



THE HINDU BusinessLine

SEARCH GO

Like Follow + Follow

Home News Markets Companies Tech Economy Opinion Features Portfolio Catalyst BL Ink ^{NEW} Multimedia Blogs
 Portfolio Catalyst Case Studies **BLink** New Manager Pulse

Design firms for the knowledge economy

MOHIT KISHORE

COMMENT · PRINT · T+

Like Share 3 Tweet 1 +1 1 in Share 2 Pin it Share 1



Set in one's ways In the traditional economy, many tasks performed by the workforce were fairly repetitive and mechanical. This resulted in policies that aimed to increase standardisation and efficiency, and reduce flexibility.

Ads by Google

YES BANK™ NRI Saving A/C - Avail 2N & 3D Hotel Stay Voucher + Tax Benefits in India. Register Now!
yesbanknriservices.co.in

Sources of advantage: Market share, economies of scale, and barriers to entry – are of ephemeral consequence

Human society has transformed over centuries from an agrarian economy to an industrial economy, and to today's knowledge economy. Firms in a knowledge economy differ in a number of ways from those in the industrial economy.

Some of the major distinguishing features include the significant role played by knowledge in the creation of value, the use of technology and less use of capital, high competence of workers, and low commoditisation of the workforce.

Additionally, industrial economy firms themselves are increasingly displaying knowledge economy characteristics, particularly due to the use of technology.

However, despite these shifts in the character of what determines value creation, firms still adopt earlier era design features that may no longer be relevant. What kind of adaptive measures must firms take to truly reflect the underlying changes in what drives value creation? Some examples are outlined below.

DOWNLOAD THE BUSINESSLINE APP Available on the App Store

Shared ownership of capital

In the manufacturing paradigm, setting up a new plant involved significant capital investments in infrastructure.

This meant that the ownership of the firm (rightfully) was concentrated in the hands of the 'capitalist' (ie the supplier of financial capital), since it was he who was taking the biggest risk in the enterprise.

In a knowledge economy paradigm, the most important asset of the firm is its human capital, and other forms of capital investment have a relatively smaller part to play. This means that employees need to have a significant ownership of the equity of the firm. Unfortunately, this has taken off only in select industries, where the linkage between human capital and value creation is indisputable, for instance in the technology industry.

Cooperative decision making

If one were to combine a highly skilled workforce, with the kind of distributed ownership described above, then it would be important to understand how decisions are made in knowledge-based organisations.

Here, a cooperative model may make sense, where democratic principles are applied at all levels of the organisation to take key decisions.

The quality of decisions taken in such a system may well improve, given that an owner mindset is very different from an employee mindset. There may still be a somewhat flat hierarchy in place. However, decision making will include both top-down and bottom-up features.

Individual freedom

In the traditional economy, many tasks performed by the workforce were fairly repetitive and mechanical.

This resulted in policies that aimed to increase standardisation and efficiency, and reduce flexibility. However, this paradigm fails when applied to contexts where creative thinking forms the basis of value creation.

Hence, people policies need to reflect a high level of individual freedom and autonomy. Notions like measurement of working hours and highly codified job descriptions will have to be given up in favour of more flexibility, and what may, at times, seem like chaos.

Smarter idea

The firm's design must allow for continuous creation of intellectual capital as a source of competitive advantage.

This is because the speed of obsolescence in a knowledge economy is very high, and only determined by the speed at which someone else can come up with a smarter idea.

The response to this rapid obsolescence must be a proactive approach to creating new wealth creation ideas in preparation for the irrelevance of existing ideas. In traditional economy firms, scale allowed for some degree of complacency because as one attained a certain size, the barriers to entry for competition simply became stronger. However, in a knowledge economy, sources of advantage – like market share, economies of scale, and barriers to entry – may only be of ephemeral consequence.

It could be argued that a knowledge-based firm is the highest stage of evolution of the enterprise, since in its ideal form, it allows for its participants' recognition and reward for unique talents (versus standardised or mechanical skills). One may recall that in addition to exploitation, alienation of the workforce through the loss of meaning was a major criticism offered by communism to capitalism.

Gradually changing

A knowledge economy firm, perhaps, has the best potential to overcome these shortcomings. We may well be at only the early stages of a true knowledge-based economy, but the texture of the firm is gradually changing. A timely recognition of these shifts and the implementation of adaptive measures will be important. This will accelerate our progress towards the ideal of what an organisation should be – an engine that can deliver value to stakeholders (owners, customers and society), and fulfilment to its people.

(The writer is a corporate strategy professional.)

(This article was published on April 29, 2014)

RELATED

TOPICS

[economy, business and finance](#) | [economy \(general\)](#) | [management](#) |

What's this?

What's this?

MORE FROM BUSINESS LINE

FROM AROUND THE WEB



New Manager This Week

How to get the best out of people



Putting the human aspect of the employee first is in the larger interest of companies »

Leadership in a difficult situation

A bigger bang for your MBA buck

[Read More »](#)



The national issues that the nation is not talking about.



Ads by Google

Stolen phones may no longer be traceable

New order to light up Crompton Greaves

Indian market outshines peers

The road ahead for NBFCs

Godrej Interio to set up manufacturing unit in South

Launching a Sales Incentive Program Hoovers

Small Businesses Driving The Pack With 102K Jobs in October ADP National Employment Report

Shares of Graham Holdings jump on plans to spin off Cable One... The Washington Post

Busted: Cops Get New Radar Guns in the Fight Against Texting and... Erie Insurance

If You Think the Kim Kardashian Cover Was Controversial, Check... TWC Central

Recommended by

Like
 Share 3
 Tweet 1
 +1 1
 Share 2
 Pin It
 Share 1

Women's Clothes on Sale
 Shop Women's Clothes on Sale Up to 70% Off! Daily Deals at



Latest

Most Engaged Stories

- Don't make fortune out of poor, Rajan tells micro lenders**
 Asking micro-lenders to look at only a "reasonable profit" to sustain their business while serving borrowers at the bottom of pyramid, RBI Governor Raghuram Rajan has said one should not think of making a fortune while
 10 comments
- Why this fuss over the price of milk?**
 Most dairy farmers are very poor. They need a boost or they might just have to slaughter all their cattle
 7 comments
- Telecom Dept to levy varying rates for different spectrum**
 1% of revenue for 2300 MHz, 5% for other bands; RJio stand vindicated
 5 comments
- ITC wind farms in AP caught in 'cross fire'**
 Wind energy farms set up by ITC Limited are caught in the 'cross fire' between Andhra Pradesh and Telangana over wheeling issue.
 5 comments
- Today's Poll**
 4 comments



[Subscribe via RSS](#)

This article is closed for comments. Please [Email the Editor](#)

Ads by Google

Disabled in Canada?

Canadian Disability Credit \$40,000 Government Grants Available Now. thenba.ca/1.888.389.0080