Chapter - I

New Global Economy

Factors Driving Global Economic Integration
  o Fundamental Driving Factors
  o Trade in Goods and Services
  o Digital Economy

Emerging Values for a Global Economy

Emergence of Knowledge Economy
  o What is Knowledge Economy
  o Characteristics of Knowledge Economy
    • Flexible Organization
    • Knowledge, Skills and Learning
    • Innovation and Knowledge Networks
    • Learning Organizations and Innovation Systems
  o What Should be done to meet the Challenges?

New Business Model

KM - Survey Report

Conclusion

Notes and References
1.1. The New Global Economy

The current globalization is about the shrinking of the world due to the revolutionary changes in communication and transportation technologies. In the long-term, this process of time-space compression will produce greater economic similarities across places. In this perspective, the new global economy did not simply spring out of technological changes powered by business imperatives but justified by logic of neo-liberal economics that have subsequently produced an increasingly homogenized world. A critical survey of the emerging scenario portrays that time-space compression is leading the transformation of the world economy from a set of national-state economies into a global economy.

1.2. Factors Driving Global Economic Integration

Three fundamental factors, as pointed out by Mr. Christopher and Mr. Sumantra,¹ that have affected the process of economic globalization and are likely to continue to drive it in the future are presented below.

- Improvements in the technology of transportation and communication have reduced the costs of transporting goods, services and factors of production, and of communicating economically useful knowledge and technology.

- Tastes of individuals and societies have generally, but not universally, favoured taking advantage of the opportunities provided by declining costs of transportation and communication through increasing economic integration.

- Public policies have significantly influenced the character and pace of economic integration, although not always in the direction of increasing economic integration.
These three fundamental factors have influenced the pattern and pace of economic integration in all of its important dimensions. In particular, three important dimensions of economic integration, as brought out by Mr. Sumanthra Ghoshal and Mr. Christopher Bartlett, are: (a) human migration; (b) trade in goods and services; and (c) movements of capital and integration of financial markets. After examining how fundamental forces have influenced economic integration in these dimensions, one can see a sharp reversal in the general trend of increasing integration.

1.2.1. Interactions Among the Fundamental Factors Driving Economic Integration

Although technology, tastes and public policy have significant and independent influences on the pattern and pace of economic integration in its various dimensions, they clearly interact in a number of ways. Improvements in the technology of transportation and communication do not occur spontaneously in an economic vacuum. In the working paper entitled 'The Coming of Knowledge-based Business', Mr. Stan David and Mr. Jim Botkin point out that “the desire of the people to take advantage of what they see as the benefits of closer economic integration is an important reason as to why it is profitable to make the innovations and investments that bring improvements in the technology of transportation and communication. The tastes that people have and developed for the potential benefits of closer economic integration are themselves partly dependent on experience that is made possible by cheaper means of transportation and communication”.

1.2.2. Trade in Goods and Services

Traditionally, economists tend to focus more on trade in goods and to a lesser extent on services as the key mechanism for integrating economic activities across countries and as a critical channel for transmitting distribution between
national economies. In general, the higher the barriers to trade, the lower will be the degree of international integration through trade. Thus, it is relevant to consider what has been happening to barriers to trade as a means of assessing what has been happening to international economic integration through this important channel. Kathryn Rudie and G. Dalmia,\textsuperscript{4} point out that "the invention and development of steam-powered iron ships during the second half of the 19th century further reduced the costs of ocean shipping. By the end of the century, the cost of shipping a ton of cargo across the Atlantic was probably less than one-fifth of what it had been at the start of the century. This reduction in shipping costs contributed immensely to the expansion of world trade and to the range of products participating in that trade. Despite the continuing importance of revenue as a reason for imposing tariffs, it appears that interest in these measures as a means of providing protection to domestic producers increased as natural barriers to trade from reduced transportation costs declined and as the revolution in manufacturing technology created new competitive threats to more traditional and higher cost producers. For transportation, the most dramatic improvements have been for air cargo, which except for airmail, did not exist as a commercially important phenomenon fifty years ago. Now, for a wide array of products from fresh flowers to electronic components to airplane parts, air cargo is the speedy and cost effective means of international transport. Communication costs for voice, text and data have dropped enormously in the post-war era, and are continuing to fall precipitously under the influence of Technological Revolution culminating in sharp fall in communication costs."

