

Budgeting for Knowledge Management in Organizations

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ABSTRACT: Knowledge management is an emerging phenomenon in service and profit-oriented organizations. The survival of organizations in the 21st century's competitive business environment has been hinged on effective and efficient knowledge management practices. One critical success factor in knowledge management is budgeting. This paper discusses the processes involved in budgeting for knowledge management in organizations. It also highlights the important role of proper budgeting and identifies the sources and constraints of budget funding in organizations.

I. Introduction

In recent times, knowledge has become a resource with which organizations including business enterprises achieve their aims and objectives. Drucker (1993) asserted that in the new economy, knowledge is not just another resource alongside the traditional factors of production -- labor, capital, and land -- but the only meaningful resource today. Not only socio-economic theorists have called for our attention to the importance of knowledge as management resource and power, but also an increasing number of scholars in the fields of industrial organization, technology management, management strategy, and organizational theory have begun to theorize about management of knowledge (Zhou & Turnbull, 2008).

Knowledge management (KM) attempts to build a range of strategies to facilitate the definition, identification, capture, organization and dissemination of knowledge across an organizational community (Desenberg, 2000). It focuses on building a culture of collaboration that enriches the firm's knowledge base. Knowledge management relies heavily on building a strong social community that sees sharing and support for the

organization's strategic needs as crucial. As a consequence, management and the development of a knowledge culture are particularly important (Debowski, 2006).

Organizations seek to use a range of authoritative sources, including knowledge held by individuals and within knowledge systems maintained by the organization. Such knowledge draws from different organizational knowledge sources (Tsoukas & Valdimirou, 2001). This includes data housed in organizational records and systems, explicit knowledge which is documented and accessible, and tacit knowledge held by employees, customers, shareholders and other organizational shareholders. Debowski (2006) asserted that when important decisions are to be taken, it is common to seek guidance from these varying authoritative sources and to build a richer and more informed response by learning and considering the different perspectives each may offer. Canvassing opinion, examining past experience and analyzing facts and statistics are important processes in developing organizational knowledge.

The creation of effective organizational knowledge relies on many things. First, the sources of knowledge that can be accessed need to be known, available and useful. Many systems need to be regularly updated to reflect the changing organizational context and experiences (Narasimha, 2000). In large organizations, libraries and archives provide guidance on internal and external knowledge resources. These corporate knowledge systems need to be carefully managed and organized so that they can contribute effectively to organizational knowledge creation and use. This demands budgeting and effective and efficient use of provided funds.

Organizations are either service or profit-oriented. As such, they practice financial planning and procedures through budgeting to show a direct relationship between clearly stated goals and objectives. In other words, the financial plan of any organization as regards knowledge management demonstrates how the results to be achieved during the period relate to the long range goals of the organization. To date, many organizations have initiated at least one knowledge management project (Mann, 2007). Also, according to Rivard & Roy, at least 80% of large companies have undertaken initiatives to better manage their explicit knowledge (Rivard & Roy, 2005). Even though there are many

expected benefits through KM improvements, results show that these improvements are not always observed (Peyman et al., 2005). Some studies even suggest that KM project failure may be higher than 80%.

Given the importance of KM project objectives and their high failure rate, understanding the underlying success factors is critical. Many reasons have often been cited for the frustrating results: lack of updates, failure to integrate KM into normal working practices, complicated systems, lack of training, lack of time, and the fact that users did not perceive personal benefits.

There is probably a variety of sources that may hinder these projects, many being related to improper technology implementation. However, a major cause of failure is the lack of formulation and implementation of appropriate budgetary policies (Popoola, 2000). In view of the above, adequate finance and good financial management practice are required for the day-to-day implementation of KM policies in any organizations.

This paper discusses the various means by which knowledge managers in organizations match estimates of expenditure with expected income, with the aim of effectively and efficiently deploying funds to implement knowledge management policies in their organizations.

II. Budget and Budgeting for Knowledge Management

A budget, according to Ozigi (1977), is the expected total revenue and expenditure for each year based on estimates of the income accruing to the unit in an organization. It is a formal written statement of management's plan for the future, expressed in financial terms. A budget charts the course of future action for knowledge management in an organization.

Kooniz et al. (1980) saw budgeting as the formulation of plans for a given future period in both financial terms (e.g., revenue and expenditure) and non-financial terms (e.g., direct-labour hours, materials, and physical units of an organization). The origin of budget and budgeting could be traced to the early 1920s when large industrial

organizations first used them as tools for managing costs and cash flows. Many researchers in management literature view budgets in terms of a board organizational plan referring to managerial concepts such as planning, coordinating, and control (Evans & Ward, 2005).

A budget as a rational model includes: 1) clearly stated goals or objectives, 2) inputs selected and combined in such a way as to maximize goal attainment, 3) a number of alternatives identified and compared before a decision is made to implement a given procedure, 4) information systems used as a basis for the improvement of decision making, and 5) a rational model with an emphasis on a long-term planning.

Features of a good budget plan for Knowledge Management in Organizations are: 1) a financial plan which contains programmes and projects for managing knowledge in an organization, 2) a fixed period, which is usually one year, 3) both estimated incomes and expenditure of KM personal, materials and equipment, 4) an authority that collects and incurs expenditure once it is approved, and 5) inclusion of all the financial activities around knowledge management in the given organization.

III. Mechanisms of Budgeting for Knowledge Management in Organizations

Mechanism stresses the methodological approaches to budgeting in any organizations. Depending on the nature and purpose of the budget and operational level of the knowledge management in an organization, the process of budgeting lends itself to quite a number of mechanisms or techniques, which are sometimes not mutually exclusive. These budgeting techniques include:

1. *Incremental budgeting*. This is a system of budgeting where the budget of the current year depends on the previous year's estimates.
2. *Zero-based budgeting*. This involves periodic (annual) re-evaluation of all programmes. The existing and new programmes are scrutinized on the same basis and ranked according to their relevance to the prevailing knowledge management policy thrust of the organization for the fiscal year.

