

## INTERCONNECTION BETWEEN KNOWLEDGE MANAGEMENT AND INNOVATION - AN OVERVIEW OF GOOD PRACTICES AT HOME AND ABROAD

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### **Abstract:**

Today, we have witnessed frequent debates on the knowledge and knowledge management, which, however, does not derive only from academia, but also by companies, which are increasingly aware of the importance of knowledge for business success. Awareness of the importance of management skills definitely rise, because he has become a very common topic of conversation within organizations. Business leaders are increasingly aware of the importance of sources of knowledge that have a viable interest in the company, especially is the knowledge important for long-term existence of firms in a competitive market, in the 21. century. Companies that strive for increasing performance, are all the more innovative. The product or service must be made according to the desires of the customers and they must represent the best solution for their problem. In the conceptual paper, with an overview of good practices at home and abroad, we show the interconnection of knowledge management and innovation.

*Keywords: innovation, knowledge management, good practices, Slovenia, foreign markets*

## 1. INTRODUCTION

More than ever in times of financial crisis, which is still present in many parts of the world, important in the enterprises to develop new products. Only with new products, companies can retain their competitive advantage in the market and increase revenue and profit. However, we must at this point ask the question whether the companies have the opportunity and resources for the development of new products. Certain sectors in the economy, especially those based on new technologies or operating on the global market, are exposed to frequent changes and activities within the organization, which requires more and more creativity and innovation (Lee et al., 2013, 849). In a rapidly evolving global economy, innovation has become one of the key success factors. Global economic growth has changed with the speed of development of innovation, which has become possible with the help of evolving technology and the shorter life cycle of products and services (Godicelj, 2014; Vukasovič and Godicelj, 2014). As already mentioned, globalization force companies to increasingly more innovative, as are the competitive products increasingly accessible to the buyer (Fatur and Likar, 2009, 9). Creation, evolution, exchange and application of new ideas in the marketplace of products and services leading to the success of the company, the national economy and the satisfaction of the company (Goh, 2005, 7). Innovative companies are the drivers of economic and social development, these companies have the possibility of penetration on the foreign markets and the long-term prospects for success (Rašič, 2008, 13). Often happens also, that the companies have a certain expertise, but these skills due to the lack of organization in the company do not know how to use to such an extent that it would develop a new innovative product. Them in this can be developed for the knowledge management in the company as much, if not even crucial help (Vukasovič and Godicelj, 2014).

In the article, with an overview of good practices at home and abroad, we show the interconnection of knowledge management and innovation. We find that the number of innovations grows with the amount of knowledge in the company. Innovation help owners and officers in companies that will be easier to understand, how important is the management base for the development of new ideas and the introduction of innovation in enterprises. Also recognizing the importance of processes knowledge management in enterprises for the development of innovation. Components, such as the acquisition and dissemination of knowledge and the response to it, have a direct impact on innovation in the company (Godicelj, 2014). The content of the present contribution is an in-depth discussed in the article Pomen menedžmenta znanja za razvoj inovacij v slovenskih podjetjih (Vukasovič and Godicelj, 2014). In the next part of this conceptual paper we will fokus on the role of innovation in the performance of the companies and on interconnection between knowledge management and innovation. We will describe good practices at home and abroad.

## 2. THE ROLE OF INNOVATION IN THE PERFORMANCE OF THE COMPANIES

Various studies have shown that the greater the innovative capacity of enterprises, the greater is the competitiveness on the market (Rašič, 2008, 35). Innovation is the source in the company, that it is impossible to replicate and it is for this reason, organizational capital or large competitive advantage over other companies (Lee et al., 2013, 848). Lofsten (2014, 79) in its survey, carried out within the Swedish medium-sized enterprises, notes that the presence of innovation processes in the company have a positive impact on the performance of companies, says that companies that invest in the investment and development, the more successful than those who do not work. In addition, it also notes that a very important role in the performance of Swedish medium-sized enterprises play the education of employees. Companies need to be successful and competitive in the market with its strategy of sustainable innovation, with the help of which it must be formed also, the structure of companies and organizational climate, while at the same time must be defined objectives. The presence of the awareness of the importance of knowledge management to increase business opportunities, while at the same time reduce the risk that we will be the kind of business opportunity out from time to time (Schiuma et al., 2012, 6; Vukasovič and Godicelj, 2014).