1.2.3. The Emerging Digital Economy - Consumers in the Digital Age

Christopher A. Bartlett and Sumantra Ghoshal\textsuperscript{5} highlight that the Businesses invest in information technology and electronic commerce (e-commerce) to improve productivity, cut costs and enhance customer service. Consumers shop on the Internet as they find their choices dramatically increased.
They have access to much more information when making purchasing decisions. Busy consumers can save time and find shopping more convenient as merchants serve their needs individually. Better information and greater selection, combined with lower operating costs for many internet businesses may, in turn, drive reductions in prices and/or improvements in quality. Consumers cite convenience as the important reason for making a purchase online. Shopping on the Internet can save time. A consumer need not have to travel to a store site or adjust his schedule around the store's hours. No longer does a consumer have to wait on hold for a customer service representative to answer the phone. Recognizing that customers expect products delivered as soon as possible, many sites offer next day or second-day delivery. Online support tools, order status, product availability and pricing, technical support and trouble shooting tips are generally supplemented with toll-free numbers that customers may call for further information.

1.3. Emerging Values for a Global Economy

Business leaders must now confront, as never before, challenges of enormous magnitude and complexity. Markets, consumer preferences, supply chains and financial flows have become global in many sectors of the economy. This, together with deregulation, trade liberalisation and growing foreign investment, has led to the internationalisation and increasing intensity of competition. In the words of Peter Drucker, every few hundred years in Western history, there occurs a sharp transformation . . . . Within a few short decades, society rearranges itself - its world view; its basic values; its social and political structure; its arts; its key institutions . . . We are currently living through just such a transformation. Operating in today's turbulent conditions demands new approaches to leadership and management. Companies are already experimenting with different forms of organization and cultures more conducive to success in this changing world. The business leaders and
entrepreneurs will be increasingly inspired to participate actively in the inevitable social and economic transformation by applying seven essential core values viz., business ethics, social responsibility, sustainable development, partnership of women and men, a new work ethic, consultation and spiritual principles. Several universal virtues underlie ethical behavior, and justice, respect, honesty, integrity, trustworthiness, fairness, service and moderation can be found in the writings of all the great religions. It is increasingly recognized that ethical behavior makes good business sense. Customers prefer buying from a trustworthy vendor. And the employees are more productive, and are more loyal and creative when treated with respect and fairness. Companies that really understand how to serve their clients benefit from a major competitive advantage. Most successful major enterprises today weave ethical values into their institutional attitudes. Enlightened companies are moving away from the assumption that the sole objective of business is to earn profits. They realize that business must also improve the health of the society in which they operate. Profits are important to the survival of the enterprise, but must not override the needs of all the stakeholders in our planet and its heirs. Increasingly, business leaders and managers are discovering that socially responsible practices enhance long-term profitability and competitiveness. Satisfied employees work better, enhanced efficiency lowers costs, and healthy practices help attract and retain good employees. Recognition of these realities lies at the heart of modern management practices embodied in such words and phrases as empowerment, job enrichment and positive reinforcement. And it also leads to greater creativity and commitment at all levels of the organization.

1.4. Emergence of Knowledge Economy

In an agricultural economy, land is the key resource. In an industrial economy, natural resources such as coal and iron ore, and labour are the main resources. But in a knowledge economy, knowledge is the key resource and
therefore, generation and the exploitation of knowledge has come to play a predominant role in the creation of wealth. It is not simply about pushing back the frontiers of knowledge; but about the more effective use and exploitation of all types of knowledge in all spheres of economic activity. The rising knowledge intensity of the world economy and our increasing ability to distribute that knowledge have increased its value to all participants in the economic system. The implications of this are profound, not only for the strategies of firms and for the policies of the governments but also for the institutions and systems used to regulate economic behaviour. In this background, it is appropriate to address the following questions:

- What is the 'knowledge economy'?  
- What is new about the 'New Economy'?  
- What might we do to meet the challenge?

