

THE IMPORTANCE OF HUMAN RESOURCES IN THE NEW ECONOMY

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***Abstract:** In the knowledge-based economy – the new economy it seems, by experts opinion – the firms meet the major challenge to find qualified personnel in labour markets defined by complex and erratic evolutions and above all by the lack of many categories needed in the process. The human resource gets more important, more complex and more expensive than before. That reality enhances the importance of MRU and the necessity to modify its contents.*

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1. Adopting the knowledge-based economy

During the last quarter century the economy of the developed countries evolved from the Industrial Era to the Information Era, from the capital-based economy to what has been called knowledge-based economy. One of the indicators of this transition is represented by the volume of the corporations' investments within the information technology. In the American economy it happened for the first time in 1992 that the volume of the expenses in relation to the information technology overtook all other investments expenses in equipment (Manasco, 2000, p. 1). Knowledge represents the new source of wealth – a category which has to be carefully treated as well as the proper capital.

Knowledge determine most frequently and often, decisively, obtaining the competitive advantage by the companies, without which these ones can neither develop nor survive. Some states such as USA are in an advanced stage of building of the new economy. Their previous years economic performances are edifying to this purpose. They represented the main argument which determined the European Union to draft the Lisabona Strategy by which it establishes what and how it should be acted so that the countries

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within should be able to build rapidly this new type of economy and to take over the advance that USA currently has. Essentially, **the knowledge-based economy** is characterized by transforming the knowledge into raw material, capital, products – essential production factors of the economy and by economic processes within which the production, the sale, the purchase, the learning, the storage, the development, the partition and protection of knowledge become predominant and decisively condition the obtaining of profit and ensuring the sustainability of economy on long term (Nicolescu and Nicolescu, 2005, p. 48)

2. Considering knowledge as an asset of the company

During the last decades the knowledge replaced the capital as a difficult to find production factor, thus becoming the dominant force in businesses. This dramatic change led to the current crisis of knowledge and to the search of solutions. In the Industrial Era the physical work based on manual skills was the source of economic growth and the ability to perform such labor the key to employment in the assembly line. The knowledge was something that allowed the work in the organization.

In the Information Era, on the other side, the intellectual work based on knowledge is the source of the economic growth and the capacity to do it represents the key of employment. Knowledge, by follow, does not represent some means to carry the work to the end – it's the work itself. The managers, the technicians, the experts in marketing and sales are those who provide administrative support, they all acquire and spread knowledge which is the current coin of their employment. They analyse, synthesize, create, perfect, in other words, they manage the intangible represented by knowledge. If the iconography of the Industrial Era was a pair of hands, the one of the Information Era is a pair of brains (Beazley et al. 2002).

The notorious specialist P. Drucker stated 15 years before that “the basic economic resource is not the capital, neither the natural resources nor the work. It is and it will be knowledge” (Drucker, 1993, p. 8). “The most valuable asset of a 21st century institution will be the set of knowledge of its employees and the productivity of their work” (Drucker, 1999, p. 135). This evolution from the focus on the educated physical work to the focus on the trained mental abilities is mirrored in the change of the aims of the businesses within the last 100 years. The aim of the Industrial Era was to automatize the human work. The aim of the Information Era is to develop and exploit the human knowledge.

The reveal of the superior quality nature and of the specificity of the knowledge-based economy does not signify in any way a unilateral approach of the economic system. Naturally, the system of the knowledge-based economy is not reduced only to knowledge. All the elements that the economic sciences named as economic activity inputs are maintained. Their weight within the economic circuits modifies and partially, their nature and modality to display, subject to the conditions in which the knowledge and the processes focused upon them usually have the decisive role. There is no doubt that the economic processes no matter how much they change they will always need also human resources, technical-material, financial etc., but in superior configurations and mechanisms, a result of the evolutions and accumulations.

