

# Chapter 1

## Knowledge Management and Its Approaches: Basics of Developing Company Knowledge Management Systems

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### **ABSTRACT**

*This chapter briefly covers the basics and definitions of knowledge and knowledge management, the connection between KM and communication, its Hungarian and international development and tendencies in the past years and the so called KM generations. The chapter's goal is to show how and why the support and appreciation of knowledge (which almost exists since the beginning of humankind) developed into a system. Successful management of companies using KM systems bring to the surface a new breed of organization operating models operating with intelligent solutions, which are manifold, may be structured in a variable way, and are specifically unique in the light of these knowledge-intensive services.*

### **INTRODUCTION**

Within the era of information society and knowledge economy knowledge plays an important part besides the traditional production factors, thus knowledge management (KM) becomes a key issue. One of the basic aims of knowledge management is to increase organizational efficiency.

This chapter outlines the history of knowledge management summing up the most important works on the subject providing the literature basis for the whole book. Thus it gives an overview of the main narratives and models on the subject of information, information society and knowledge management. It also focuses on the international development history of KM.

Finally the chapter discusses the role of KM in small and medium-sized enterprises, summarizes the main points of knowledge management and enterprises and suggests solutions and models to follow based on case studies.

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## **Information Society**

The notion of information society dates back to the 1930s when Austrian-born economist Fritz Machlup (1962) published his book *The Production and Distribution of Knowledge in the United States*. With this work he established the new field of information economics. The transformation to a knowledge economy has become even more significant especially after the spreading of the internet. The next important author is Peter Drucker (1969) who claimed that there is a transition from a material goods based economy to knowledge based one. Marc Porat (1977) defines a primary and a secondary sector of the information economy. Porat uses the total value added by the primary and secondary information sector to the GNP as an indicator for the information economy. Based on these indicators, the information society has been defined by as a society where more than half of the GNP is produced and more than half of the employees are active in the information economy. (Deutsch, 1983)

## **Digital Economy**

The concept of a digital economy emerged in the last decade of the 20th century. According to Nicholas Negroponte's (1996) allegory, society changes from processing atoms to processing bits. In Richard Barbrook's (1999) definition, digital economy is characterized by the emergence of new technologies (computer networks) and new types of workers (the digital artisans), which is strongly similar to the notion of Drucker's knowledge worker (Drucker, 1993).

The definition of knowledge is connected to the definition of data, information, wisdom and different types of knowledge. This subdivision is also referred to as the hierarchy of wisdom. This hierarchy is one of the few models that are accepted by information and knowledge related literature. Its basic assumption is that we can create information from data, knowledge from information (including explicit and tacit knowledge) and wisdom from knowledge.

Data is only a denuded value; it doesn't have any information value by itself. It becomes information, once it gets a meaning in some interpretation. Knowledge is the information's interpreted and subjective form. Wisdom is proven knowledge that comes from experience and from drawing conclusions with the help of from self-knowledge and empathy.

The previous definitions are applied on the individual level, but knowledge also has an interpretation that is connected to an organization. The most valuable knowledge creates value for organizations, but this knowledge is also "in the possession" of these individuals. Its exploration is one of the most important tasks of the organizations.

## **BACKGROUND: DATA, INFORMATION, KNOWLEDGE**

To sum up the notion on knowledge several literatures may be used. These works all go back to the basics and differentiation between data, information and knowledge. Ternes, (2011) sums up the development of information to data as follows. According to Gill's (2001) knowledge pyramid in Ternes (2011) (Figure 1) which is based on Luzwick's (1999) "classic information hierarchy" there is data on the first level. Data consists of numbers and text, but it does not have a meaning on its own. Nevertheless data is the starting point of the intellectual property of an organization. On the next level of the pyramid the application and use of data comes into the picture. Data becomes information. Information is necessary to

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