1.4.1. What is the Knowledge Economy?

Mr. Kathryn Rudie and Mr. G. Dalmia\(^7\) opine that the emerging Knowledge Economy is influenced by two forces viz., (a) rise in knowledge intensity of economic activities and (b) increasing globalization of economic affairs. The rise in knowledge intensity is being driven by the combined forces of the information technology revolution and the increasing pace of technological change. Globalization is being driven by national and international deregulation, and by the IT related communications revolution.

1.4.2. Characteristics of the Knowledge Economy

As advanced by Mr. Karl M. Wiig,\(^8\) the emergence of the knowledge economy can be characterised in terms of the increasing role of knowledge as a factor of production and its impact on skills, learning, organisation and innovation as presented below.
• Increasing codification of knowledge is leading to a shift in the balance of the stock of knowledge – leading to a relative shortage of tacit knowledge.

• Codification is promoting a shift in the organisation and structure of production.

• Information and communication technologies increasingly favour the diffusion of information over re-invention, reducing the investment required for a given quantum of knowledge.

• Increasing rate of accumulation of knowledge stocks is positive for economic growth. Knowledge is not necessarily exhausted in consumption.

• Codification is producing a convergence, bridging different areas of competence, reducing knowledge dispersion and increasing the speed of turnover of the stock of knowledge.

• The increased rate of codification and collection of information are leading to a shift in focus towards tacit skills.

• Learning is increasingly central for both people and organisations.

• Learning involves both education, and learning-by-doing, learning-by-using and learning-by-interacting.

• Learning organisations are increasingly networked organisations.

• Initiative, creativity, problem solving and openness to change are increasingly important skills.

• Transition to a knowledge-based system may reduce the market system failure.

1.4.2.1. Flexible Organization

Sumanthra Ghoshal and Christopher Bartlett point out that the flexible organisations reduce waste and increase the productivity of both labour and capital by integrating ‘thinking’ and ‘doing’ at all levels of their operations. In doing so, they eliminate many layers of middle management which are dysfunctional in terms of information flow. Further, they avoid excessive
specialization and compartmentalization by defining multi-task job responsibilities (which calls for multi-skilled workers) and by using teamwork and job rotation. Flexible organisations merge flexibility, high product quality and a degree of customization with the speed and low unit costs of mass production.

1.4.22. Knowledge, Skills and Learning

Information and communication technologies have greatly reduced the cost and increased the capacity of organisations to codify knowledge, process and communicate information. In doing so, they have radically altered the 'balance' between codified and tacit knowledge in the overall stock of knowledge. As access to information becomes easier and less expensive, the skills and competencies relating to the selection and efficient use of information become more crucial and tacit knowledge in the form of the skills needed to handle codified knowledge becomes more important than ever. Information and communication technology investments are complementary with investment in human resources and skills. The skills required of human resources will increasingly be those that are complementary with information and communication technology but not those that are substitutes.

1.4.23. Innovation and Knowledge Networks

The knowledge economy increasingly relies on the diffusion and use of knowledge, as well as on its creation. Hence, the success of enterprises and of national economies as a whole will become more reliant upon their effectiveness in gathering, absorbing and utilizing knowledge, as well as in its creation. In the words of Ray Stata, a knowledge economy is, in effect, a hierarchy of networks driven by the acceleration of the rate of change and the rate of learning where the opportunity and capability to get access to and join knowledge-intensive and
Learning-intensive relations determines the socio-economic position of individuals and firms. Firms must become learning organisations, continuously adapting management, organisation and skills to accommodate new technologies and grasp new opportunities. They will be increasingly joined in networks, where interactive learning involving creators, producers and users in experimentation and exchange of information drives innovation.

