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Knowledge management and its impact on the management accountant

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Executive Summary

A copy of the full report is available for download from the CIMA website; www.cimaglobal.com

Introduction

A key feature of knowledge management is turning data into information to support decision-making. Data are raw facts, which when organised purposefully become information. Knowledge implies the application of a cognitive process to the information so that it becomes useful, about which conclusions can be drawn and which involves understanding. Knowledge management has been described as a process of creating, capturing and using knowledge to enhance organisational performance at the organisational, rather than the individual level of analysis.

Knowledge is a key organisational resource. Acquiring knowledge has been a concern of organisations as most are significantly knowledge—dependent for their success. Knowledge management is more concerned with the 'flows' of knowledge that take place as part of organisational processes than the 'stocks' of knowledge presented in financial reports.

Accountants in general, and management accountants in particular, are implicated in the management of their organisation's knowledge resource because the effective utilisation of that knowledge is ultimately reflected in business performance. However, accountants have tended to view knowledge mainly in terms of financial information and a range of non-financial performance measures, or in terms of reporting the 'intellectual capital' of an organisation. The reporting of intellectual capital recognises the value to the organisation of its customer base, knowledge, people and processes and explains to a large extent the market-to-book ratio of listed companies.

Knowledge management processes are considered to be a combination of acquiring, sharing, retaining and utilising knowledge. Knowledge acquisition relates to obtaining knowledge that an organisation does not currently have. Knowledge sharing refers to the availability of knowledge that is already held by the organisation. Knowledge retention is concerned with not losing knowledge as people leave or move around the organisation. Knowledge utilisation is a concern with the value that can be added through the effective use of organisational knowledge.

People often see knowledge management processes purely in terms of information technology (IT), but it is just as much about people and organisational processes outside computer systems. Many authors have referred to modern organisations as being 'learning organisations'. We suggest that an organisation can only achieve sustained competitive advantage (and perhaps only remain viable at all) as a result of effective organisational learning. This learning is not just a question of creating and/or acquiring more knowledge, but more importantly of taking a critical approach to the knowledge already possessed. Indeed, this approach also needs to extend to knowledge not currently possessed – 'knowing what it is that we don't know'. Learning is a process of acquiring knowledge. Knowledge management is about ensuring that what is learned by individuals in organisations is shared and utilised and that processes exist to prevent knowledge from being lost to the organisation.

Knowledge management is thus connected with how individuals learn within the organisational context. Organisational learning is concerned with how people learn new knowledge, assimilate it with their existing knowledge and how they unlearn redundant knowledge. Knowledge management must enable organisational learning, not just by giving it direction, but also by permitting, encouraging and facilitating it. Conversely, it is only through organisational learning that knowledge management can be made into a day-to-day reality in organisations.

The research study
The aim of the research was to discover techniques for exploiting the knowledge-base of organisations; and to help the business community appreciate the need to improve the management of the organisational knowledge resource as a business asset, the utilisation of which is a key driver of competitive advantage. The researchers believed that a description of knowledge management processes and the identification of metrics that support knowledge management would also inform the practice of management accounting.

There were three research questions:
- to discover the processes that are currently used by organisations to acquire, share, retain and utilise knowledge;
- to find out the processes that organisational members believed should be used to acquire, share, retain and utilise knowledge; and
- to find out what measures were currently used and those that participants believed should be used in relation to the acquisition, sharing, retention and utilisation of knowledge.

There is evidence from research into knowledge-based systems that when people are interviewed individually, the responses they give do not match what they really do or think. This research aimed to understand knowledge management in context, so it was crucial to study the understanding and beliefs of the group about knowledge management in their organisation, not just the individuals in it. Data was therefore collected in a workshop format, which enabled a group understanding of knowledge management to be surfaced, rather than simply the aggregated understandings of individuals.

Ten full-day workshops were carried out, one in each of ten different organisations. Between 5 and 10 participants – all from the same organisation – attended each workshop. In total there were 78 participants, who came from a variety of functional areas.

Typically most of the participants were 'management', ranging from Board of Directors level down through senior and middle level managers. Each workshop included at least one accountant, but the majority of the participants in each workshop came from the breadth of functional areas.

