

# KNOWLEDGE MANAGEMENT AS A BASIS OF MODERN DEVELOPMENT OF THE COMPANIES

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## ABSTRACT

This paper considers the management process of the development of companies on the basis of the knowledge management concept. On the one hand, a wide range of publications on this subject facilitates the usage of the conceptual aspects of knowledge management for reaching the goals of the development of the Ukrainian companies. On the other, hand it requires adaptation of scientific achievements for solving various problematic situations in practice. Attention is paid to the potential of the Ukrainian companies' development on the basis of the knowledge potential estimate. This paper examines the knowledge management process in an example of the improvement of brand management process. It suggests and substantiates the main directions and ways of the practical application of this concept for the Ukrainian companies on the basis of the knowledge management cycle.

**Keywords:** knowledge, knowledge management, business development, knowledge management cycle, brand

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## INTRODUCTION

Increasing importance of knowledge as a resource shows up in the modern development paradigm. Its basic idea is aimed at the creation of an environment where a person could fully realize his or her potential and lead a productive, creative life in accordance with consumer interests. In addition, a company could achieve its desired purposes forming a competitive advantage. Knowledge, as a basic instrument of such achievements, requires managing actions, which is achieved through the knowledge management concept. Knowledge management enables knowledge to be converted into an asset whose value increases with the accumulation of skills, creative talents of the people, their educational qualification and experience. Such transformation improves people's ability to acquire new knowledge and information and to use them for development.

Despite considerable public and government interest in the implementation of knowledge management into Ukrainian practice, managers and business leaders often are not interested in the implementation of this concept. Reasons include the lack of conceptual skills of managers, inefficient organization of the implementation process, and the lack of available finances for implementation of such activities. The objective of this paper is the generalization of theoretical and practical guidelines of companies' development management on the basis of the knowledge management concept. To achieve this objective, we will discuss the following: (a) the essence and elements of knowledge necessary for the development of the Ukrainian companies, (b) the main stages of knowledge management, (c) selection of the main approaches to the formation of

knowledge management strategy, (d) discovery of the obstacles of knowledge management implementation into the domestic practice, and (e) an outline of the perspectives of knowledge management for the achievement of organizational development purposes.

This paper is structured as follows: Section 2 provides a theoretical background by reviewing academic literature on knowledge management in the development of Ukrainian companies. Section 3 determines knowledge development potential for the Ukrainian companies, searches the peculiarities of knowledge management in an example of the improvement of brand management process, and considers the restrictive factors of this process and the perspectives of its overcoming. Section 4 provides critical reflections and conclusions.

## THEORETICAL BACKGROUND

### The Essence And Practical Meaning Of Knowledge

The current pace of progressive development of Ukrainian companies is associated with the spread of postmodern business activity principles. These principles pay attention to such key development factors as intellect, information, and innovations. The key to their spread is knowledge. For example, while exploring perspectives and opportunities of organizational development in the new society, management guru Peter Drucker defined knowledge as the driving force of changes in management. In his book *The Age of Discontinuity* he used the term "knowledge worker = headwork person" and noted that the development of the new society will be based significantly on attracting knowledge workers (Drucker, 1992, p.23).

The transformation of knowledge of an organization into its asset value is based on the consistent implementation of processes related to its formalization, the creation of conditions for an access to users, and the distribution, storage, and application of learning into business practices. The key characteristics of knowledge distinguish it from data and information.

As knowledge is a significant asset it is important to define the features which provide organizational development. Japanese scientists Ikudjiro and Hirotaka (2003) specified the category of knowledge, in relation to the information, on the basis of the following aspects: knowledge provides the presence of a certain opinion and its affirmation, it is a function of a particular position, viewpoint, or intention; knowledge provides action; and knowledge has a relative content which depends on the situation. Knowledge is divided into two categories: (a) subjective (non-formalized), which is derived from the experience and practice and (b) objective (formalized), which is obtained from theoretical generalizations.

Davenport and Prusak (1998) represented knowledge as a set of practical experience, personal values, contextual information, and expert intuition, which is the basis of an evaluation and synthesis of new experience and new information.

