

KNOWLEDGE MANAGEMENT IN ACCOUNTING FOR FIRMS: BEST PRACTICES AND LEARNING LESSONS FOR KAZAKHSTAN

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Abstract

Since gaining its independence the Republic of Kazakhstan has undergone a series of changes – transition to market economy, knowledge based economy, and knowledge society. The process of globalization and rapid growth of information technologies have introduced such new terms as knowledge management, knowledge sharing, knowledge transfer, and knowledge organizations for Kazakhstani business entities. This article explores the efficiency and importance of knowledge management for business entities, and benchmark of best practices for Kazakhstan. Especially, need for innovativeness to be addressed by different knowledge management practices are highlighted.

Key words: *knowledge management, accounting, intangible assets, information, innovation, Kazakhstan*

JEL Classification: M21, M41

1. INTRODUCTION

In the last 20 years, knowledge management has become the object of myriad researches in the fields of management, information technology, engineering and operations management. Today the business world and the human being as a whole has been transformed from the era of information to the era of knowledge

(Syed-Ikhsan and Rowland, 2004; Thomas and Kleiner, 1995). Moreover, knowledge, human capital, and intellectual property have been recognized as the most valuable assets of the firm. Drucker (Drucker in Sori, 2009) believed that “knowledge is embodied in a person, taught and learned by a person, used or misused by a person.” Therefore, it is suggested that companies should report on the intellectual capital they own. Thus, having the ability to identify the most useful knowledge among employees, save it and share it is crucial for any firm in competitive environment.

If critical knowledge is not saved or recorded, and aftermath shared, firms are more likely not to achieve their targeted productivity, because knowledge in all firms is indeed people-based. Nevertheless, in some entities there is a scarcity of concepts and tools for managing these intangible assets in a systemic and an efficient way. Duffy (1999) states that knowledge management is “a process that drives innovation by capitalizing on organizational intellect and experience” (Duffy in Ali & Ahmad, 2006).

2. KAZAKHSTAN CASE

Kazakhstan society, economy and business are in transition. During this transition, one of the main issues is to become more innovative, and while there are important innovations and developments in some areas, other areas do not innovate and progress in the same fashion. World Economic Forum (WEF) enables us to provide a comparative analysis of certain innovations in recent years. While in specific areas such as Intellectual property protection, Availability of latest technologies, Firm-level technology absorption, Capacity for innovation, and Impact of ICTs on new services and product there are certain improvements in the last year, still the overall position of Kazakhstan is far from being positive (Table 1).

Table 1. Kazakhstan rankings in WEF index (2012/left-

area	country rankings	
	Intellectual property protection	116
Availability of latest technologies	103	90
Firm-level technology absorption	113	91
Capacity for innovation	101	92
Impact of ICTs on new services and product	106	92
	<i>among</i>	<i>among</i>
	142	144

2013/right)

It is also worth-noting that, Quality of management schools have also become worse, moving from 85 to 103. This can also be considered as an indicator for unsatisfactory human capital development and education in related fields.

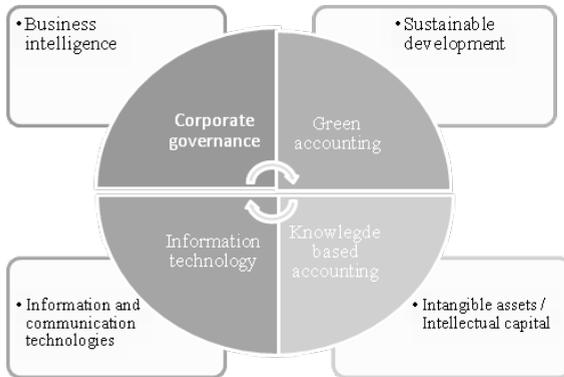
These statistics show us that Kazakhstan is in need of further innovative capacity and human capital development, complemented specifically by developments in information and communication technologies (ICTs). The importance of human capital as well as innovation and technological development can then be highlighted by knowledge management, as well. The next section will discuss further about knowledge management.

3. EVOLVING IMPORTANCE OF KNOWLEDGE MANAGEMENT

With the shift to the knowledge-based economy, we can observe changes in accounting field as well. Radneantu et al claim “knowledge organization and the knowledge economy generate interdependencies between different research areas – accounting and ecology (Green Accounting), business intelligence, or corporate governance” (2010:307). Based on this statement we suggest the following model of knowledge based organization (Figure 1).

Green accounting is also comparatively new area, which attempts to make the environmental costs of the entity more transparent by the means of corporate governance and accounting systems. Green accounting deals with the environmental activities of the firm. According to Gray et al (1993), ecological accounting and various environmental issues affect green accounting.

Patrut et al (2008) assert that green accounting is concerned with the costs of preventing environmental disasters, which in turn favorably influence the environment and the company.

