Chapter - IX

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9.1. Preamble

Geographic advantages have been eroded by the spread of electronic commerce, and reduced import and export tariffs. Regulatory advantages are being sorted out with the development of regional trading zones. As globalisation continues, and more and more manufacturing is outsourced to developing and low labor cost economies, the work that remains is increasingly focused on the high value activities viz., the creation of products and ideas, the delivery of services and the development of new businesses and markets. The vertical integration is becoming less attractive because more and more companies are finding it cheaper to buy in the open market what they once made themselves. Unskilled work gives no competitive advantage, because anyone can do it. There is ever increasing tendency for organisations to relocate manufacturing plants overseas to access alternative economies and lower cost bases resulting in understanding how intangible assets drive the creation of value. Technology that can be bought off the shelf, gives no competitive advantage, because anyone can buy it. The annual report of a company, draws to the financial statement at the back, and read about the physical assets, but little or nothing about the assets that really drive the creation of value. It is not just that investors look at non-financial (intangible assets) to value businesses, but also managers have a desire to demonstrate to investors how they should value their businesses. Increasingly, executives are concerned about the gap between the actual share price and management’s perception of what the share price should be. Now and increasingly in the future, the best way for organisations to survive and prosper in the long term will be to think about the wants and needs of all of the important stakeholders and endeavour to deliver
value to each of them. It is needless to mention that all these developments are the results of knowledge explosion.

9.2. KM Framework in the Indian Context - Survey

In an effort to have an appraisal of KM framework in the Indian context, a survey was undertaken to identify the extent to which organizations are aware about KM and whether there exists still a role for Management Accountant in the context of KM providing the desired information for managerial decision. In addition, the focus was to understand how the KM exploited by the Management Accountants as strategic advisers besides championing for the KM implementation process and thus providing a Decision Support System. The survey investigates the scope of effective implementation of a KM strategy in the workplace of these front-line organizations and the role of Management Accountants to support implementation of KM. By and large, the final findings in the Indian context whether by sheer coincidence or otherwise portray similar status that is obtaining elsewhere in the world as well to a large extent. Most of the Respondents do not have a fully integrated KM programme and even those organisations that have KM programmes have a long way to go. The issues have less to do with implementing the necessary technology than with running a complete KM programme. The role of Management Accountants becomes more relevant in future in view of shift in focus from operational cost determination to strategic cost forecasting and operation control. The summary of the findings of the survey are presented below (This is in addition to the details of the Survey findings presented at the end of each of the earlier chapters).

9.2.1. Strategy on Business Initiatives

26 Respondents in India, out of the fortune 500 companies, were asked whether they had a knowledge management (KM) program. 78% said they had
or were considering a KM programme. 20% had no programme in place and were aware about KM, and the remaining 2% did not have a KM programme as well as were not aware about KM and its benefits to the business.

9.2.2. Benefits Identified by Implementing a KM Strategy

After the 1997 recession in India, the biggest threat identified by the respondents was the ability to reduce the time to market and developing a competitive advantage. Cost reduction, core competence and improved productivity were considered as critical success factors for organisations during the next five years. Knowledge explosion, increasing globalization, rapid development and diffusion of information and communication, and their interactive effects on competition call for a paradigm shift in strategic initiatives. Effective KM programme can offer a new innovative analytical perspective. Most of the Respondents are well aware about the potential payback that KM can achieve. Companies identify KM to participate significantly in improving revenue growth (94%), competitive advantage (94%) and overall employee development (83%) in the long-term. They consider reducing cost and pursuing core competence (69%), improving marketing (69%) and enhancing customer focus (56%) as short-term quick hits or immediate benefits of successfully implementing a KM Programme.

9.2.3. Potential Issues

Organisations with a KM programme in place and those planning to develop a KM strategy identify potential threat. The biggest threat perceived by the Respondents was the difficulty in transformation of knowledge from tacit form to explicit (75%). Other issues like lack of knowledge sharing (70%) and information overload (60%) have been of major concern for the KM programme initiators in participating organisations.
9.2.4. Role of Management Accountant in KM Environment

96% of the Respondents feel that cost-benefits on qualitative conformance is critical where Management Accounting needs to develop dynamic models. This is significant in the context of 45% of the Respondents giving their nods for implementation of KM practices. The essence being the elimination of waste to move towards 'zero defect culture, and strategic performance evaluation with the co-existence of Management Accounting and KM practice. In other words, the role of Management Accountants becomes more relevant in future in view of shift in focus from operational cost determination to strategic cost forecasting and evaluation.