Cohn in Newbold (2009, 366) note that for a successful innovation stands five principles:

- It is necessary to give everyone the opportunity to participate in the design, planning and implementation of new products or services, which gives employees a feeling of belonging and respect.
- Meet with unpleasant, unpredictable and heavy processes, which can bring large financial expenditure.
- The development of cheap models of prototypes that can be confirmed or be provided to rebut the feasibility of the innovation and show the path to the next steps in the process of sustainable innovation.
- Education passionate people who know how to achieve results. Their achievements must be rewarded, which will ensure a better work in the future.
- In a learning organization, where learning is rewarded, promoted further facing challenges and looking to new innovation.

In the company of people who are passionate and prone to exploration, crucial for innovation (Blayse and Manley, 2004, 143). Xu et al., (2010, 573) note that companies should, if they want to succeed or even be on the market, innovative. Even more, as many as 75 % of the revenue of successful companies is created with the help of new products, which five years ago was not on the market. Bergman et al., (2004, 63) note that they must be the leaders in the company all the time ready to surprise in their own companies, which will give them a piece only through continuous learning and innovation (Vukasovič and Godicelj, 2014).

## **2.1 Innovation in Slovenian companies**

The World Economic Forum published every year comparison between the innovation between the countries, because they believe that innovation is not only the domain of enterprises, but also nations (Horibe, 2003, 20). Through the years, between fifty and seventy, Europe after the innovation catch up the USA, which has slowly started to decline in the nineties of the last century. A slowdown in innovation in Europe is due to a reduction in employment, capital intensity and productivity, which may in the long run undermine the competitiveness in Europe compared to the USA. The European Union encourages innovation through the Lisbon strategy, which promotes the development and marketing of innovative products. One of the objectives of the Lisbon strategy is to increase expenditures for research and development to 3% of gross domestic product (Domadernik et al., 2010, 1–3). Rašič (2008, 13) is through the review of previous research found poor innovation activity in the micro and small companies in Slovenia. In economic circles it is generally known that only highly innovative countries or regions maintain a competitive advantage in the marketplace. Domadernik et al., (2011, 75–76) the correlations of the Slovenian innovation policy in the field of steerable markets. They found that Slovenian companies difficult to acquire funding for their projects, as it is in most cases micro or small enterprises. In addition, they are highly dependent on the actions of the state setting standards. Researchers have found a major problem also in the field of patenting and protection of innovation, which in Slovenia is very poorly defined (Godicelj, 2014; Vukasovič and Godicelj, 2014).

Fatur and Likar (2009, 121) are among the Slovenian companies performed a survey on the importance of creativity of employees for the innovation of enterprises. With the study they wanted to theoretically identify and empirically verify factors that affect innovation in the company. The survey, which is the process of 50 medium and large Slovenian companies, has made the following significant results:

- Most of the enterprises supported by innovation, innovation is an important factor in the considered enterprises.
- Management of ideas has a lot of problems in the operationalization
- Leadership achieving results in the management of ideas is not taken seriously enough.
- Well, the estimated innovation climate and culture in the enterprises.
- The leading is of the opinion that the personnel of relatively high quality developed and trained.
- Systems for the management of ideas are well developed.
- Companies should focus more on the promotion of creativity.
- The use of communication tools is in the case of management ideas in Slovenian companies poorly developed (Vukasovič and Godicelj, 2014).

Is very important in the innovation of enterprises the role of the state, which must promote companies that strive for innovation. Our country gives certain incentives in the form of co-financing of innovative projects and the promotion of the establishment and help by newly created innovative companies (Rašič, 2008, 37). In addition, in Slovenia we have also technological parks and's incubators, which offer a new innovative businesses conditions for growth and development of their activities. Technological parks are one of the most successful forms of promoting and encouraging innovation and activity, which are based on advanced technologies (Likar et al., 2006, 221). In addition to the most important state incentives to us in the innovation activity can help even the Office of the republic of Slovenia for intellectual property, Chamber of Commerce, Information center and the Ministry of the Economy with their programmes, some have already been mentioned (Vukasovič and Godicelj, 2014).

