

## KNOWLEDGE SOCIETY AND MANAGEMENT WITH REFERENCE TO – COST MANAGEMENT

CMA Nishith Parikh  
*Ph. D - Scholar  
Rai University  
Assistant Professor  
Government BBA College*

### *Abstract*



In the information system, organizations face a dynamic environment, where they have to be on the lookout for ways to sustain their competitive benefit. The growth of internet and globalization, toname a few factors, have resulted in information interchange and availability, bringing down the period for which organizations can hold on to their competitive benefit. One of the ways in which organizations can sustain and improve their competitive benefit, in the current environment, is to reduce cost and thereby maximize value. Organizations have realized that this could be achieved byimplementing a knowledge management system and leverage on the benefits of this system to reduce costs. In this paper, some Management fields in Knowledge Management have been introduced and presented with the main focus on Cost Management.

**Keywords :** Knowledge Management; Cost Management; Strategic Cost planning; value engineering;  
Cost reduction

### 1. INTRODUCTION

Business exists to create and render **VALUE**. Ultimately, that is the one buzz word that encompasses and integrates all streams of study, be it, Finance, Marketing, Human Resource, Information Technology, Strategy, Supply chain and so on.

This study focuses on how organizations can leverage on knowledge management practices to reduce costs and thereby increase value. The application of the theory is illustrated through a couple of cases on HP and Infosys. It details how these companies have developed knowledge management systems and used them for strategic cost

management. Customer intimacy is cultivating relationships to gain customer insights and expanding client base of 'desirable' targets. Employee capability is achieved by reducing attrition, sharing of best practices, setting goals for associates, developing and tracking of performance measurements. Product or Service leadership is obtained by delivering the best products and services that push performance boundaries. Also, new offerings are to be created depending on the demand of the clients. Leadership is also by bringing the products to market quicker. Operational excellence is delivering products and services at the best price and with least cost. The pedestal on which each of these elements lies is **KNOWLEDGE**.

## 2. KNOWLEDGE MANAGEMENT



### 2.1. Why Knowledge management?

Some of the reasons why knowledge management has gained currency in recent times are:

Productivity and Opportunity Loss, this is due to lack of knowledge where and when it is needed. Information overload too much unsorted and non-targeted information results in information overload.

Knowledge abrasion

Knowledge is lost because of early retirements and increasing mobility of workforce. Mergers and Acquisitions Organizations are growing in scope and complexity as a result of disparate cultures and technology coming together. Reinventing the wheel no standard processes for capturing best practices or lessons learned. Growing Virtual Needs, this is because of dispersed customers and resources, because of the above-mentioned reasons, which are the result of the following factors, the time demands efficient knowledge management.

- Speed to change the market place has become so rapid, that the time available for organizations to gain experience and acquire knowledge has diminished.
- Competition on the market place has forced organizations to reduce costs.
- Failure of financial models to represent the dynamics of knowledge.
- Failure of information technology by itself to achieve substantial benefits.
- Unintended consequences of universal information access.

## 2.2 Importance of Knowledge Management

The importance of knowledge management is also evident from various surveys and research conducted by management consultants and the expenditure incurred by many corporate on developing knowledge management systems.

Some cases in point are:

- A survey conducted jointly by PriceWater House Coopers and World Economic Forum; found that 95% of CEO's saw KM as an essential ingredient for the success of their company.
- According to the International Data Corporation, companies worldwide are expected to dramatically increase their knowledge management expenditure from 10% to 100%.
- British Petroleum (BP) managers attributed huge amount of added value as a direct result of KM approach. Various refineries of BP, due to KM approach saved between 10% to 100%.
- British Telecom offered significant incentives for the contributors of knowledge. 10% of additional income generated was due to new idea or contribution.
- Realizing the need to provide an atmosphere for innovation to give birth and emphasizing knowledge culture in the organization, 3M allowed 15% of the week's working time for creative work and new ideas and as a result they had about so many new products.

Proceedings on Manufacturing Engineering, Quality and Production Systems varied perspectives for the benefit of whole organization. Past is a history. Future is a mystery. But still it cannot be denied that the decisions are taken with the known past for an unknown future, where change is the changeless law of the world. But, the constraints are faced by all the businesses. Smart are those companies that render value to increase the corporate performance in the competitive environment! Improved corporate performance depends on competitive advantage enjoyed or created by the organizations, either by Product differentiation strategy or (low) Cost leadership strategy. Cost leadership is achieved through strategic cost management and how knowledge management accelerates the efficiency and effectiveness of the same is the intended area of research and study.