Karl Wiig (1997) identified knowledge of a company as a resource which creates exceptional possibilities and skills and guarantees overall success and the best usage of the value of knowledge assets. Wig noticed that knowledge is immense, it is difficult to be measured, it is variable, inexhaustible and depends on the activity. Additionally, he observed that knowledge is power, it may have a significant influence in an organization, it cannot be simultaneously purchased on the market, it has long-term character, it is beyond the competition, and it can be used in different activities simultaneously. These features define the specificity of the choice of methods, instruments, and technologies of knowledge management.

Knowledge is significantly distinguished from data and information because it is inseparable from a person who possesses it; it has a holistic nature and dynamic character. Specialists in corporate management define knowledge as superior instrument that allows a specialist to operate accurately. Furthermore, they consider this category from the position of a specialized practical activity and relate it to a certain place and function in practice. Thus, knowledge is an organizational resource directly related to the mental work of a person and depends on the available data, information, and obtained practical experience.

### **Knowledge Management**

The transformation of organizational knowledge into an asset is based on the consistent implementation of processes which are connected with: (a) creation or acquisition; (b) the modification with the purpose of meeting current and future consumer needs; (c) the usage for certain purposes; (d) archiving for future access by users in an accessible form and format, the transfer, and conversion; and (e) utilization.

These days knowledge management is viewed in different areas of practical application. A possible explanation for this is that the concept quickly evolved from a theoretical discipline (early 90s) to its diverse practical application. The knowledge management concept acquires its practical significance with the following functions: (a) the best transformer of changes based on benchmarking, (b) information and resource management, (c) organizational learning and organizational memory, (d) electronic productivity support system (EPSS); knowledge economy and knowledge as corporate value, and (e) Internet and Web portals.

The origin of knowledge management is also associated with consulting activities. Such diversity allows it to cover various areas of organizational activities connected with knowledge management processes, and to develop the directions of practical implementation of accumulated knowledge. However, it complicates the identification procedure of the possibilities of knowledge management implementation into the activities of a defined company and the determination of practical ways of the implementation of this concept.

Using the main guidelines of knowledge management, attempts to find a universal recipe for increasing the efficiency of organizations resulted in a number of success models. Modern researchers have extended the list of key factors of effective knowledge management for achieving organizational objectives. However, this task has been rather difficult because, despite the obvious value of each model, their application requires adaptation to the working conditions of a certain company.

In this paper, we associate the research of knowledge management process with the usage of intellectual potential of a company. This approach is based on Brooking's (2001) idea of considering knowledge and knowledge management processes as part of the intellectual capital management of a company. Brooking asserted that intellectual potential formation takes place with the participation of people and collective knowledge of the employees of a company, their creativity, problem-solving skills, leadership, entrepreneurial and managerial skills. Based on this assertion, we can summarize that the management process is based on the combination of formalized and non-formalized knowledge.

### **Development Objectives Which Knowledge Management Decides**

Today the debates concerning the nature of knowledge and its potential for the development of applicable companies continue. This gives rise to various approaches to knowledge management and opportunity of using modern information technologies toward this process; this is obvious, because society, technologies, economy and international environment change. The people and relations among them also change; this breeds new knowledge and a dynamic process. The awareness of the importance of knowledge in the processes of modern development is immutable.

We consider the development of domestic companies

as a process connected with the transformation of their current state to a new level based on increased efficiency, the achievement of development stability and innovative changes. The main objectives of knowledge management that provide organizational development are: (a) identification of different types of knowledge which create organizational development prerequisites and (b) the selection of the main processes of knowledge management based on specification of basic elements and knowledge management technologies needed for development.

Accounting for the peculiarities of the category of knowledge and its differences from such key notions of knowledge management concept as data and information, we can highlight the following approaches to the formation of knowledge management strategy of a company.

The first one is based on IT systems usage. Accordingly, knowledge management strategies outline the possibilities of the creation, storage, exchange, and usage of documentary knowledge of an organization.

The second approach is human-oriented. Consequently, knowledge management strategies are based on knowledge exchange through the interpersonal interaction. It allows managing knowledge through exchange among people in social networks through professional groups and teams. The choice of one of the following alternatives forms the multiple possibilities of

this strategy implementation: (a) staff development strategies or (b) knowledge involvement from outside by participating in strategic partnerships. In this context, methods and techniques of professional staff development become more significant.