9.2.5. Other Benefits of KM Programme

Organisations which have implemented, or are planning to implement, a KM programme expect KM to lead them to new ways of doing business and increased market share to generate enormous future prospects for the businesses. Most of the Respondents expected a KM programme to lead them to revenue growth (94%), improving competitive advantage (94%) and overall employee development (83%). They see short-term gains from the strategy like cost reduction and improved marketing but are unsuccessful in linking them to external, longer-term benefits such as intellectual capital growth. Thus, the role of Management Accountants is invaluable as business advisor in short term as well as long term perspective.

9.2.6. KM and Potential Cause of Failure

Respondents rated the potential causes for failure in implementing a KM programme as indicated below:

- Lack of user uptake due to insufficient communication (56.1%).
• Integration of KM activities into everyday working processes (55.5%),

• Users unable to identify personal benefits (40.3%),

• No focus on implementing KM programme by top management (35.1%),

• Lack of Training for promoting KM activities (30.4%), and

• Technical issues towards implementation (11.5%).

General problems with companies implementing a KM programme are:

- The difficulty in capturing tacit knowledge (75%), and
- Lack of knowledge sharing (70%).

9.2.7. Road Map for Future

Most of the Respondents do not have a fully integrated KM programme. About 31% of the Respondents are in a position to make KM as an integral part of organisational and individual process. 23% of the organisations using KM procedures and tools as it is recognized that KM brings some benefit to the business. 19% of the organisations have an integrated framework of KM procedures and tools, but there are some technical and cultural issues yet to be overcome. 19% of the organizations do not demonstrate a relationship between the importance of KM and the achievement of organizational goals. This indicates that even those organisations that have KM programmes have a long way to go. The issues have less to do with implementing the necessary technology than with running a complete KM programme.
93. Major Findings

In the light of the analysis made in the earlier chapters and the analysis of the survey findings presented above, the major findings of the study are identified and presented below very briefly.

93.1. Role for Management Accountants

From the comprehensive analysis, it becomes unequivocal that the Management Accountants are expected to expand their activities and functions in the Knowledge Economy. These functions include the following.

- Evaluation of strategic cost forecast and evaluation,
- Provide early warning signals,
- Identify non-value added activities through ABCM,
- Evaluating the extent of synchronization of business value chain with knowledge value chain at all levels of decision making,
- Evaluation of EVA on a continuous basis and evolve world class benchmarks,
- Providing a rationale for bridging the gap between actual share price and management’s perception, and
- Strategic Advisors for implementation of KM.

93.2. Role for Government

- Incentives for enhanced investments in human resources/technology,
- Repository of global info through innovative and information net works,
- Introduction of periodic short term courses on KM,
- Formulating a culture of life long learning strategy, and
• Create opportunities for communities and regions hit by restructuring in traditional industry.

9.3.3. Role for Professional bodies

• Mutual recognition agreement with global professional bodies.

9.3.4. Role of Professionals

• Updating through various channels in the line of business.

9.4. Suggestions

Keeping in mind the analysis made in the earlier chapters and also the major findings, the following suggestions are offered.