## 2.3 Knowledge Management and Creativity

Creativity is the ability to bring in new appropriate and relevant ideas through imagination and intuition. Innovation is the process of operationalizing the new idea. There are various processes associated with the process of creating new ideas, like, brainstorming, lateral thinking etc. The ideas created by these methodologies can be harnessed through proper and appropriate knowledge management systems. Nonaka suggested that successful companies are those that consistently create new knowledge as solutions to unfamiliar problems, disseminate widely throughout the organization and quickly embody it in new technologies and products, which implies that a proper knowledge base is a source of creation of new knowledge in the organization. The creation of new knowledge is through creative ways of combining existing knowledge units available in the organization. Donald Schon, an American writer has argued that creativity comes out of displacement of ideas, using concepts in one field in another field. This statement highlights the importance of a knowledge base since the concepts of one field to be used in another field can be effective if the ideas and concepts are stored in a knowledge base. Organizational innovation requires exploring new ways of combining existing ideas in a new way.

### 3. STRATEGIC COST MANAGEMENT



Cost management is important to organizations because it is a philosophy, an attitude and a set of techniques to create more value at a lower cost. Cost management looks into the long-term competitive success of the firm. The critical success factors for cost management not only encompass financial factors, costs and revenues but also non-financial factors like new product development, product quality, customer satisfaction and the like. Therefore, the role of cost management is to identify, measure, collect, analyze and report information on these critical success factors reliably and in a timely manner. Cost management information is needed for all four management functions.

Strategic management by which the companies choose their line of products, manufacturing methods, marketing techniques, and other long-term issues. Also, it supports management decisions by identifying and measuring the impacts of alternative decisions that potentially affect operations in all parts of the organization. Planning and decision-making in operational and recurring issues like managing cash flow, budgeting, purchase of raw materials, production scheduling and pricing. Management and operational control to increase customer value by identifying opportunities to eliminate non-value-adding practices and processes but reward and support effective managers. Preparation of financial statements for accurate purposes and also to comply with reporting requirements. These financial statements are mainly used by other three management functions.

As it is said by Ronald W. Hilton, Michael W. Maher, Frank H. Selto in their book, *Cost Management – Strategies for business decisions*, “Cost management rejects the notion that ‘costs happen’ and embraces the perspective that all costs can and should be managed to meet organizational goals”. It is an accountants’ philosophy that ‘costs happen’ and it has to be measured accurately. But, it is a fact that cost results from management’s decisions to meet global business conditions. An overarching theme is ‘best cost management practices’ which is the result of external competition among companies and internal threats from alternative sources of information. Cost management has therefore assumed the role of a management facilitator than a mere steward.

Considering the ephemeral differentiation strategy, the companies should focus on cost leadership for long-term competitiveness. Cost reduction can be achieved either by reducing capacity or driving savings by improving efficiency. Only the latter can make permanent changes in cost structure. Companies that reduce capacity will soon find themselves washed out from the arena of competition, for ‘volume’ is the name of the game in the years to come.

Cost management system should provide information that identifies various sources of competitive advantage. Competitive advantage is achieved when the organization is:

- More efficient than its competitors
- A first-mover in making new technology that offers cost or productivity advantage.

- Rendering more valuable services.
- Possessing superior knowledge and capability of employees to come up with new products and services
- Harnessing organizational resources to improve financial and non-financial outcomes.

All these need to be a continual process which takes place iteratively rather than one time occurrence.

#### 4. KNOWLEDGE MANAGEMENT & COST MANAGEMENT



Organizations, in the present day scenario, have realized the difficulty in sustaining competitive advantage over an extended period of time. An organization gains competitive advantage by creating more value for its customers than its competitors, because customers demand enhanced value at reduced cost. Organizations have now felt the need to look for avenues by which they could reduce costs to survive and succeed and have realized that cost management as one of ways by which they could enhance value for its customers. Strategic Cost Management is an integrated approach to value management, which results in improvement of price performance ratio.