**CONTEXT: THE POTENTIAL OF UKRAINIAN COMPANIES' DEVELOPMENT ON THE BASIS OF KNOWLEDGE ESTIMATE**

In an open society, knowledge is formed, accumulated, and used systematically. Additionally, its management quality influences other elements of social development in particular the level of innovation, information development, and the quality of training professionals. The analysis of the human development index characterizes Ukraine as a country with high development potential. However, the 78<sup>th</sup> position in the list of 186 countries during 2011 – 2012 indicates the absence of significant changes in the development of the knowledge management concept. This position does not meet the requirements of modern development.

According to the estimate of knowledge potential for the development of a country, conducted by the World Bank (KAM), the situation concerning knowledge management in Ukraine may also be characterized as unfavorable (see Table 1).

**Table 1:** Knowledge estimate indexes for the development of a country (KAM, 2012)

Position	Change(before 2000)	Country	KEI*	KE**	Economic Incentive Regime	Innovation	Education	Information and Communication Technology (ICT)
56	-2	Ukraine	5,73	6,33	3,95	5,76	8,26	4,96
55	+9	Russia	5,78	6,96	2,23	6,93	6,79	7,16
59	+11	Belorussia	5,59	6,62	2,5	5,70	7,37	6,79
68	+7	Georgia	5,19	4,49	7,78	5,15	4,61	3,72

Source: compiled from KAM (2012) published by the World Bank

\* KEI – index which defines conditions for the successful usage of knowledge for the economic development of a country

\*\*KI – index which defines the possibilities of a country to generate, obtain and spread knowledge; it characterizes the general potential of knowledge development

The data in Table 1 show that the post-Soviet countries selected for the comparison, which were approximately in the same development conditions before the collapse, formed and used knowledge potential differently after 2000. Among them, Ukraine ranks second after Russia. However, Ukraine uses knowledge potential inefficiently. Also, the change of Ukraine’s position on potentials of

knowledge proves it.

Among the criteria of the formation and effective functioning of knowledge management there are knowledge-intensive products, services, and innovations that accumulate unique knowledge of a company and help form stable competitive advantages. This situation in Ukraine is characterized with the data of table 2.

**Table 2.** Indexes of innovation development of Ukraine

Index	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Innovative industrial companies, %</b>	14,6	11,5	10	8,2	10	11,5	10,8	10,7	11,5	12,8	13,6
<b>New technological processes in industry, units</b>	1482	1142	1727	1808	1145	1419	1647	1893	2043	2510	2188
<b>Innovative products in industry, units</b>	8416	22847	3978	3152	2408	2526	2446	2685	2408	3228	3403

Source: Innovations in the industrial companies, <http://ukrstat.gov.ua/>

The data in Table 2 show that, despite insignificant tendency of the improvement of innovation activity of the Ukrainian industrial companies, the share of such companies is less than in 2002.

Education significantly contributed to the formation of knowledge development potential in Ukraine. Here, however, the situation is also unfavorable. The surveys of employers showed that the level of skills of national graduates is not high, and their knowledge, in many cases, is separated from practice. According to estimates from employers, young professionals most often lack practical professional skills (61% of the respondents) and problem solving skills (38%). However, graduates believe that knowledge of foreign languages is of the greatest importance (46%); professional skills are important for 25% of the respondents, and 19% of them noted that they do not have any problems with skills. Thus, current education does not meet modern requirements of the labor market. Therefore, in addition to an increase in the level and quality of knowledge in the education system, the implementation of knowledge management concept in companies is important.

Today in Ukraine there are several obstacles to the effective usage of knowledge potential of domestic companies. The macroeconomic situation on the researched problem is unfavorable; therefore, its improvement depends on the companies.

### **Knowledge Management of A Company: On The Example Of Brand Management**

We consider knowledge management to be the basis of modern development of companies, and key aspects of this concept are as follows:

Firstly, it is the organization of a company's business activity which allows achievement of its development goals. The researchers of knowledge management point out three interrelated components of this process:

