

KNOWLEDGE

RELEVANT TO ACCA QUALIFICATION PAPER P3

THIS ARTICLE IS ABOUT ENHANCING AND SUPPORTING THE CONCEPT OF KNOWLEDGE MANAGEMENT AS A STRATEGIC CONTRIBUTOR TO AN ORGANISATION. KNOWLEDGE IS THE TACIT CONSTITUENT THAT COMES ABOUT WHEN APPLYING INFORMATION, COLLATED AND GIVEN MEANING, TO A DECISION-MAKING PROCESS.

This article is about enhancing and supporting the concept of knowledge management as a strategic contributor to an organisation.

'Talent is capability and knowledge is ability.' Talent is intangible and embedded within people. Knowledge can be tangible and explicit if it is planned, controlled, facilitated and monitored, as is standard with other assets or processes in an organisation. The management of knowledge adds strategic value.

Knowledge is the tacit constituent that comes about when applying information to a decision-making process. This article focuses on the management of this knowledge.

In any economy, the aim is to maximise the advantage from a source of competition. If knowledge is a basis for the economy, then this economy has to be formed around maximising the use and the management of knowledge in businesses.

The knowledge, as currently exists within an organisation, is already a major contributor to success, in conjunction with the obvious contributors of the 9 Ms, which include money, machinery, materials, manpower, makeup, MIS, management, machinery, methods and markets.

THE ORGANISATION, ITS COMPETITIVE ADVANTAGE, AND KNOWLEDGE

The basis of competition is shifting from having a unique raw material or production system in manufacturing, to differentiation through the building of knowledge. *'Having knowledge can be regarded as even more important than possessing the other means of production – land, buildings, labour, and capital – because all the other sources are readily available in an advanced global society, while the right leading-edge knowledge is distinctly hard to obtain.'*¹

Companies have already moved from being labour intensive to process intensive, to carry out tasks most efficiently, effectively, economically and productively as possible while all the time introducing new techniques or elements to the process, product or service.

A company's success is dependent on adding value. This requires creativity based on the current knowledge position of the company. Organisations should not have to relearn on a regular basis but should be in a position to retain the knowledge they already have in their possession. They should then reinforce the use of this knowledge in processes and approach to the management of this knowledge. This is done by maintaining what is already known and then continue to maintain their position based on this unique knowledge, and finally renew and update the knowledge continuously.

This is a transparent approach to the handling of knowledge, which is the approach needed across the entire organisation so everyone can contribute.

With reference to knowledge management, the challenge (in the context of adding value) is that organisations have to reorganise themselves around the scarce resource of talented human capital and manage the constraining elements and strategic resources of information, knowledge and expertise². Obtaining this talented human capital is another task that requires human resource management and the involvement of the wider organisation.

HUMAN RESOURCES AND KNOWLEDGE MANAGEMENT

As organisations have changed, downsized or expanded, there has been an increase in technology and in redundancies. In knowledge management terms, a reduction in employee numbers implies that those remaining have to demonstrate their value. Employee turnover of, or the rise of the free agent implies that long-term contracts are on the way out. Loyalty is much reduced or, as suggested, 'loyalty is dead – commitment and drive are lost, on the way out or gone'³ both from the organisational and employee perspective, as neither can afford loyalty in rapid dynamic markets.

MANAGEMENT

Organisations affected by such changes, through the loss of people and then talent, can't keep relearning all the knowledge lost when people leave the company.

One such approach, which considers the individual rather than the process, is social network analysis. This helps identify and manage the hidden networks within an organisation.

According to Karen Stephenson, social network analysis is increasingly recognised as a means of leveraging organisational learning, retaining key workers, planning succession, harvesting innovative ideas, and managing both the rate and quality of change. This collective capability, Stephenson argues, depends on trusted relationships between individuals and has more power to influence the success or failure of an organisation than any managerial hierarchy³.

In this approach, employees are a key consideration, with individual requirements which should be acknowledged. Employees want freedom, autonomy, space, and flexibility enables intellectual capital to be assessed. By offering these, the opportunity for knowledge growth and retention can be developed.

METHODS AND TECHNOLOGY

Other components of the knowledge management environment include computing systems.

With these systems, knowledge can be gathered by monitoring the phases or steps that creative workers go through in their daily work, and by identifying the information and decision-making methods they use and follow.

There are both manual methods of knowledge collection, and systems that can manage the collection and dissemination of that knowledge.

Some applied business examples demonstrate where these existing IT systems become knowledge-based systems. Internet-based systems have reduced control over information distribution and intellectual capital, and have an effect on information formation.

The internet infrastructure, as a tool to access information, is key and has value as an access route. However, the value lies not in having access to privileged information, but rather in the way the internet by offering new opportunities for those with the knowledge to start new businesses and share new ideas.

An example of an internet-based system becoming a knowledge management system is that used by the Lauck Group, an interior architecture firm based in the US. They had a project with a challenge: to design 10 offices in the US and Europe for a major client, quickly. The team had to include professionals of different nationalities, and be knowledgeable about the standards and requirements of their respective countries.

The Lauck team found top professionals in each country and created a virtual workspace for the whole team. During evening hours in the US, the European teams would do their work and post it to the virtual workspace. When the US teams came to work they would log in and provide their input.

The project – built on a 16-hour working day – was delivered on time, and met with every client requirement⁴. In terms of project management this is unusual, in addition to the knowledge sharing and management that occurred as part of the process.

The value gained for the organisation is that, from now on, they have the ability to apply this new process to other projects. This positions them towards the mature end of the capability maturity model.