3. *Performance budgeting*. Under this system, knowledge management programmes and projects are classified and subjected to cost-benefit analysis. It equally involves performance measurement and reporting.
4. *Programming, planning and budgeting system*. This involves classification of knowledge management programmes by functions and activities, applications of qualitative criteria or assessment of programmes and services that will lead to policy formation and evaluation.
5. *Line budgeting*. It is an old technique of budgeting, which lists items in a budget document on a purely object basis. It shows cost by type of output but does not indicate the costs on a programme-by-programme or project-by-project basis. It is important to note that line-item budget has very little informative value.

IV. Budgeting Process for Knowledge Management

Budgeting for knowledge management must include finance, labour, equipment and materials. These are the main factor inputs for implementing such a knowledge management plan. Therefore, knowledge managers charged with the responsibility of managing organizational knowledge must ensure that costs in the budget of their units are as realistic as possible. They should establish a budget committee, appoint some budget officer(s), and provide a manual for guiding the implementation of the budget.

A typical budgeting process for knowledge management should include: 1) design of budget guideline, 2) issuing of call circular, 3) submission and defense of proposals by the knowledge management unit before the organizations' management, 4) budget approval, 5) budget implementation, and 6) budget monitoring and evaluation.

V. Components of a Budget Plan for Knowledge Management

Ideally, a budget plan of any Knowledge Management unit must contain four essential elements: 1) Recurrent Revenue (i.e., funds allocation), 2) Recurrent Expenditure (i.e., labour costs such as salaries and wages, staff training, local travels and transport, utility, postal/telephones, stationery, vehicle maintenance, and hospitality), 3) Capital Revenue

(i.e., balance carried forward, proceeds from bonds and shares, grants and aids, and loan prepayment), and 4) Capital Expenditure (i.e., cost of projects and programmes, building, and computerization).

VI. Budgetary Control of Knowledge Management System

Budgetary Control is a system of controlling costs, which includes the preparation of budgets, establishing responsibilities, comparing actual performance with what was budgeted and acting upon results to achieve optimum benefits (Popoola, 2000).

Budget control should be based on such factors as: 1) the creation of a budget centre's accounting system, 2) general instruction on budget technique and in operating the system, 3) the preparation of an organizational chart, 4) the formation of a budget committee, and 5) designing the system for reporting.

VII. The Role of Budgeting in Knowledge Management

Budgeting plays a crucial role in knowledge management. Very importantly, a budget demonstrates how results to be achieved during the budget period relate to the long-range goals of the unit and the organization in general. Ideally, progress in reaching those long-range goals should be made each year of the multi-year projection.

Budget serves knowledge managers in several important ways. It is an aid to orderly and progressive planning, a tool in administration, an instrument of operational control, and a device for evaluating results.

VIII. Financial Sources for Knowledge Management Units

Knowledge Management units of organizations spend a lot of funds on knowledge identification, generation, organization, storage and dissemination for the achievement of the overall goals of the organizations. Usually, Knowledge Management units are funded by their parent organizations. The amount of fund an organization allocates to the Knowledge Management unit may depend on what priority or value it places on the importance of organizational knowledge in achieving its goals and objectives. Other

sources of funds for Knowledge Management units include grants and bequests from friends of the organization. Loans from finance houses may also help to fund Knowledge Management units. However, this must be approved by the organization.

IX. Necessary Information for Budgeting

Stueart (1980) identified historical and current information as necessary ingredients for budgeting.

1. Historical Information

This includes long term trend analysis, derived from the Knowledge Management unit's own budget reports, supplemented by the various price-index analysis and annual statistical records. Items to look out for include: changes in total budget and changes in the relationship between the various parts and pattern of expenditure. The pattern of expenditure should be compared with such matters as numbers of items purchased, significant variations or changes that suggest that item prices have brought about a redistribution order.

The evaluation of past budgets and examination of statistical reports should be compared with the goals and objectives of the Knowledge Management unit. This comparison will reveal whether budget allocation or changes in prices have caused a significant deviation from the original plan. Any deviation in original plan should be thoroughly examined for its causes and effects. Some deviations may require budgeting corrections, either by providing more money in order to obtain more materials or reducing the number of items to be purchased in order to bring expenditure more in line with general goals. However, if the survey reveals persistent deviations, it may be an indication that the budget system used is unresponsive to current needs, and as such, should be changed or develop an alternative recommendation like provision for contingency funds to be incorporated in the budget system.

2. *Current Information*

This includes information from the immediate past year's budgetary performance and the year-end statement of performance. Latest information on price trends, whether from the unit's own records or from external sources (like vendors, suppliers, etc) is of great importance in the preparation of budget for the current year. Unless such information is taken into consideration in the preparation of the current year's budget, price increases are likely to overthrow any knowledge management goals. This is especially true of materials supplied on quotations.

X. Conclusion

Budgeting for knowledge management in organizations is a complex process. No simple set of rules works for all. The general intention of budgeting for knowledge management is to distribute funds in such a way as to support the overall attainment of organizational objectives. While it must not be seen as a rigid control mechanism, budgeting is a means of encouraging accountability. It also sets measurable goals. Care must be taken to forestall the rigidity that always develops over time. Formulas in particular must be reconsidered periodically. If one method does not work well, the knowledge manager should try another. It must be noted that no knowledge manager succeeds in any organization without budgetary provision for implementation of programmes and policies. A suitable budgeting technique must be chosen and correctly used to achieve maximum benefits and support for set goals both on short- and long-term bases.

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