9.4.1. Role for Government in the Knowledge Economy

New technology is creating new markets and revolutionising those that already exist. Globalisation is exposing industries to new competition. It creates opportunities for some, and threatens jobs if there is no timely response. Of late, several governments are actively involved in (a) acquiring knowledge about the industry and economy on day-to-day basis and (b) ensuring transparent disclosure practices as required by regulatory authorities. The sources of success in this new world are clear - people, their skills, creativity and know-how. G. Peter Wilson,¹ opined that the business success will come to those who can use these capabilities to create world beating products and services - whether they are in manufacturing or services. Government cannot and should not resist these changes - successful economies and societies are those that are flexible and creative, and can adapt to the demands of rapid change. But Government does have a responsibility to help communities and individuals manage change so that the effects are not traumatic or so disruptive that they hold back economic
growth. The Government is committed to creating the right environment for success and to enable innovation and enterprise to flourish. We must attack weaknesses in our workforce skills, we must improve the access of start-ups to venture capital, we must provide incubators for high-tech businesses and we must develop better links between universities and industry. At the same time, we must create opportunities for communities and regions hit by restructuring in traditional industries and position ourselves to succeed in emerging and fast growing sectors of the future. Success in both manufacturing and services is vital. A strong manufacturing sector is important for employment and even more so for trade. We have many manufacturing businesses which lead the world through their innovation and use of leading edge techniques. However, we need more such companies. The same applies in the service sector.

There are two areas in which the government needs to intervene. Firstly, it may choose to intervene to speed the transition problems. Secondly, it may seek to help build a technology industry in India. Information Technology is different from many other industries where intervention might be justified - its product is very transportable, its staff and business systems are also proving to be very mobile and effective scale is rarely an issue. The availability of skills for most knowledge workers (those not requiring special and detailed technical knowledge) appears to be increasingly well handled in schools, although what skills should be taught and finding the teachers to do it remain. Retraining of older workers to reduce frictional unemployment is an area for government intervention. Contrary to expectation, computer manufacture requires a large (not particularly educated work force) access to cheap resources, efficient processes and large scale, but only a few skilled designers.

It is the government's strategy to ensure that there is full exploitation of our staggering knowledge base and speed up the rate of innovation. Success
depends on how well our assets of knowledge, skills and creativity are exploited. Mr. David R. Hunter emphasizes that the role of government in the age of knowledge is not to pick winners, but to create and maintain the right supportive climate in which innovation and enterprise can thrive. If government is to create and maintain the right supportive climate in which innovation and enterprise can thrive, it must be an active participant viz., as an investor, facilitator and regulator of science and innovation.

First, as an investor, the government has a key role in funding basic and strategic research. This is a public good which cannot be provided by the private sector. Funding basic and strategic research not only makes cultural sense, it also makes financial sense. Today, commercial success, particularly in the biological sciences, often flows directly from basic research.

Secondly, the government has a crucial role to play as a facilitator in encouraging the exploitation of knowledge and new technologies. While in this country we have a successful record of innovation in industries, which depend on elite science such as Aerospace, Pharmaceuticals and Biotechnology, it is clear that many more industries could benefit from science and technology. As innovation and technology become ever more important in the knowledge driven economy, the government should be determined to provide the mechanisms and resources to exploit successful breakthroughs.

We need to strengthen the links of the innovation chain, bringing universities and business closer together and providing researchers with the skills and incentives to take their ideas to market. Some of the suggested initiatives could be:

- Establishing a "Higher Education Innovation Fund";
• "Higher Education Reach out to Business and the Community" fund to build on universities' potential as drivers for growth in the Knowledge Economy;

• Launching a new Foresight fund;
• Regional Innovation Funds to support clusters and incubators and new club of scientists, educators, entrepreneurs, managers and financiers;

• Changes to the rules for government funded research, so that the research bodies own the Intellectual Property Rights.

So government's third key role must be, as a regulator, to help the consumer, to ensure that people can be confident about the new products which technology can deliver, and confident about the way the risks are assessed and managed.

9.4.2. Role for the Management Accountants in the Knowledge Economy

Firstly, continuous improvement is a proven concept and this is quickly evolving. Cost trade-offs will become more important in such an environment. For example, investments in quality and/or cycle time improvement will, increasingly, be matched against the costs of providing such services. This will require a Management Accounting system with the characteristics described in performance, but specifically a system that is built to capture and report data horizontally across processes rather than vertically up through functions and divisions. Second, the concept of continuous improvement is under challenge. The argument is that unless an organization is already the leader, all the cost improvements in the world will not bring it up to world class levels. The mission will change because the context of management has changed, e.g., fiat organizations, fuzzy organizational boundaries reflecting partnerships with both customers and suppliers, globalization, and a new emphasis on service activities. Changes such as target cost management, life-cycle thinking, and anticipatory
crisis management are some of the streams that will require Management Accountants to become pro-actively involved in "managing for the future". It is important to notice that central to the whole process is the task of communication. The Management Accountant, in the next decade, will no more be an isolated or back-room analyst, he or she will be the pivot of the communication system in the organization, thus supporting and facilitating both goal congruence and continuous improvement.