During the two decades between '80 and 2000 occurred the transformation of the value relation between the tangible and intangible assets. The ratio between them evolved from 1:1 (which means that the market value of a company practically means the value of its physical assets) to a ratio of 5:1, meaning that the intangible values are considered to be 5 times higher than the tangible ones. We might have returned to a ratio of 4:1 after the fall of the dot-com industry and the decline of the markets in the 2000s, but it will never fall to 1:1. The phenomenon certifies the value of the intellectual capital – a possible gain of the organization not related to the tangible assets (Beazley et al., 2002). The knowledge that the new economy is based upon is important for the companies with a low technical level, non-profit organizations, as well as for the companies focused on the top technique. To this purpose the former president of General Electric is being quoted, legendary Jack Welch, who stated: “a good idea does not summarize to a technological idea. A good idea is to handle a process which requires a six days period and reduce it to one single day. We obtain growths of the work productivity of 6-7% mostly with this kind of ideas. Each person can have such contribution”.

For any asset, other than the intellectual one, the organization deploys high efforts to fight against its loss. The natural question is asked: why knowledge does not enjoy the same treatment? Ironically, it was settled a rigorous maintenance program in order to extend the life of the used devices but not a program for the preservation of the volume of the knowledge of the employees. However, the loss of these ones is in reality higher than in the case of fixed means which can be easily replaced.

If the knowledge was systematically transferred from the one who leaves to the one replacing him, bringing the latter to a maximum efficiency a couple of months earlier, the gain would be enormous based on this process only.

Unfortunately many organizations do not have a realistic perspective upon the value of the knowledge of the employees or of the costs for replacing it.

Although many managers strongly state: “people are our most important asset”, these are rather treated like an expense. Acknowledging the knowledge “as a main engine of productivity” means to admit that people are not a cost but rather a catalyst of growth and wealth.

Otherwise there would be no point that the companies should take care of the tangible assets neglecting at the same time to their valuation by the equipped people.

3. Loss of knowledge in the new economy

Each generation of managers and leaders faced threats upon the profitability and sometimes the uncertainty of the survival, which characterized the age when they lived. War, inflation, economic crisis, the collapse of the stock, the employment crisis represented all serious dangers for businesses in the last century. The first decade of this century does not represent an exception regarding the aforementioned threats list, the problem is that a further one was added – the loss of knowledge. The loss of knowledge due to the fact that the employees quit represents a threat – for the prosperity and productivity of the company – equal to the big threats of the last century.

This movement towards the knowledge lead to the significant increase of this one for the organization. Knowledge represents now the main economic production factor, an asset which has to be carefully kept and wisely used. But knowledge lay first in people’s mind – people who leave the organization and take the knowledge with them. When knowledge gets out the door without leaving “children” the result can be devastating for the organization. The increase of losses can create a crisis for the organization. In fact, the organizations face currently such a crisis: retirements, transfers, abandons, resignations.

As long as the importance of knowledge increases the negative impact of the loss of knowledge at organizational level exponentially increases. The effects are predictable and expensive, including:

- reduced efficiency;
- decrease of productivity;
- increase of employees’ stress and frustration;
- lower incomes.

All together these negative effects harm the profitability, the innovation capacity, the answer speed, reducing the chances of survival in front of the faster competitors and the more conscientious ones of this phenomenon.

Very suggestive to this purpose is the analogy carried out by Beazley et al. (2002), of businesses with long-distance race. The success does not belong to the sprinters who run alone. The long-distance race of businesses is formed by many sprints of a huge number of racers. For each employer – participating at the race as well as for the whole organization, each sprint takes place within a relay race, the success of the organization depending on its result. The competitive advantage in the Information Era belongs to the organization whose employees succeed in transmitting the know-how to the next racer who at his turn he will pass it on to the next one and so on and so forth in a succession that lasts as much as possible.

4. The continuum of knowledge

The knowledge being the basic resource is worth exploring its characteristics and how they can be used by the organization.

Simplifying, knowledge is represented by the set of skills that the employees must possess in order to carry out to an end their tasks in maximum efficiency and efficacy conditions.

Knowledge includes essential databases and information but it is broader than this. Knowledge is the base of the competence and wisdom which are more valuable for the organization than knowledge. The essential question for an organization which wants to conquer the knowledge-based economy is: how can the information be transformed in knowledge and further in competence and wisdom?