Companies implementing effective knowledge management systems expect to incorporate a variety of technologies, supported by a leadership approach that values learning. They also need an organisational structure that supports communication and information sharing, which in turn facilitates the processes for managing knowledge and change.

COMPONENTS OF THE KNOWLEDGE MANAGEMENT ENVIRONMENT INCLUDE COMPUTING SYSTEMS. WITH THESE SYSTEMS, KNOWLEDGE CAN BE GATHERED BY MONITORING THE PHASES OR STEPS THAT CREATIVE WORKERS GO THROUGH IN THEIR DAILY WORK, AND BY IDENTIFYING THE INFORMATION AND DECISION-MAKING METHODS THEY USE AND FOLLOW.

DRIVING TOWARDS KNOWLEDGE MANAGEMENT

The core issue when considering knowledge management is how to get people to share their knowledge. The easiest methods are through traditional rewards, such as pay, incentives, benefits, stocks, profits, and commissions or alternatively, through learning opportunities⁶.

An additional issue is to examine why we want people to share their knowledge, and to explain the value derived from the sharing. The primary reason for knowledge sharing is that customers are looking for value and companies have to provide value propositions. They need to provide what the customer actually wants, not what the company thinks the customer requires, offering improved value and thereby creating new markets.

With this value proposition perspective, a number of large companies have incorporated and embedded the management of knowledge within their systems, thereby increasing the value it can make for the organisation and, therefore, the customer. Not all knowledge management requires technology.

To derive the best value, it requires management of the knowledge, the managers, and the employees in combination. Examples of value innovation occurring without new

technology have happened in a number of places, as follows:

'Starbucks coffee shops (franchising and products – the whole experience of drinking coffee translated into a strong willingness to pay a premium on a low cost commodity product creating enough economic surplus to support a price that makes business sense and satisfies customers with the benefits); the furniture retailer IKEA (product quality, cult status and rapid location expansion); the fashion house of Ralph Lauren (design and branding – combined the high quality of haute couture clothes with more styles that ordinary people could wear to create a unique and profitable position); or Southwest Airlines (high performance relationships – building leadership, using past experience to build relationships, encourage mutual respect) by building on the knowledge they already have.

They are in traditional businesses, but each is able to offer new and superior value through innovative ideas and knowledge.⁶

THE CREATIVE ORGANISATION AND KNOWLEDGE MANAGEMENT

The organisational cultural change required to facilitate the focus, development and application of organisational knowledge should include the development of an environment where innovation and creativity operate together.

While these two are somewhat intangible, a recent illustration of culture development is the way creativity is part of the culture at Google: 'Is creativity fun or should it be? ... fun works and work is more productive when it is fun ... as a result, companies that integrate fun, creativity, and work are best able to attract and retain peak performers in an economy that promotes and rewards the rapid and constant changing of jobs.'⁷

Companies are driving towards creativity and innovation. Trends suggest that the knowledge economy is rapidly being transformed into the creativity economy. As more high-level knowledge work is outsourced to less developed countries, companies in the US, Europe, and Japan are at the next level of generating economic value from creativity, imagination, and innovation.

Organisations are facing the need to change quickly and dramatically in order to survive, recognising 'the need for greater product and service innovation to keep pace with technological and societal advances and compete with the growing power of companies in China and other developing countries, rather than focusing on ways to improve efficiency and cut costs. Today's companies are rewiring for creativity.'⁸

THE CORE ISSUE WHEN CONSIDERING KNOWLEDGE MANAGEMENT IS HOW TO GET PEOPLE TO SHARE THEIR KNOWLEDGE. THE EASIEST METHODS ARE THROUGH TRADITIONAL REWARDS, SUCH AS PAY, INCENTIVES, BENEFITS, STOCKS, PROFITS, AND COMMISSIONS OR ALTERNATIVELY, THROUGH LEARNING OPPORTUNITIES.

The characteristics of creative organisations correspond to those of individuals. Creative organisations are loosely structured. People find themselves in a situation of ambiguity, where assignments are vague, jobs and roles overlap, tasks can be poorly defined, and much work is done through teams.

Variety is important, and managers strive to involve employees in a varied range of projects, so that people are not stuck in the rhythm of routine jobs, and they drive out the fear of making mistakes that can inhibit creative thinking.

Creative organisations have an internal culture of playfulness, freedom, challenge, and grassroots participation. They harness all potential sources of new ideas as sources for knowledge management⁹. These strategies allow the freedom to discuss ideas, and as projects are seen as long term, resources are allocated without immediate payoff.

This creative approach, as with any other policy around new product development, has to be incorporated into the overall company/business strategy. It must also be aligned with a knowledge management strategy, which a company should have in order to gain the value evolving within the idea generating process, as well as the knowledge that emerges. This allows creativity to lead to innovation and, in addition, to product or service development and delivery.

In terms of the value to be gained, the strategy also needs to include the process of valuation, and the valuation methods and perspectives used to evaluate need to be considered.

THE ORGANISATIONAL CULTURAL CHANGE REQUIRED TO FACILITATE THE FOCUS, DEVELOPMENT AND APPLICATION OF ORGANISATIONAL KNOWLEDGE SHOULD INCLUDE THE DEVELOPMENT OF AN ENVIRONMENT WHERE INNOVATION AND CREATIVITY OPERATE TOGETHER.

As accountants, you will need to understand that knowledge – its management, optimisation and valuation – requires focus if it is to be the basis of market success or failure. It is already an area that is being measured in terms of its contribution to the existence of an organisation, and it is therefore a critical success factor, if not already an unrecognised core competence. Talent and knowledge are an organisation's capabilities and abilities. Talent as capability and knowledge as ability, requires management.

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Fearghal McHugh lectures on ACCA strategy papers at BPP