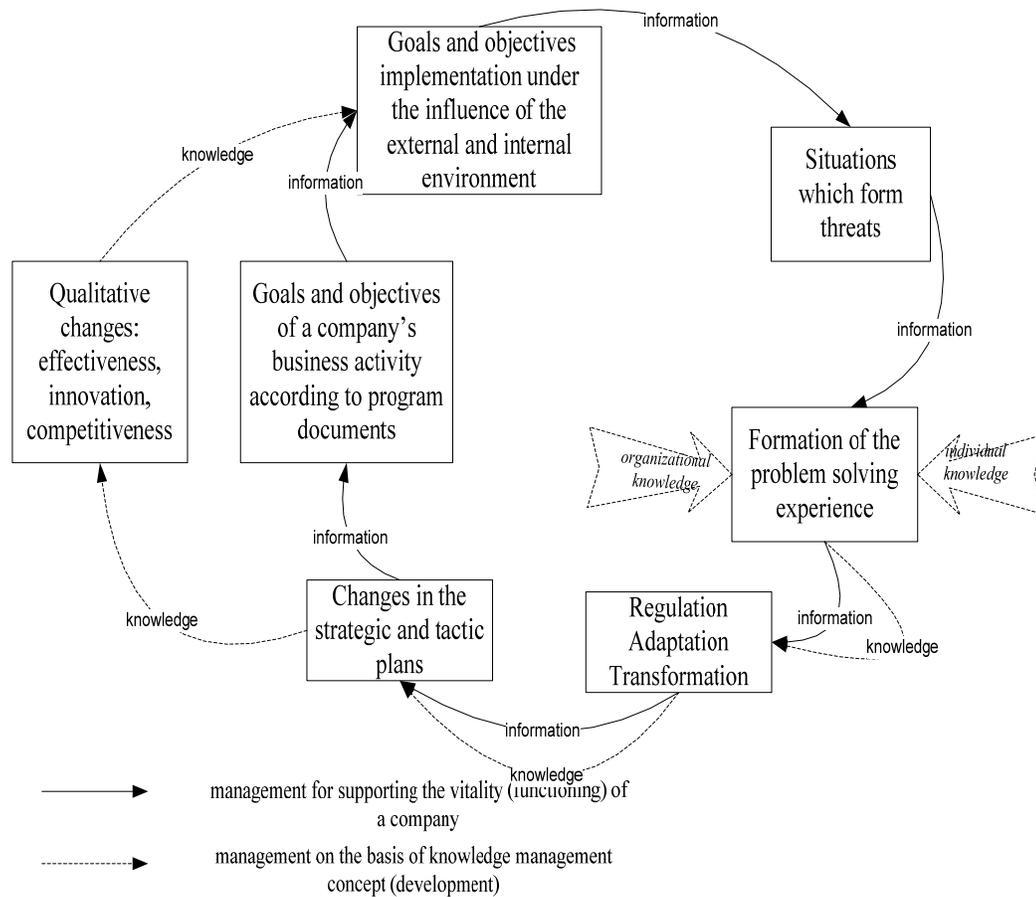
- knowledge infrastructure, which contains structural elements that control and distribute knowledge, help

determine the place where one can obtain necessary knowledge;

- knowledge culture as cultural environment, which promotes knowledge exchange, forms the idea of the importance of employees as knowledge carriers and creates motivation for knowledge exchange; and
- knowledge technology, which covers document management systems, data and text research, Internet, tools for teamwork, expert systems, and decision making support tools.

The formation of a knowledge system in an organization is based on pointing out three basic groups according to their influence on a company's competitiveness. Thus, the fundamental (basic knowledge) meets the required minimum, which employees of an organization should have, but it is not enough for market competitiveness. Specific knowledge forms the competitive potential and innovative knowledge is necessary for obtaining a leadership position.

Secondly, a knowledge system, formed in a company, should provide effective current and long-term planning. It is worth mentioning that a knowledge management system in a company is not formed in isolation, rather it is in the context of organizational development in terms of the existing program documents (i.e., strategies, plans, business activity budgets, etc). Eventually, the knowledge management subsystem itself should support the development of a company as a whole, and in terms of deviations and dangerous situations in business activity it should serve as the basis of changes in development strategies. Experts in the field of strategic management note that the situations which occur in business activity of organizations require appropriate knowledge for their solution. This knowledge is formed in the process of learning. Special knowledge, which is possessed by a company, creates a new quality. We define it as the criterion of modern development that are consider to be, not only a means of maintaining a certain standard, but a living, dynamic process of continuous improvement.



