increase the innovativeness of any company strategies** it's important to provide a strategic focus that creates culture for and drives strategic creativity.

### The SWOT Analysis

One of the most common and popular framework to formulate strategies for the business units of an entity is the strengths, weaknesses, opportunities and threats (SWOT) analysis.

Frequently utilized even though in an intuitive manner and without knowing its technical definition, with the SWOT analysis an entity may obtained benefit. This kind of analysis is like a tool which allows us to know the real situation of the entity as well as the risks and opportunities that the market offers.

The SWOT analysis means: **S**: strengths; **W**: weaknesses; **O**: opportunities; **T**: threats.

The strengths and weaknesses are meant to be within the internal side of the entity. The threats and opportunities are always the external side of the entity.

Within the context of the knowledge economy (KE) and given the continuously changing times, it is believed that this analysis is insufficient to formulate a reliable, robust, and flexible strategy that takes into account the intangible assets of the entity as the departing point.

The core industries in the new information economy are characterized by imperfect competition, asymmetric information or external effects.

Competitive strategies in the fast-changing information economy are distinct from strategies in more traditional sectors of the economy.

Today, the reason the entity must consider their intangible asset is because it supports and gives coherence to the strategy itself, and if strategically exploited can be a source of sustainable competitive advantage through time. For Teece et al. (1997) the entity's strategy should be formulated considering the most fundamental aspects of the entity's performance, i.e., intangibles resources and capabilities.

Hall (2000) has incorporated a particular type of intangible asset, **e-capital**, into an extended model of technology and productivity growth in order to explain how the stock market boom simply reflects the market value of this e-capital. In Hall's model **e-capital** is defined as *the general business methods based on computers*. This e-capital is exhibited in the body of technical and organizational know-how created by well-educated human capital.

Going a step farther the SWOT framework does not encompass a deep scrutiny considering the information provided by, for example, a business intelligence process. This implies that the competitor analysis might be

short-sighted and as a consequence, useful pieces of needed information might be missing.

For Mintzberg et al. (1996), effective formal strategies contain three essential elements:

1. The most important goals (or objectives) to be achieved.
2. The most significant policies guiding or limiting action.
3. The major action sequences or programs that are to accomplish the defined goals within the limits set.

Since strategy determines the whole direction and action focus of the organization, its formulation cannot be regarded as the mere generation and alignment of programs to meet predetermined goals; the essence of strategy formulation is to deal with competitors. However, goal development is an integral part of strategy formulation.

Strategy deals not just with the unpredictable but also with the unknowable. Consequently, the essence of strategy is to build a posture that is so strong, but in the same time, potentially flexible in selective ways that the organization can achieve its goals despite the unforeseeable ways external forces may actually interact when the time comes.

A well-formulated strategy gathers and allocates the organization's resources into a unique, viable, and winning posture based on its relative internal competencies and pitfalls, anticipated changes in the environment, and contingent moves by its competitors. The strategy states how the entity will be better than its competitors and how effectively deploy its resources to achieve this end. The strategy itself frames the organization's major goals, policies, and action programs into a coherent unity.

Last but not least a well formulated strategy will consider (include) a flexible position as a key issue.

The dynamic capabilities (Teece et al., 1997) approach assumes the exploiting of existing internal and external firm specific competences to address changing environments. They are named dynamic because of the naturally given characteristic of evolving (renewing) through the environmental (internal and external) changes. They are called capabilities because they stress out the point of strategically managing, adapting, integrating and reconfiguring the internal and external skills, resources (tangible and intangible) and competences to face efficiently and effectively the continuous evolving environment.

Barney (2002) defined a strategy as an entity's theory about how to compete successfully. Under this view, successful strategic theories address four aspects of the setting within which an entity operates:

- 1) An entity's strengths.
- 2) Its weaknesses.
- 3) The opportunities in its competitive environment.
- 4) Threats in that competitive environment.

It can be thought of these four aspects as a SWOT analysis.

**The direction and scope** of an organization over the long term, which achieves advantage for the entity through its configuration of resources and activities within a changing environment and to fulfill stakeholder expectations for Johnson and Scholes (2002) is a **strategy**.

As a consequence the business unit strategy is about how to compete successfully in particular markets.