### **3. INTERCONNECTION BETWEEN KNOWLEDGE MANAGEMENT AND INNOVATION - AN OVERVIEW OF GOOD PRACTICES AT HOME AND ABROAD**

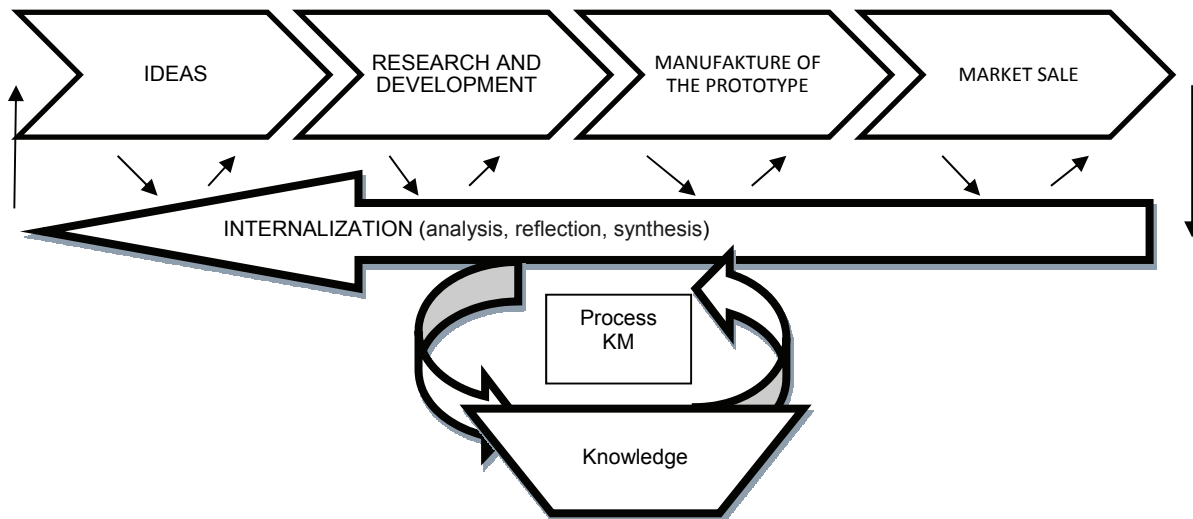
Knowledge in organizations is very important, as it indicates the company's ability to operate differently from the competitors and thus in the operations of the obtained advantage, which can be also called a competitive advantage. Also the leading to employ are becoming more and more aware of the importance of knowledge in their businesses. Knowledge is in the literature often describes as a strategic tool leading. The increase in the importance of knowledge in the global economy spurred the beginnings of knowledge management in enterprises (Cantner et al., 2009, 190). The main part of the knowledge management is of course knowledge (Martensson, 2000, 208). The company needed something that will be effective to manage the knowledge and it changed into new innovative products or services (Xu et al., 2010, 575). Some years ago the knowledge management to live as a new discipline, which, however, are probably still developing its theoretical base (Darroch, 2005, 101). Increasing attention to knowledge management, has led organizations that have developed new technologies within the single knowledge management. New roles have started to implement a management knowledge that is launched even more to promote creativity and innovation among leaders and other employees, who started to new products and services, which are the source of competitive advantages of the particular organization (Sherif, 2006, 72). Knowledge management is the basis for the effective management of innovation. The innovation process must be supported with the knowledge or the journal management published by knowledge, which is the basis for successful innovation (Leber et al., 2004, 253). Recently in the literature more and more authors linking the knowledge management and innovation and to this added the empirical evidence. State that the knowledge management necessary for innovation activities. Innovation in the company, as we have already mentioned, very important. However, these innovations are not unique, but should be throughout the renewal, for which the necessary management skills within the company (Canter et al., 2009, 190). Despite the fact that it was in the past a lot of research on this topic, but there is little research that identify a link between the journal management published by the knowledge and technological innovations (Lee et al., 2013, 849; Godicelj, 2014; Vukasovič and Godicelj, 2014).