**Figure 1.** Managing the development of companies by means of knowledge management concept (author’s model)

Thirdly, knowledge accumulation and usage in a company should occur within a certain system. As a rule, a knowledge subsystem is a part of management system where knowledge management occurs on the basis of information and communications. Knowledge management should meet the goals, objectives and current activities of the whole company. Information which circulates in a company provides consistent fulfillment of its goals and objectives, the maintenance of the current viability. However, the information which is accessible for other companies does not allow managers to create unique advantages in their firms. Knowledge is the determining criterion of qualitative changes and their management. Therefore, in the dynamic environment knowledge management should be seen as an important instrument for the development of companies. Schematically, this process is shown in Figure 1.

Within the existing knowledge management systems of a company it is worth considering the peculiarities that distinguish knowledge from information and allow administration to form future programs of its development. This requires a focus on communications, knowledge storage and updating, selective knowledge distribution, and the activities in knowledge management sphere.

Knowledge management process is complex and is based on the collection and usage of large amounts of

information; it also requires additional processing by experts and consultants. This defines two approaches to the formation of knowledge management strategy. The first approach is connected with the usage of artificial intellect. Within this approach, the main methods of knowledge management include methods of information storage and processing by means of information systems. Information technologies are mechanisms for processing large amounts of complex knowledge which try to make a computer to think like a human. The researchers of artificial intellect pay significant attention to how people solve problems. This process is the basis of functioning of most information systems, which are aimed at the research of human behavior and its imitation of computers.

The second approach reflects classical management. Advocates of this approach consider knowledge to be a significant corporate asset that is based on certain dynamic skills, know-how, and other instruments which are constantly changing. If the representatives of the first approach try to describe of a problem, the representatives of the second seek to solve it. Hence, the typology of knowledge management systems is important because it is based on the determination of two main strategies: the *codification*, which is significantly based on information technologies and is focused on knowledge systematization and storage as an infrastructure for knowledge distribution; and the *personalization* which focuses on humans as

knowledge source and emphasizes the importance of knowledge transfer. We do not diminish the importance of the first approach but suggest considering the knowledge management process as an example of personalization strategy.

It is critical to focus the complex knowledge structure of a company on brand management process. In general, brand management today is very topical because a brand itself is considered to be a technology of knowledge accumulation and distribution in marketing and the related activities. Knowledge is the starting point in providing the

development of a company through brand management. It is formed and operates in brand production and consumption and includes knowledge that is potentially realized by both producers and consumers, but is not implemented due to various circumstances. This is explicit and implicit knowledge. It is important to include these types of knowledge in brand management process. It is necessary to identify knowledge elements which will ultimately contribute to the achievement of not only the development goals of a particular brand, but the company as a whole (see Figure 2).