The technique used to structure the workshops is called 'Journey Making'. This is a computer-based form of brainstorming that accommodates competing perspectives on an issue and facilitates a genuinely shared (i.e. agreed) understanding as the workshop progresses. The researchers believed that considering knowledge management at the strategic level by using Journey Making in this way would help clarify an organisation's thinking about the knowledge it has (or perhaps does not have, but needs), and how it can make the most of this invisible asset.

The full research report identifies both the aggregate findings and illustrations from particular organisations.

The importance of knowledge
Participants in the workshops largely saw information as a commodity. Information did not appear to be valued at a corporate level, in contrast to the sense in which knowledge forms an integral part of an organisation's intellectual capital.

In all organisations, there was general agreement that there was a great deal of both information and knowledge, but that it was not well managed. This was largely because of the enormous variety of information that was available, held in widely different systems, together with knowledge residing in people and processes. In most organisations, information technology was seen as a key element in the solution. However, the organisations appeared to appreciate that even if the technology was a necessary element of the solution, it was by no means sufficient on its own.

Many participants contrasted the quantity of information with its quality, especially the need for improved quality of information from the users' perspective in order to make interpretation possible. Most organisations reflected that there was lots of data (for example, market data) but that the data was only minimally organised into information. Typically, the information was only properly analysed – thus contributing to knowledge - when there was a specific need, rather than routinely.

One of the research conclusions was that technologies such as database systems and data warehouses may have led to a lack of focus in knowledge management as most systems do not help to distinguish raw data from usable/relevant knowledge.

Formal and informal knowledge
The lack of sufficient routinised, formal processes in some organisations placed greater reliance on individuals, leading to a dependence on informal systems. In some workshops, the informal communications were exemplified through a single person who acted as a focal point. Those organisations recognised the importance of informal processes, but held a desire to move to more formal, reliable and consistent ones. A difficulty participants recognised was being able to retain the richness of the informal systems while adding the robustness and 'shareability' of more formal systems. However, in those organisations in which technology and formal methods dominated, there was a call for more informal ones, suggesting an over-riding need for balance between formal and informal methods.

People and skills
In every organisation, people were seen as a key element of knowledge management, particular emphasis being given in all workshops to staff training and retention, with an explicit recognition that knowledge was routinely lost through staff leaving the organisation and that existing training was inadequate to ensure that existing knowledge was shared among newer organisational members.

The lack of consideration given at a senior management level to the processes necessary for knowledge management was marked in all organisations, particularly as they were all significantly knowledge–dependent for their success. The main emphasis in organisations appeared to be on processes for acquiring and sharing knowledge and information. There was less evidence of retaining and using the knowledge. Knowledge management was however perceived as being everyone's problem, not just that of top management.

Improving knowledge management processes
One of the principal patterns that emerged from the workshops related to the processes that participants identified as those which should be used to acquire, share, retain and utilise knowledge more effectively. Three solutions were identified: technology, people and process.

Technological solutions were concerned largely with making better use of databases and Intranet access. People solutions were concerned with staff retention and motivation, training and networking. Process solutions were concerned partly with paper-based specifications and process instructions but also with the mix between formal and informal methods of sharing knowledge.

There appeared to be no relationship between the type of organisation and its preferred knowledge management 'solution', which seemed to be more a consequence of the unique history and circumstances of each organisation. For external information, there was a particular need for summarising, abstracting and disseminating– an essentially people-based process. Internal processes were either technology-based, such as using databases and Intranets more effectively, or process-based, involving better manual documentation of procedures, or finding the right balance between formal and informal internal communications.

As with most (if not all) change initiatives, knowledge management will not succeed in an organisation unless it is backed by people with enough power and access to sufficient resources to make it work. A key point in the workshops was the general appreciation of the need for a 'knowledge champion' in each organisation. However, despite the clear importance of knowledge management to every organisation, there was little evidence in nine of the ten organisations of anyone at senior management level having taken ownership of knowledge management

Knowledge management metrics and the role of accountants
Significantly, the great majority of metrics suggested by participants were measures of organisational performance as a whole, although these included financial measures. The metrics identified were on the whole indirect measures of the effectiveness of knowledge management processes rather than direct measures of knowledge management per se, in the intellectual capital sense.

However, the management accountant does not appear to be a central figure in the knowledge economy in the organisations studied. The research proposes that there is a potential for management accountants to re-focus their view of 'strategic management accounting' to encompass the management of the knowledge resource that is already held within organisations, but which is not routinely or effectively utilised.

References

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