The Management Accountant of the next decade will be involved in all stages of managerial decisions, not just in a measurement role, not just in a support role, not just in a planning role, but also as an analyst, a system and process designer, a communicator, and an important actor in the change management process. What is needed to make a good Management Accountant is good analytical skills combined with ability to understand all business processes and being a good team player. To excel in the profession, in addition to the above, one needs to be abreast of emerging and subsiding trends, and evolve measurement and reporting metrics to reflect the early warning signals adequately in advance. We believe the future is bright for the Management Accountants. Because, with costs coming to the fore in organizations worldwide thanks to global slowdown, cost management profession has caught management attention the world over. India is definitely an attractive destination for services and our professionals will have a major role. The role of Management Accountant is much beyond “accounting”. It is one of performance analysis, management reporting and decision support – all of which necessarily needs application of human mind.

Other specific suggestions are presented below.
9.4.3. Role for Management Accountants

- Conversion of implicit knowledge into explicit on continuous basis,
- Simulating past experiences to future decision making with insertion of sensitive uncertainty factors,
- Framework for well balanced performance measurement and control system, and
- Continuous evaluation and information towards zero defect culture.

9.4.4. Role for Government

- Mandatory disclosure of potential measures on management and leadership,
- Creation of separate fund for knowledge repository development,
- Earmarking fund towards process research and market competitiveness,
- Strict enforcement of explicit social objectives,
- Creation of Research and Development fund for knowledge development,
- Formulation of clear instructions as regulator, and
- Creating right environment for success and encourage innovation.

9.4.5. Role for Universities

- Free exchange of executives between Universities and business nucleus,
- Flexible syllabus paving the way for continuous up-dation of professionals.

9.4.6. Role for Professional bodies

- Continuing education programmes,
- Issuance of guidance notes at global dimension,
- Pronouncing standards and inter-firm comparisons, and
9.4.6. Role of Professionals

- Observing high value standards of ethics in business.

9.4.7. Role for Management Accountants

- Providing a framework for Business Process Outsourcing,
- Working with multi skill professionals as a member of the team,
- Shift focus from product-to-process to operation-to-activities,
- Shift in focus from operational cost determination to strategic cost forecasting and evaluation, and
- Business advisor in short term and long term strategies.

9.4.8. Role for Universities

- Simulation of uncertainty modeling,
- Chain seminars on KM, and
- KM to be a part of curriculum at graduation level.

9.4.9. Role for Professional Bodies

- Administering ethics and code of conduct, and
- Bolstering the environment of team building.

9.4.10. Role for Professionals

- Acquire knowledge about the industry and economy on day to day basis, and
- Ensure transparent disclosure practices as regulatory authorities
9.5. Conclusion

The role of Management Accountant has evolved with the changes in the business models. When originally conceived, the role was a simple one viz., to know the cost of product or service so as to fix the selling price. Over time, as competition intensified, prices became market determined and hence, the organizations had a target cost within which they had to make their product/service. Thus, business models have focused on effective utilization of resources and elimination of non-value added activities which consume resources. The role of Management Accountant is to go behind the numbers and look into the efficiencies and effectiveness and re-architect cost structures to keep in within target and meet customer-determined prices. While knowledge industries have created new breed of professionals all over the world, they have also intensified competition and broken geographical boundaries. This in turn has made the role of Management Accountant more relevant than before since the cost is being perceived by him for all the three levels viz., Operational, Tactical and Strategic Levels. Management Accounting will evolve as the organizations react to pressures to be more customer focused. While changes in Management Accounting may be internally driven, they will be externally focused to recognize this customer perspective. Supporting the customer focus will be four key developments in Management Accounting, viz.,

- Orientation toward value chain accounting,
- Use of value chain metrics for performance measurement,
- Focus on continuous improvement and process re-engineering, and
- Multi faceted measurement system to collect wider range of data.