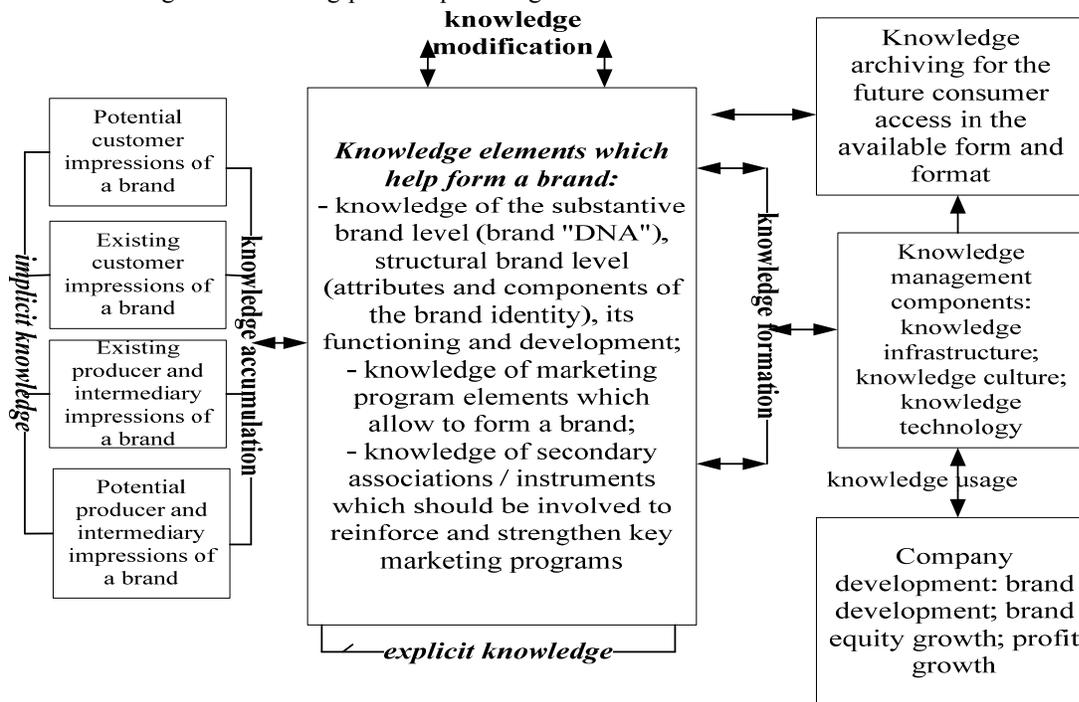


Figure 2. Knowledge management on the example of brand management (author's model)

The consideration of knowledge elements in the brand management process are relevant to the operating process for the development of a company and is accompanied by defining its priorities. Focusing on the key activities of an organization will allow firm to transform available information about a product into specific knowledge. This knowledge includes the distinctive features of a product and gives a consumer the basic idea of product competitive advantage. It is necessary to do this on the basis of knowledge management cycle (see Table 3).

The overview of brand knowledge is accompanied by the accumulation of knowledge about its state at a certain stage of the development of a company and about the tendencies of future development. The conceptualization stage is a consistent continuation of the overview stage, especially in the unfavorable situation on the market when a brand is losing its market position. At this stage, we suggest to use the "core" product identity concept, which forms the key slogan of the product type of a company, for example, Petroleum Products Company. The key idea of brand concept development in this case is based on the slogan: gasoline – for the cars; homes– for the people; goods – for the family; service – for the customers;

attention – to the details. Further work concerning brand management is connected with the identification of possible sources of replenishment, renewal, and improvement of the brand offer.

Knowledge development stage is important. A company may obtain the necessary knowledge in the following ways:

- qualified personnel selection;
- training during the employment practice, particularly through professional development;
- out-sourcing and out-staffing. Out-staffing is a modern concept of human resource management, the main idea of which is attracting professionals from outside for solving professional problems of a company. Out-sourcing is also important because it significantly reduces the cost and provides qualified professional services of narrow specialization; and
- self-learning. In our opinion, this is the cheapest and the most effective method of knowledge management. It allows firms to form a knowledge system at the level of an individual employee and a company as a whole, which significantly increases the intellectual level of the performers. The most

famous self-learning organizational concept in Ukraine today is the concept introduced by Peter Senge and described in his books *The Fifth Discipline: The Art and Practice of a Self-Learning Organization* and *The Dance of Changes*. The essence of a self-learning organization is that it is an

organization where people continually develop their abilities, create new intellectual models where there exists the spirit of collective aspiration, and learn to see everything as a whole.

**Table 3.** Knowledge elements which should be considered in the context of brand management cycle of a company

Knowledge management cycle	General characteristics	Knowledge brand management process
Review	Result estimate	State of "brand health" indicators
	Comparison of old and new results	Brand indexes dynamics
Conceptualize	Check (review) of knowledge and organizational context	Brand key idea from consumers' viewpoint
	Analysis of strengths and weaknesses	Brand place (position) on a competitive market
Reflect	Identification and necessary improvements	Importance of certain aspects of brand offer
	Improvement planning	Brand components/elements of marketing programs
Act	Knowledge synthesis	Human resources management in an organization; information technologies; organizational development
	Knowledge combination	
	Knowledge allocation	

The idea of self-learning organizations should not be seen as the ultimate goal but as a continuous development process. Learning is defined as the main factor, due to which organizations obtain an experience to manage changes and growth possibilities. In self-learning organizations the formation of competitive advantages is the result of the ability of its managers to learn faster than competitors.

Famous brands, which are successful in the domestic market, pay considerable attention to personnel training. Nevertheless, experts notice certain obstacles to effective learning in Ukrainian companies. In particular, learning is not treated as a serious strategic direction of an organization. Not all organizations understand the importance of the learning process. Often experts consider the lack of the relations between management and the tasks which may be solved through personnel training to be the main obstacle. Actually a manager is the transformer of knowledge from theoretical guidelines to implementation in practice. A significant drawback of learning is the disparity of obtained skills, organizational culture, and atmosphere among companies. It is necessary to set the standards which could change the environment according to the learning process; this is one of the rules of organizational development. Insufficient knowledge and experience of trainers is also an obstacle to effective personnel training. It is important to make recommendations for the implementation of learning results in practice not only for the participants of the learning process, but also for line managers. Other obstacles include the lack of measuring instruments for learning results at the level of business goal achievement, as well as the objectives of professional development.