### The New Information Economy and its Strategic Instruments

For firms operating in the innovation-intensive core industries of the new information economy the timing for the implementation of irreversible investments, like the adoption of new technologies, represents a crucial strategic instrument, the importance of which is emphasized through the presence of network effects. Typically this type of irreversible investments has to be made in the presence of a substantial degree of uncertainty.

According to Grant (2005) strategy is not a fully depicted plan; instead it is a unifying logic that gives coherence and direction of the actions and decisions of an individual or an organization. He claims that a business strategy is concerned with how the entity competes within a particular industry or market. If the entity is to prosper within an industry or market, it must establish a competitive advantage over its competitors. Hence, this area of strategy is also referred to as competitive strategy.

The new economy is bringing the challenge of leadership to the fore. Firms need to change their business models their products, markets, distribution channels, organizational structures, cultures, and more. This revolutionary change can occur only when everyone in the company becomes involved in the strategy.

The creative process will point out winners and not-winners in the global marketplace; the winning firms will be those that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively coordinate and redeploy internal

and external competences (Teece et al., 1997). Conversely, those firms that cannot achieve this will, at best, be followers.

### The concept of Strategy in the Innovation Economy

In the innovation economy, human imagination becomes the main source of value. The critical challenge for any company in the knowledge age is to create a climate where innovation is prized, rewarded, and encouraged. Growth in the innovation economy comes from small and medium-sized businesses rather than large corporations or governments. *The new economy required educational systems that teach and motivate students to learn and be creative, rather than recall information.* Governments and regulatory frameworks must help liberate the human spirit for invention and creation.

Strategy can be succinctly described as an abstract concept. It enunciates a general vision of the business environment of the entity. This implies to plan, direct, coordinate, and execute. It considers incomplete and uncertain information. Strategy requires strategic feedback for a better strategy re-formation. It establishes objectives and socially responsible policies for the entity. Answers the question: in which businesses must the entity engage?

Strategy gives sense and coherence to the direction the entity must take considering its internal environment, resources and capabilities, and its external environment, unknown and hostile. It indicates the tactics to fulfill in order to accomplish within a time frame the objectives previously established.

It is a systematic way of thinking and acting.

Occasionally the strategy can be exchanged with the goals. The strategy revolves in a complex environment. It is a process that does not present immediate and tangible results; however, it is costly in terms of time and resources (human and economical). Strategy must be a process with both, a flexible and enduring posture. It should be focused on the business processes, especially if its role is to establish how to gain and sustain a competitive advantage to face competitors. Strategy also seeks to establish and rank strategic projects.

Nowadays, the traditional way of seeing and understanding the economy has changed. The traditional resources, meaning: work, property and money spending, which used to be the prime sources of wealth have dramatically changed to a knowledge economy. An **economy based on knowledge**. Therefore, *those companies that harness, produce, and utilize more intelligently the available knowledge, will gain a sustainable advantage.*

In order to make the real options approach particularly useful as a way of modeling competition in the new economy, it needs to be generalized in two important dimensions. Firstly, in order to analyze industries where firms in possession of market power compete with each other we ought to incorporate imperfect competition so that there is strategic interaction between the adoption decisions of competing firms. Secondly, in order to capture a complementary system and network effects we should incorporate benefits from adopting a new technology when competitors also do so.

### The Knowledge Economy and its Specific Characteristic

In the knowledge economy (Foss, 2002), authority relations will continue to exist as efficient coordination mechanisms, defining the limits of entities in terms of asset ownership is entirely meaningful, and complementary relations between coordination mechanisms will obtain, so that transactions will tend to cluster in discrete structural forms (i.e., governance structures).

In the **knowledge economy** (1995 to date), the best strategy is to invest in connecting power. Competitive advantage accrues to those who invest more than their competitors to connect to more people and share knowledge faster and farther.

One important role for science is collecting, defining, categorizing and classifying knowledge (Hubka and Eder, 1996). It includes finding relationships, structuring, and systematizing. This is because the main issue that distinguishes science from practical, everyday work is the rigor of its methodology (Andriessen, 2004). Human creative imagination gives an important direction for science. Given the importance of science it has to be a point of reference from where the structure of theories and models, new or existing ones, is to keep on blooming. It sets the ground from where the theory and its corresponding model are going to be constructed.