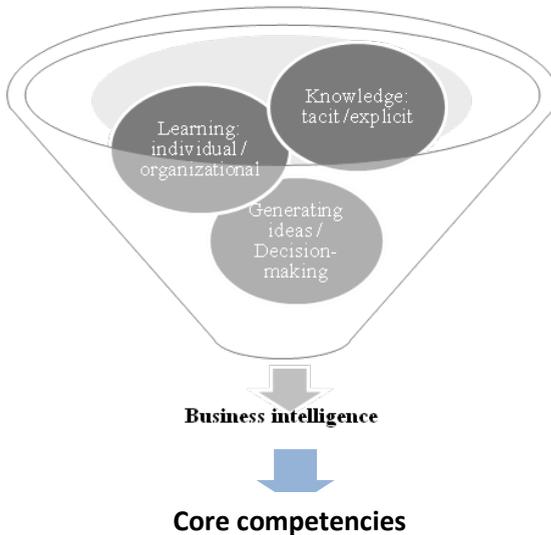
Figure – 1: Model of knowledge based organization

Note: developed by the authors.

In current dynamic business environment and conditions of competitiveness good corporate governance and business intelligence are perceived as premise for a sustainable development of the enterprise and a state as a whole.

Business intelligence or organizational knowledge is developed due to the personal knowledge and competencies of employees, and includes various principles, factors, skills, rules, and methods enhancing business activity. The structure of business intelligence comprises of practical, theoretical, strategic, commercial, and industrial knowledge. This intelligence is based on information technologies, decision-making technologies, and innovation perception ability. The business entity retrieves necessary information, draws conclusions, and generates new knowledge with the purpose of enhancing the quality of service or goods, and meeting demands of the customers. Interaction and interdependence of knowledge, learning, and core competencies is illustrated in Figure 2.

Figure -2: Knowledge, learning and core competencies



Note: developed by the authors.

4. EFFICIENT KNOWLEDGE MANAGEMENT

According to Bellinger (2004), the value of knowledge management “relates directly to the effectiveness with which the managed knowledge enables the members of the organization to deal with today's situations and effectively envision and create their future. Without on-demand access to managed knowledge, every situation is addressed based on what the individual or group brings to the situation with them. With on-demand access to managed knowledge, every situation is addressed with the sum total of everything anyone in the organization has ever learned about a situation of a similar nature”.

Similarly, Quast (2012) suggests three main reasons for efficient management of knowledge of the organization. First of all, it helps to strengthen decision-making capabilities. Explicit database provides managers with information for high-quality decisions. It means that knowledge management facilitates more informed decisions. This is where the wisdom comes from.

Secondly, knowledge management builds learning organizations by making learning routine, which reflects the life-long learning (LLL), the concept that has been accepted by the government of the Republic of Kazakhstan recently. These reforms are taking place in education and e-government of the state.

Thirdly, effective knowledge management can stimulate cultural change and innovation by encouraging the free flow of ideas. As it was mentioned earlier, knowledge management is widely used in information technologies, thus it leads to innovation, and consequently, to competitive advantage of the entity.

In developing the economic potential, the information technologies play a vital role. Moreover, information stimulates innovation and creativity, as well as reduces operating costs. For example, using the ERP system (Enterprise Resource Planning) such as SAP allows sharing knowledge for better decision-making.

There are a number of cases in the history when scarcity of information or knowledge led to the downturn of the organization. For example, in 2004 Fortune 500 companies lost roughly 31.5 billion a year by failing to share knowledge (Quast, 2012). The key role in managing knowledge of the organization is played by top – managers and decision-makers of the business entity. The rapid growth in information technologies and management led to the great distinction between a manager and a leader in decision-making, achieving organizational goal and problem solving. These terms are characterized by different functions they perform, e.g: while the manager administrates, the leader brings innovations, while the manager serves, the leader develops, and if the manager is focused on systems and structures, the leader - on people, and so forth.

At the same time, Milner (2003) suggests the following differences in value adding approach between a leader and a manager.

Table -2. Differences in value adding approach of managers and leaders.

	Manager	Leader
<i>Adds-value through</i>		
1	Operational planning and management	Implementing innovation as the basis of competencies
2	Maintaining progressive processes	Implementing rather something different from competitors than the same, but of better quality
3	Prompt determination and implementation of market opportunities	Orientation on forces driving the development: acquisition, new markets, technologies, products and services, long-TRENDS term strategy
4	Constant enhancement of production and quality	Constant development of innovation streams in all spheres of production and in all activities
5	Attention to the best market supplies	Stimulating commitment of clients in using best practices and increasing the income

It might be concluded that top managers along with managerial and leadership skills have to be good analysts. They should be able to see the hints in financial statements that might serve as a base for decision concerning the future operations of an organization. Managers must be able to manage intellectual property of the organization in order to compete and ultimately to survive in the “knowledge society”.