1.4.2.4. Learning Organisations and Innovation Systems

In a knowledge economy, firms search for linkages to promote inter-firm interactive learning, and for outside partners and networks to provide complementary assets. James B. Quinn and Philip Anderson\textsuperscript{11} opine out that these relationships help firms spread the costs and risks associated with innovation, gain access to new research results, acquire key technological components, and share assets in manufacturing, marketing and distribution. As they develop new products and processes, firms determine which activities they will undertake individually, which in collaboration with other firms, with universities or research institutions, and with the support of government. Innovation is thus the result of numerous interactions between actors, institutions and the governments which together form an innovation system.

1.4.3. What Should be Done to Meet the Challenge?

The forces driving the emergence of the knowledge economy are fundamentally reshaping the world economy. This process is proceeding ever more rapidly and each nation must find its appropriate response to the new economic realities. When the national challenge is viewed from this historical perspective, and in the light of the magnitude of the economic and social changes under way, it is clear that four broad types of long-term policies, as highlighted by Jean-Claude Paye,\textsuperscript{12} become necessary.
• Drive market-based change with programs to allow or to force the economy to respond to the pressures of global competition and to market forces.

• Preserve/build a competitive structure for the future with programs to ensure that the economy retains or develops a strong set of institutions and firms, with a high quality base of human skills and infrastructure, so as to be able to compete in the new economy.

• Manage the adjustment so as to maximise overall growth by managing the adjustment process in such a way as to ensure that pressures of adjustment do not constrain the economy to rates of growth below its full potential.

• Ease the burden of adjustment on individuals, families and regions with programs to support those within the community on which the costs of adjustment fall especially heavily and to help them to make the transition to the new environment. Each of these components is essential to an adequate response to the emerging global knowledge economy.

Though cost competitiveness is a necessity, it is no longer a sufficient condition for success. Innovation and knowledge are becoming central to creating and sustaining competitive advantage. We must now deal with the impacts of flexible organisation, including the diminished importance of low-skilled labour costs and the increased importance of proximity, networking and cost cutting forms of organisation. Thus, we must focus business programs towards giving more attention to adding value, rather than simply focusing on cutting costs.

1.5. Towards a New Business Model

Certainly, the model, a tightly bound command-and-control hierarchy with a headquarters staff calling the shots from the top, has not remained static since inception when it was first employed. Technology has enabled it to become flatter, larger and more far-flung. In its infancy, the model was capable of
structuring and organizing only one line of business. In his introductory remarks at the KM Conference in 1996, Sri. Espo Kilpi\textsuperscript{13} described that with today's augmentations, the model works with higher levels of complexity, with multi-line businesses competing in a variety of sectors and along a number of dimensions such as speed, quality and service. But the fact remains that the vast majority of companies, no matter how much their processes have been redesigned, are still structured largely along 19th-century lines. It is getting harder for companies to deliver profitable growth on a sustained basis. It is also more difficult for many companies to hold their ground and not fall behind. The key reasons include the dramatic increase in complexity in managing business and the increasing premium put on innovation. The complexity is due to significant and irreversible changes in the business environment. The pace of business is accelerating beyond the ability of most corporations to adjust. Value-adding opportunities must be found more frequently than previously. There is a need to build a new business model around the full array of capabilities a corporation can bring to bear in an efficient manner. It should be evident to anyone in business that companies today operate in an environment of enormous and continuous change. Changes on a massive scale, which once occurred rarely, are now everyday parts of the landscape. And it is unlikely that we will ever return to simpler times. There are a number of major forces, as brought by David A. Garvin\textsuperscript{14} driving this age of change. They are as follows:

- Information is becoming readily available around the world at a record pace.
- Markets are globalising, as are the companies that compete in them.
- The regulatory environment is becoming stricter and penalties more harsh.
- Competitive pressure has been intensifying and it is becoming harder to achieve leadership and to stay on top.
The pace of business is faster with ever-rising customer expectations. New products are entering the market at a record pace.

Industry structures continue to evolve. In some cases, the definition of the industry is changing, as with telecommunications or media.

Technological innovation creates new market opportunities and it also demands rapid adjustment. Technological change has delivered the Information Age and converted it to the Knowledge Age.

Finally, capital markets have evolved significantly. Investors are more active and are demanding better performance.