Thow (2003) believes that the value of information and as a consequence knowledge in the organizations will be high because of the globalization of the world's economies and the transformation of the industrial economies into knowledge economies. Not too long ago, information was rarely regarded as an asset to business operations. Our days

few managers can afford to ignore the importance of information, and in particular, of knowledge. Knowledge is now managed as a critical resource, similar to capital or materials. This is for real because information is more than a normal physical resource; it is a conceptual resource that can help to bind or break organizations. However, while information plays a role in knowing, it is worth highlighting that many organizations are plagued by poor-quality information, which can have a negative impact on knowledge-based activities (Peppard, 2005).

Another important aspect of knowledge in a "new economy" is its specific characteristic as a factor of production that has grown in importance in relation to the other factors of labor and capital (Evers et al., 2004). Whereas other goods are succumbed to the law of diminishing returns, with knowledge happens the opposite, i.e. it actually experiences rising marginal utility. The more expert a group of consultants or an organization knows, the more valuable they become the individual pieces of knowledge; or to put it differently: knowledge is needed to utilize knowledge effectively.

### The Knowledge Economy as a Distinctive Form of Learning

Generally speaking, vertical or horizontal integration tends to be pro-competitive as long as the decisions of firms are strategic complements in markets with imperfect competition. Further, mergers or strategic alliances can be expected to promote innovation activities which make use of complementary system components to create new products or new value-creating combinations of existing system components. In this respect increased concentration tends to enhance the

innovation performance of industries. On the other hand, increased concentration enables firms to exploit bundling strategies in order to extract the increased willingness of consumers to pay for more integrated bundles of products or services.

Tracey et al., (2004) believe that the knowledge economy is a distinctive form of learning utilizing intellectual capital in mutually reinforcing institutional environments.

So it can be concluded that in the knowledge age organizations will learn, remember and act based on the best available information, knowledge, and know-how (Dalkir, 2005).

### The Knowledge Society

**Knowledge society is much more than informational society and informatics society.** Actually, the last two mentioned ones are included in the knowledge society. From the moment when Internet intervenes, with its great advantages (e-mail, electronic commerce and electronic transactions, Internet market), by including in the electronic information area as many citizens as possible, the shift is made towards informational society. Knowledge is meaningful information and acting information. That is why knowledge society is not possible unless connected to information society, of which it is inseparable. In the same time, it is much more than informational society by the major role of information – knowledge in the society. The best meaning for knowledge society is probably that of **informational and knowledge society**.

The name of knowledge society is nowadays used worldwide. This name is short for knowledge based society.

Entities develop and maintain competi-

tive advantage because the ability to continuously improve, innovate, and upgrade their competitive advantage through time. *Upgrading* is the process of shifting advantages throughout the value chain to more sophisticated types, and employing higher levels of skill and technology. Successful entities are those that improve in ways that are valued not only at home but elsewhere. *Competitive success* is enhanced by moving first in each product or process generation, provided that the movement is along a path that carries evolving technology and buyer needs, and that these early movers continuously upgrade their positions rather than rest on them.

This theory assumes that entities have considerable discretion in relaxing external and internal constraints.

*The implementation of competition policy* might in general be more difficult in the core industries of the information economy than in “traditional” industries. In the new economy the competition policy concepts and instruments always need to be modified so as to fit not only traditional and static views of competition, but also the dynamic features of competition in the high-tech network industries. Similarly, antitrust evaluations of switching costs are bound to be industry-specific. If long-run competition in the form of introductory offers or commitments to loyalty programs represents the empirically relevant type of competition switching costs seem to imply no major antitrust concerns.

As we can see, technological progress, network externalities and international competition all represent disturbances relative to the common wisdom outlined above. With the *innovation intense competition typical for the information economy*, innovation is increasingly driven by firms that win temporary monopoly

power, but enjoy it only for a moment before being replaced by a company with a better product that itself gains a short-lived monopoly position. This suggests that the information economy may feature more monopolies than the traditional sectors of the economy, but that these monopolies may harm consumers only for a limited period of time. Indeed, if these market dynamics encourage innovation, consumers might actually bene-

fit from the dynamic efficiency generated by high market concentration. Analogously, the presence of network externalities offers additional strategic instruments whereby incumbent firms might be able to abuse dominant market positions. Finally, the presence of export revenues in imperfectly competitive international markets, in its turn, means a shift in the tradeoff between consumer and producer interests.

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