Knowledge and innovation are, according to Xu's et al. (2010, 374) is vital to maintaining a competitive advantage against other enterprises. Knowledge management and innovation, recently came to the forefront of scientific research. Researchers are discovering how to use existing knowledge for innovation and how this to offer on the market. Innovation, which is necessary to maintain competitive advantages over its competitors, is strongly associated with the journal management published by the knowledge and other systems and processes in the company, even more, Xu et al. (2010, 581) argues that knowledge and knowledge management a key component of innovation. When they have company all of the information on key customers and competition, is an innovation depends mainly on the internal and external knowledge (Vukasovič and Godicelj, 2014).

Organizational innovation based on existing knowledge within the company. Most of the enterprises for the development of innovation using the previous knowledge and experience that has accumulated through months or years of operation of the company. The learning organization is not resting on its laurels, but his skills all the time ennoble and develop new products. For all of the above is in the company required an effective system of knowledge management (Sherif, 2006, 77). Knowledge management is the basis for the effective management of innovation. The innovation process must be supported with the knowledge or the journal management published by knowledge, which is the basis for successful innovation (Leber et al., 2004, 253). Funds of knowledge within the company in

innovative organizations all the time changing. Companies can have their knowledge saved in many formats, later this knowledge connect. Through the integration of multiple skills occur through the knowledge management to unique innovations, which the company apart from other in the industry (Sherif, 2006, 77; Vukasovič and Godicelj, 2014). Figure 1 represents the global process of innovation through knowledge management.

**Figure 1:** The global process of innovation through knowledge management (KM)



Source: Xu et al., 2010, p. 581.

Donate and Guadamillas (2011, 892) in his survey of innovation used as the dependent variable, which measures the efficiency of the knowledge management, and as one of the key objectives for the success of enterprises based on knowledge, which testifies to the mutual coherence of knowledge management and innovation and their interactions (Vukasovič and Godicelj, 2014).

Plessis (2007, 22) indicates the three key factors of the application of management knowledge in innovation (Godicelj, 2014; Vukasovič and Godicelj, 2014):

- Today's business environment, which requires creativity as a key competitive advantage, which requires knowledge.
- Knowledge is a resource, which reduces complexity in the innovation process, knowledge management as the resursa, is, as a result of this process is of great importance. Innovation is strongly dependent on the knowledge and in the company is to be with him properly operate.
- As the third is the knowledge management necessary for the application of external and internal knowledge in the organization, which makes him more attainable and usable.

Canter et al. (2009, 199) are with the study, which was carried out within the German companies, find that the amount of high quality knowledge, which promotes innovation in the company, strongly linked with the journal management published by the knowledge within the company. Knowledge management is a fundamental tool for the development of innovation. In German companies, which have been covered in the survey, to arrange also for the necessary skills outside the enterprise, which are necessary for innovation. In addition, they also found that the knowledge management in enterprises is positively associated with the size of the enterprise, but does not find the connection with the fluctuation of employees. Jensen et al. (2007, 692) with his study in Denmark found that the various strategies of the generation of knowledge and processes of learning have a positive influence on the processes of innovation. Dry, Sohn, and Kwak (2004, 13) note how it is very important knowledge management in the process of research and development in the company Samsung, specifically in the institute for high technology and development. In the organization have a precise system of management knowledge, resulting in a positive impact on the development of innovation. Innovation is also important in the services sector, which is looking into the Hu with colleagues (Lee et al., 2013, 852) in the hotels of Taiwan. It noted that the spread of knowledge among the employees has a positive effect on innovation in service processes. Vega Juado (Lee et al., 2013, 894) in 2009 with colleagues with the study of Spanish manufacturing companies, found that research and

development in the company contribute to the greater use of internal knowledge in the company and at the same time promote the development of new products (Vukasovič and Godicelj, 2014).