The continuum of the knowledge explains this process of conversion. Starting with the information and ending with wisdom the continuum has the following components (Beazley et al. 2002):

Data – Information-Knowledge-Competency – Wisdom

We cover these stages in an assembly of processes which bring a higher understanding, an increased ability to approach complexity, a holistic perspective.

Knowledge represents the information organized in a frame, concept, principles, theory, hypotheses or other action permits which increase the understanding of a situation and the probability to resolve a task knowledge allows action. According to professor O. Nicolescu (2005, p. 21), by **knowledge** we represent sets of information and skills by whose use it is generated an

added value. In conclusion, the essential distinction between the information – that which bring new elements – and knowledge consist in their capacity to create, by use, economic substance and added value, which interests mostly in economy. It can be plenty of information, usually far less knowledge.

Competency means knowledge integrated through own experience (contextual familiarity in the particular process that the organization exercises, eventually), which provides the capacity to resolve problems, to take decisions and to manage situations and tasks at a level that ensures success. In other words, competency means categories of knowledge assembled in an operational system, able to give solutions.

Wisdom – the most diffuse notion, usually easier to observe post-factum – competence refined by experience, practice, maturity brought in a judgment above the average, intuition, a holistic perspective, a level which allows correct decisions in complicated situations and instable environments, requiring a balance between the long term aims and the current needs.

5. Human resources management based on knowledge

Within this framework which has to be the mission and objectives of human resources management (HRM)? The measurement of the performances of the employees can not be done based on the algorithm of some “norms” imposed and recognized in the culture of a branch of production or another, as in the Industrial Era. Paradoxically, in an era of microprocessors, of top technologies, of equipments “independent” of man’s skills and attention, the human resource regains the hegemony among the economic variables of the organization. The responsible leadership and management of this resource represent the big challenge of the modern management.

In his classical work “Organization in action”, James Thompson (1967) describes how the human variable affects the actions of the organisation. Later, Hambrick and Mason (1984) stated that the organisations are reflections of their top managers. Based on this paper, Finkelstein and Hambrick (1996) underlined the importance of the human element in the strategic choice and performance of the company. The human resource increased its importance because the knowledge part became the critical ingredient in order to acquire the competitive advantage in the new economic landscape. In a recent allocution addressed to the Massachusetts Institute of Technology graduates, Carly Fiona, general manager at Hewlett – Packard, stressed this thing, saying that the magic ingredient, the most

important and tangible of the current landscape is the man. By follow, the answer to the key question of the strategic management: why does the companies performance vary, is that they differ from the point of view of the human capital (Hitt et al., 2001).

In the 21st century knowledge-based economy the employers have to cultivate their creativity of their people in order to be competitive. In “Human resource management in the knowledge economy”, Mark Lengnick-Hall and Cynthia Lengnick-Hall (2003) state that since the manner in which businesses are done is modified, in the same measure the role of the human resources managers should be changed. Although many human resources classical activities are needed, they become more remote from the direct process of generating the value, state the two specialists aforementioned. The management of the human resources has to be torn apart from its bureaucratic past and to focus upon the “plugged-in” of the best brains.

In the knowledge-based economy the focus of HRM will not be restricted in its conventional form of recruitment, training, motivation and so on and so forth. The task of HRM within the knowledge-based economy also includes other activities which intersect with other traditional functions (finances, marketing, strategy) and other new ones (such as knowledge management). For this reason, HRM is not focused any longer on the leadership of the people in the conventional purpose. HRM is now responsible of leading the capacities created by people and the relationships that these people develop.

The adoption of the knowledge-based economy, of the construction and functioning of the knowledge-based companies can not be carried out without knowledge-based management. It has to be underlined the fact that the human factor has a decisive role in outlining the knowledge-based management as well as in outlining the company and the knowledge-based economy. Thus, the human resources become much more important and complex than in the previous systems. Consequently, the importance of the human resources management is increased at the same time with the substantial modification of its contents (Nicolescu and Nicolescu, 2005, p. 271).