Corporate universities are practical steps for implementing the objectives of a company's development through the dissemination of knowledge management. It is a method of the selection and education of people and a modern approach to the development of large organizational and technical systems. The organization and functioning of such universities allows companies to organize an experience exchange inside corporations, its storage in transmitting forms and to transfer it to where it may and should be used. This method meets the change of priorities from managing people to managing knowledge, and may serve as an effective way of organizational knowledge accumulation and distribution. Important factors for knowledge management in corporate universities include: public attitude, entrepreneurial nature, living understanding, systems thinking, persistence in determining the essence of a problem, fluent mastering of the instruments of modern knowledge management (i.e., foreign language, information technologies, engineering approach, and social engineering).

In addition to learning, the following ways of obtaining knowledge significantly extend the possibilities of learning replenishment by:

- knowledge purchase through the recruitment of new employees with knowledge and experience; the transition of one function from one organization to another one for continuous operation; and
- knowledge rent through the involvement of the consultants and experts in a certain field, the help from clients, customers, suppliers, academic institutions, and the involvement of other organizations on the sub-contract basis.

In the Ukrainian economy, the following steps of forming knowledge potential as a driving resource of organizational development deserve attention: the introduction of information democracy, reducing barriers among management levels, the usage of information technologies to reduce subjective factor and spontaneous decisions, the involvement of the performers to decision-making, and the recognition and motivation of the obtained results (profit).

### ANALYSIS AND CONCLUSIONS

This paper summarized the authors' viewpoint concerning knowledge management as a basis of modern development of companies. It is worth mentioning that knowledge management is a modern concept of a company's development that is based on purposeful human activity. In addition, it provides the processes of knowledge generation, accumulation, storage, and usage to maintain the current operations and long-term development of a company and is based on the optimal combination of information and economic context of knowledge. This combination allows company to improve the quality and efficiency of management decisions, to speed up the reactions to changes in the environment of an organization, and to improve the quality of customer service. Its advantage is that it is dynamic, because it requires constant updating of data and information. In turn, this requires the usage of modern information technologies which facilitate management processes in an organization and increase their effectiveness.

According to a company's knowledge structure, knowledge management strategy can be described by either the prevalence of system or human orientation. The maximum knowledge management efficiency is achieved through complex knowledge management including an economic and information category.

The application of knowledge management strategies facilitates the knowledge management process on the basis of modern instruments which stimulate, facilitate and support people in the search, creation, transmission and storage of old and new knowledge. Managing the development of companies requires advanced possibilities of information systems usage in knowledge management process. This is possible due to the Internet, Intranet, the formation of data storage/intellectual analysis instruments, the development and usage of decision-making support systems, document management systems, artificial intellect, programs of the teamwork, etc.

Personnel training is one way to practically implement knowledge management. Today, in Ukraine, there is a practice of learning in organizations. Despite the obstacles that reduce the effectiveness of training, consistent solution of problematic situations will facilitate the activation and enhancement of the efficiency of knowledge management implementation domestically.

The development of domestic companies should be connected with enhanced possibilities of the usage of knowledge potential, which was accumulated not only in the domestic but also in the international companies in

their production, distribution operations, and in transfer of knowledge. This is possible through the purchase and adaptation of global knowledge. It is important to develop knowledge at the local level through investments in human capital for the enhancement of learning possibilities and knowledge usage, as well as through investments in technologies which contribute to knowledge accumulation and processing.

It is important for knowledge management to be not only the subject of theoretical research, but to acquire practical value at the levels of social and organizational development. The technologies and methods of the formation and consistent implementation of knowledge elements, which are peculiar for a certain company and meet the requirements of time, need further research. This process should account for the interrelation of national interests, the interests of an individual company, and the creation of the value chain. This requires activities which are preferred for knowledge management, appropriate processes which stimulate knowledge management development, the maintenance of the working environment which provides efficient knowledge management of a company and creates prerequisites for its development.

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