The new business model also mandates a different role for its leaders. Leaders must provide the company with an overall sense of purpose to give it direction and create a channel for the energies of the employees. They must also facilitate communication and co-operation across the corporation. Knowledge and people processes involve most of the corporation and cross-organizational lines and the leaders must facilitate these interactions. Thus, the emerging leadership model focuses on managing the total corporate resources, not just its assets. The firm must be able to build and deploy its capabilities rapidly without regard to organizational constraints. This new model has greater expectations about performance and value-added contributions from each element of the corporation. The corporations are reinventing their business models to flourish in the more complex environment of the future. The new business model must enable the firm to generate growth opportunities, respond flexibly and capture the opportunities quickly and profitably. The model must be effective in managing knowledge and people processes. It will be characterized by the interdependence, rather than independence, of its parts, while ensuring that each part of the firm is a contributor to value. This requires new roles for each of the firm's parts so that they can work together in new ways to help the company's resource base to grow. The key missions to meet the burden-of-proof test are
underlined by Espo Kilpi. They are identity, strategic leadership, capabilities, competence and control.

- **Identity** is based on a shared vision and value system. It adds value to the corporation across a wide set of constituents including governments, public interest groups and customers.

- **Strategic leadership** provides the overall context for growth, helps develop the overall business portfolio, assists in fostering key alliances and creates the overall mandate for growth.

- **Capabilities** are the fundamental building blocks of competitive advantage.

- **Core competence role** is to ensure that the corporation has access to world-class capabilities and that they are allocated across the firm in the best possible way, a part of managing total firm resources.

- **Control mission** is to define targets, monitor performance, meet legal and regulatory requirements, and comply with regulations.

As part of this mission, the core must assume responsibility for compliance in key risk areas of the environment and safety. Service delivery can be from several sources, but central services out of the corporate center should not be one of them. Activities that exhibit economies of scale and are either too critical to outsource or for which the outsourcing market is not efficient can be put into a shared-service division. The principle of voluntary exchange is one of the key attributes distinguishing shared services from centralized functions. Another important dimension to shared-service delivery is to support subscale business activities in remote locations. Sharing can be among business units or initiated by corporate to provide the support needed for growth. Governance is taking on a larger role in corporations. Four forces, as pointed out by Debra M. Amidon, driving this change are: identity, strategic leadership, capabilities and capital. A push for performance is creating more active boards with greater CEO accountability.
1.6. Knowledge Management (KM) - Survey Report

A few aspects of the results of the Survey conducted by the Researcher for this Study and which are pertinent at this stage are presented below.

KM is emerging to take a prime position on business initiatives by transforming the same into a knowledge-based organisation. Majority of the stakeholders are well aware about the fact that KM will play a critical role in the near future in addition to enhancing their internal/external productivity, in terms of increased customer satisfaction due to rich knowledge-based marketing, developing a competitive advantage besides revolutionising the shop floor. Organizations which identify the best of its knowledge would step further to create a shared environment by generating and utilizing the best of its know-how and thus enjoying the prosperous and secure future. It is all about doing the right thing rather than doing things right.

The survey findings primarily indicate the importance of KM within an organizational framework, the acceptance of new management paradigm in the Indian context and the role of Management Accountants to fashion such changes by innovative responses. The survey also reflects how organizations are preparing themselves towards the new global change as effectively and early as possible. The acceptance of this new strategy and final implementation still remains unclear and it demands a lot of research on a global scale, which will enable organizations worldwide to implement KM activities with a well-informed approach leaving minimal room for trial and error. This will also enable nations to be globally competitive in retaining their core competence.
1.7. Conclusion

In conclusion, as indicated by Tom Peters,\textsuperscript{17} it may be said that to thrive amidst the complexities of the new business environment, a new form of corporation is needed and that corporation must have a much stronger focus on the basics of what ultimately creates value i.e., knowledge and people. It must create a leadership model that engages the full resources of the firm. Besides, it must evolve toward a new business model that fosters the creation of value and ensures that each piece of the business is a contributor to system-wide value. Without such changes, the primary direction for large corporations will be to get smaller to counter the complexity of size and diversity.

Notes and References