The knowledge-based economy owes its conceptualization to philosopher Michael Polanyi (Price, 2004, p. 65). He considers the knowledge to have two faces: explicit and implicit. The explicit knowledge is to be found in books, documentation, files and other accessible sources. The implicit or tacit knowledge is the one to be found in the employees’ mind much more difficult to be accessed, for evident reasons. Usually, an organization does not know which this „knowledge” is. Even worse, the managers’ trend to fire an employer when the least problem occurs means in fact to irresponsibly renouncing knowledge.

Grant (1997, quoted by Price 2004) argues that HRM can improve the competition of an organisation through the impact upon "the knowledge basis" of a business: its employees' skills and expertise. HRM can increase competition from a knowledge management perspective. A possible strategy consists in spreading the "tacit" knowledge within the organisation and blocking its spreading outside it.

To this purpose, the organization should:

1. Accept that the set of knowledge is a vital source of added value for its products and services and a key for gaining the competitive advantage.
2. Clearly distinguish between the tacit and explicit knowledge.
3. Accept that the "tacit" set remains within the individuals and it is learnt in an informal and not structured manner.
4. In a way or another, identify and record this tacit knowledge and incorporate it in the "structural capital" of the business in order to be able to be also transmitted to others.

The knowledge management supporters argue that the long term competitive advantage can be reached by identifying and recording the tacit knowledge. But the simple fact to agree with this principle based on the common sense ground does not tell us also how to do it. And many studies end here. A remarkable exception is Tiwana (1999, quoted by Price 2004), who points out:

"In the technology-based industry the companies which thrived are not the ones who invented new technologies but those which applied them. Microsoft is probable a good example of a company which first based itself on a good marketing then on the sale of shares and latest on innovation – mainly coming from exterior".

Professor O. Nicolescu considers that a new productivity paradigm was outlined, pursuant to which within the new economy productivity means "what, how much and how well it is produced by using the available resources with a view to increasing the clients' satisfactions". Knowledge, intellectual capital and time became the most relevant resources. Being the single resource which possesses the capacity to think and implement new ideas, people occupy the central position in the formulation of relevant productivity strategies.

The new type of human resources management outlined within the knowledge-based companies displays more characteristics by which it differentiates itself from the classical human resources management:

- The focus on the human resources approach from the perspective of the amplification and effectiveness of treating knowledge;
- The inclusion in its ranging sphere not of employers only but also of other main stakeholders of the organization;

- The intense differentiation or specialists' approaches, actions and behaviours in HRM field in order to be able effectively to consider the heterogeneity of the human resources involved in organization, of their characteristics, motivations and expectations;
- The performance in a participative manner, to the purpose of intense and direct involvement of knowledge-based specialists in carrying out the human resource activities which concern them, starting with the projection of their careers;
- The display of an intense creativity in all human resources management processes in order to be able to conceive adequate solutions for the different number of original elements involved in the efficient and effective use of human resources;
- Conceiving and performing the human resource activity in a flexible way, permanently modifying their functions and content, corresponding to the endogenous and the exogenous evolutions of the organisation;
- Keeping within the company the knowledge-based specialists, their elite, which became a central function of knowledge-based management on which the functionality and the company performances depend in a great measure;
- The subordination of all actions in the field of human resources to obtaining competitive economic performances and ensuring the company sustainability.

The mentioned characteristics reflect in all processes which represent the content of human resources management, leading to important modifications upon some of them.

6. Conclusions

Beginning with the times of the old, wealth and power were associated with the possession of physical resources. Wealth and power in the 21st century will mainly result from intangible intellectual resources from the knowledge capital.

The proliferation of new information and communication technologies, the changes in the role and functions of knowledge cause profound modifications in the way in which people work, learn, have fun and communicate.

As long as the mobility of information and globalization of employment increase, the knowledge and expertise can be instantaneously transported around the globe so that any advantage based on such differences

can disappear over the night. The only advantage that can be maintained is the one given by a continuous innovation process and by the creative talent of knowledge operators in order to manage a continuous flow of issues and challenges – the capacity to extract value from information.

We are now an information society in a knowledge-based economy where the knowledge management is essential and the human factor is decisive in outlining this type of management.

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