Creativity is another key requirement for value management. Creativity is not to be looked as any isolated function but as an integral part of organizational functions. Knowledge management is one of the important catalyst for creativity and this is succinctly emphasized by Prusak in this quote - "A firm's competitive advantage depends upon what it knows, how it uses what it knows and how fast it can create something new" Knowledge management provides context for creativity, for without a context creativity has no meaning. It is the relevance and feasibility of implementation of an idea that makes it more meaningful. Creativity can help in discovering new product or new process and could also be instrumental in streamlining existing processes.

Proceedings on Manufacturing Engineering, Quality and Production Systems, Cost reduction could be brought about by streamlining existing processes or by introducing new processes, which are more efficient than the existing processes. Creativity plays an important role in bringing in new thinking to streamline existing processes or in creating new processes. Creativity requires exploring new ideas, combining existing ideas in new ways and experimenting with them to create ideas, which are operational. The base for creativity is the knowledge base of existing practices. Together, knowledge management and creativity lead to improvements in the existing processes and creation of new processes. Process streamlining involves simplification of existing processes and elimination of non-value adding steps in the process. Non-value time could be due to rework and errors in process execution and elimination of such non-value time results in benefits like reduced cycle time, increased quality thus

leading to increased economic value. Organizations therefore have more time for creative thinking which plays an important role in generating ideas, to reduce the non-value adding time and thereby enhance value.

Cost Management can be achieved by:

- Ensuring accurate, appropriate decisions taken on time
- Improving process efficiency
- Improving service capability

In all the above focused areas, knowledge management plays a crucial role in reducing costs and hence we could reasonably conclude that proper knowledge management can lead to cost reduction. Since, in the present era, cost is one of the main drivers for organizations to achieve competitive advantage, cost management is looked at more from a strategic dimension rather than a functional dimension.

## 5. KNOWLEDGE MANAGEMENT & COST REDUCTION



The above-mentioned sub-systems are contained in an overall centralized knowledge management system. This system is accessible to all at Infosys from any part of the world, thus ensuring transparency leading to the development of a sharing culture across the organization. The system also has several control points, which are accessible at various levels in the organization.

This ensures that all functions and operations are regularly monitored and early warning signals are tracked and captured on occurrence. The correction and improvement mechanisms are put in place almost instantly, resulting in enormous cost reduction on various fronts and achieving cost leadership even while trying to maximize value.

## 6. CONCLUSION & FUTURE DIRECTIONS

In this paper, relations between Strategic Knowledge Management and Cost Management introduced and presented. By using these methodologies and relations and effective management on its procedures, all of requirements for implementing an optimized cost service in projects will be prepared and all of its benefits and advantages have positive effects on projects and organization plans. The most important matter and subject in this issue is how to improve and optimize these relations and transactions between Strategic Management and

Cost Management. Implementing an useful strategy for strategic management using knowledge management base is one of the most application for doing it as described in this paper.

## REFERENCES

1. Balasubramanian Gopalaswamy and Suresh Ramamurthi, 'Knowledge Management – A value chain approach', paper presented at 3rd European Conference on Knowledge Management at Trinity College, Dublin, Ireland
2. Ravi Arora, 'Implementing KM – a balanced score card approach', Journal of Knowledge Management, Volume 6 Number 3. 2002. pp. 240-249
3. Hemamalini Suresh, PSG Institute of Management, 'Knowledge management – The road ahead for success', PSG Institute of Management Articles, Sep 2002
4. Kathia Castro Laszlo and Alexander Laszlo, 'Evolving knowledge for development: the role of knowledge management in a changing world' Journal of workplace learning volume 6 number 4. 2002. pp. 400-412
5. Jennifer Rowley, 'What is knowledge management' Library management Volume 200. number 8. 1999. pp. 416-419
6. Giannis Tselekidis et al 'Agent oriented knowledge management', [http://www.alba.edu.gr/OKLC2002/Proceedings/pdf\\_files/ID152.pdf](http://www.alba.edu.gr/OKLC2002/Proceedings/pdf_files/ID152.pdf)
7. V P Kochikar, Principal knowledge manager, Infosys technologies limited, 'The Knowledge management maturity model – A staged framework for leveraging knowledge', Paper presented and published at the KM World 2000 conference -- September 2000
8. P N Subba Narasimha, 'Salience of knowledge in a strategic theory of the firm', Journal of Intellectual Capital Volume 2 No 3 2001 p. 215-224