5. GLOBAL TRENDS IN HUMAN CAPITAL

There is an acute necessity for professional skills and effective leadership to survive in emerging markets, such as Kazakhstan, where talents are required to keep honing their skills constantly. In such competitive environment, human capital, which is presented in the form of employees’ knowledge and insight, is a great power for any organization.

Increasing demand for strategic workforce management led to the changes in delivering human resources. Availability and transparency of the Human

Resource (HR) management information shows that HR functions can add real value.

The recent financial crisis has widened the gap between economies and employment markets around the world. The crisis had a negative impact on employment markets of Western, Central, and Eastern Europe, while Asia, conversely continued to grow. It is obvious that the majority of operating companies and organizations all over the world are facing the human capital challenges. Among them four main trends can be named (Key trends in human capital, 2012):

1. In comparison with Europe, Latin America and Asia-Pacific regions are gaining the power and increasing their competitiveness through higher level of productivity.
2. Western companies cut back on the recruitment of younger generation, which in the long run will bring to the scarcity of talents and knowledge.
3. Both Western and Asian employees are disengaged to their work place.
4. Huge investments in human capital analytics are paying dividends for organizations. Data collection and analysis gives a great opportunity for better decision-making in terms of selection, motivation, retention, and promotion of employees.

6. PRIORITIES FOR KAZAKHSTAN AND CONCLUSION

Human capital is not just the asset to an organization, it is also considered to be the largest controllable cost. Even though there some improvements in human capital reporting, there are still some issues that require management's attention in Kazakhstan.

1. In Kazakhstan the larger portion of employed people are Generation X representatives, and of course Baby Boomers, who will retire soon. Therefore, to avoid in the nearest future the lack of workers, companies should hire Generation Y representatives, who can bring new ideas with them.
2. Employee engagement is a problem for domestic companies as well. Decision makers should consider their HR policies and address the loyalty of employees, since the engaged employee is the most productive one.

3. Companies need to invest in human capital analytics, because timely provided HR management information is a good contribution to the company's strategy.

Since gaining its independence in 1991, the Republic of Kazakhstan is undergoing a number of changes and reforms in all fields: political, economic, and social. Today's new reality – knowledge society and knowledge-based economy – cannot be escaped by our country as well. In the post-Soviet country that got accustomed to central, top-down decision-making, it is sometimes hard for people to share knowledge with each other, because they suspect others will use their tacit knowledge. Therefore, managers and decision-makers must create high trust work atmosphere with the aim to eliminate fear and suspicion of knowledge sharing at the workplace. The practice shows that knowledge sharing leads organization forward, and helps people enhance their leadership skills.

Knowledge management is being developed and founded in all industries, especially among professional service organizations, such as accounting and consulting firms. In era of “digital” environment accounting firms should widely use information technologies for knowledge sharing, which connects people to people, and people to information. It is developing management philosophy combining benchmark of information management with a culture of business intelligence with the purpose to increase business performance. Thus, systematically implemented knowledge management can evolve the success of the entity.

Application of knowledge management principles and practices will improve human capital and innovative capacity of Kazakhstan enterprises. Accounting firms can also adopt their practices accordingly to support the management of knowledge and innovation. Systematic incorporation of intellectual capital and intangible assets into the regular accounting practices is one of these adaptations.

These accounting adaptations may also require more radical changes. For instance our understanding of assets mostly underlines the resource for production and ownership transfer aspects. However, knowledge can be considered as a source more than a resource that expands rather than expires with usage. Moreover, ownership and its transfer of such intellectual, intangible knowledge assets and capital is more complex than that of more conventional types of asset and capital. Similarly, the general understanding of education and development activities to

improve human capital as a cost request a new perspective. As a result, our conceptualization of asset requires change, which would drastically affect the existing accounting principles and practices.

Again, technology-supported auditing practices are becoming more and more important. Not only, technology is increasingly becoming an embedded part of accounting and auditing practices, but also auditing of technological operations in organization is requesting our utmost attention.

Not only accounting but also finance and economics disciplines would also request new perspectives that underline efficacious management of knowledge. Knowledge economy already underlines the importance of knowledge in economic terms, and knowledge-based theory of the firm and resource-based view complement these terms. Economies of scope, free-riding, bounded-rationality, information bias, information asymmetry, market efficiency, and attention economy are among the elder or newer concepts that would support such new knowledge management perspective for the inter-related fields of accounting, finance and economics.

All of these developments and changes would surely influence accounting firms in particular as well as accounting practices in other companies in general. Similarly, the discussions and suggestions we have provided in this paper regarding Kazakhstan would also shed light on similar issues in other developing countries. In the future, collection of more explicit and specific case study materials can exemplify the conceptual discussions in this paper.

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