In 2002, Leber et al. (2004, 259) completed the survey on innovation in Slovenian companies. The results were compared with the data of German firms and find that in Slovene enterprises lack of promotion of innovation, therefore, Slovenian companies were not innovative. They also found that transition countries increasingly are oriented towards bringing down the prices of their products than to innovate. For the end I have to recommend the Slovenian companies investing in the development of management skills, which will develop innovation and thus a competitive advantage over other countries (Vukasovič and Godicelj, 2014).

The company EGP is one of the successful Slovenian companies, which have for many years work, both at home and abroad. The company employs 170 people and make different types of boxes, which are sold mostly in the non-domestic market. Intellectual capital is one of the bases for the competitiveness of the said companies on the market, in addition, the company constantly invest in the education and training of its employees and in this way they are acquiring in comparison with their competition. In the company EGP all the time take care of the development of management knowledge, which are intertwined with the development of human resources. Knowledge is for that the company is very important, because we constantly develop and supplement the (Milojkovič, 2010, 63; Vukasovič and Godicelj, 2014).

Also in the company Gorenje place great emphasis on knowledge management, however, are in this area started only recently. They point out that knowledge in their company is very important, however, in the knowledge management often encounter certain obstacles, most of these originate from the culture of the company and themselves, as the company already at the beginning of feel a certain aversion of the employees. The usefulness in the introduction of knowledge management in companies is reflected primarily in locating employees with the knowledge, designing the knowledge base of employees, a user information system and the acquisition of development resources from public funds (Vasič, 2004, 11-12). Another Slovenian company, that gives your company great importance to knowledge, it is the company Alpos d. o. o., established in he was buying cats and was founded in 1953. In their company very carefully choose the frame, you educate and you the success stories also the just reward, which is reflected in the form of loyalty to the company. Its personnel providing development and successful career, which also affects their performance on the global market (Brilej, 2005, 6; Vukasovič and Godicelj, 2014).

Let's see briefly a few examples of good practices from abroad. An example of companies abroad, such as IBM and Apple, have to succeed, because the timely start focus on innovation and more importantly, because they understand the importance of organizational climate and culture for innovation (Prevaiz, 1998, 42). Swan, Newell, Scarborough and Hislop (1999, 266) have noted the great importance of management knowledge in the development of innovation in two enterprises, namely in the e-bank which has its branches in 70 countries of the world, and in Brightco, which produces specialized products throughout the world with headquarters in Sweden. The two is to the rapid development of the to help effectively developed management skills, as both companies highly technologically developed. In both developed departments of research and development, which the who is of crucial importance for the success of. In addition, help the success of employee motivation and rewarding of prominent ideas. One of the very successful companies in the field of technology is also the company Siemens, which testifies to the importance of management knowledge, because in a few years the company transformed itself into a company, which is based on his knowledge and development and continuous innovation. This transformation was long and strenuous, but has brought the desired results, and Siemens is now one of the most successful companies in their field (Davenport and Probst, 2002, p. 10; Vukasovič and Godicelj, 2014).

#### **4. SUMMARY**

In a time of global economic crisis, it is very important how the company will viewfinder their competitive advantages on the market. One of the important competitive advantages are innovation, to which, however, we come with the help of the acquisition and sharing of knowledge in enterprises. In the article we are with a review of good practices at home and abroad, showed how important is knowledge and its management for innovation, which can be achieved in companies better business success and ensure a more prosperous future. Through the examined literature we find the great

importance of management knowledge for successful performance of enterprises, while at the same time, how important is the knowledge management in enterprises for the development of innovation, which are one of the key factors of the existence of companies in today's global market. We found that the number of innovations grows with the amount of knowledge in the company. Innovation help owners and officers in companies that will be easier to understand, how important is the management base for the development of new ideas and the introduction of innovation in enterprises. Also recognizing the importance of processes knowledge management in enterprises for the development of innovation. Components, such as the acquisition and dissemination of knowledge and the response to it, have a direct impact on innovation in the company (Vukasovič and Godicelj, 2014).

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