CEO advisory

Ten steps to get more business value from knowledge management

Stephen Denning

Only a short time ago, knowledge management was seen as a falling star – yet one more of the myriad management fads that had not delivered on its potential. But now, once again, knowledge management is a hot topic at conferences and workshops. A recent survey by the Economist Intelligence Unit found that knowledge management was rated as the area with greatest potential for productivity improvement, coming ahead of customer service and support, operations and production processes, strategy and business development and marketing and sales activities.[1]

What is knowledge management? The term "knowledge management" is ambiguous and refers to the various ways in which organizations try to get greater value out of knowledge, including identifying, gathering, sharing and exploiting the knowledge that they may possess or have access to. While the growth of knowledge management was fueled in the mid-1990s by the technology of the Internet, the human dimension of knowledge has turned out to be fundamental for success.

As firms once again come to see knowledge management as central to having an effective, efficient organization in the knowledge-based economy, savvy executives should ask themselves: how is the firm to capture the promise of knowledge management, while sidestepping the pitfalls? Why did KM disappoint in the past? How can one exploit its true potential? Here are ten practical steps for an executive to take:

1. Slice through the hype

The first task is to find one's way through the thick clouds of hype. Sadly, knowledge management consultancies generated massive oversell. And it wasn't only sales pitches. None other than Peter Drucker helped launch a storm of hyperbole when he said in 1993 *"knowledge has become … the dominant – and perhaps the only source – of competitive advantage."*[2] Drucker's qualifier, "perhaps", was forgotten and his assertion became the endlessly repeated mantra of the knowledge management movement.

The reality is that knowledge is an important source of competitive advantage, but clearly not the only one. Others include focus, consistency, values, imagination, and a capacity to innovate. Moreover, knowledge isn't necessarily a ***sustainable*** competitive advantage: while low-value knowledge is often "sticky" and not easily imitable or appropriable by competitors, high-value knowledge is very "leaky", and tends to fly out the door at the speed of light.[3]

Faith in the dominance of knowledge as the only source of competitive advantage led to the unrealistic expectation that the advent of ***knowledge management would somehow transform the business landscape***. But even in firms like BP that made extraordinary business gains from KM, knowledge occupies a relatively modest place in the corporate pecking order, like other important, but not transformational, functions.[4]

2. Fight off the IT firms

Aggressive selling by IT vendors led some companies to believe they could buy "knowledge management in a box." When the much-heralded products didn't produce the desired results the backlash tended to undermine the whole KM movement.

Much of the IT hype proceeded on the assumption that the task of knowledge management is to enhance the supply of knowledge. In reality, the supply of knowledge has always been fairly plentiful.

The truth is that although technology can be a highly valuable accelerator of data and information dissemination, making knowledge management work is essentially a people-based challenge. Thus while data and information can be transferred by technology, knowledge has the human dimension of understanding. This means that technology is never the total answer. Unless managements are willing to tackle the tricky people issues involved fostering collaboration and sharing, and changing the organizational culture in environments where the incentives and career pressures are often pulling in different directions, there is little prospect that knowledge management will deliver on its true potential.

3. Take a hard look at your own organization

Because knowledge resides in human minds and bodies, strictly speaking, it can't be managed directly. It has to be addressed indirectly through people, culture and technology.

Before launching a knowledge management initiative, therefore, it's a good idea to take a hard look at your own organization and figure out: what's the underlying problem? Why isn't knowledge already being shared easily and quickly around the organization? Why does knowledge find it so difficult to cross organizational boundaries, from one department to another? Why does the organization keep reinventing the wheel in different parts of the organization, time after time?[5]

Why don't people share knowledge? Generally, it's because the customs, habits, values, incentives and disincentives of the organization discourage knowledge sharing. And it's because the entrenched power structures of the organization are likely to provide strong support to preserve the status quo. Where knowledge challenges the status quo, the culture of the organization can constitute a significant impediment to useful knowledge being shared. This means that effective sharing of knowledge generally entails changing the culture and only indirectly managing knowledge

Unless the top management is aware of the current situation, and willing to do the heavy lifting involved in fixing it, you should be cautious about expecting that any knowledge management program will make major gains.

4. Set your knowledge management strategy

Having taken stock of the situation, a key step is to put in place a strategy for sharing knowledge. The senior management of the organization must collectively conclude that sharing knowledge can enhance organizational performance and agree on a course of effective action. They must make specific decisions about the particular variety of knowledge management that the organization intends to pursue, including:

- What knowledge to share?
- With whom to share knowledge?
- How will knowledge be shared?
- Why will knowledge be shared? [6]

Examples of knowledge management strategies show the diversity of goals. In BP, for instance, the focus of knowledge management was essentially one of *reducing the cost* of drilling oil wells. In the World Bank, by contrast, the goal was *enhanced effectiveness*, through sharing knowledge both internally and with external clients. Some strategies focus on *connecting* people together, while others emphasizing developing useful *collections* of information and know-how. What is important is to get clear on the strategy to be pursued, and what benefits it will generate, and then make an explicit decision to proceed.

5. Use narrative techniques to communicate your KM strategy

The fundamental obstacle to knowledge sharing in an organization is typically lack of demand for sharing knowledge, not lack of supply of knowledge. In many organizations, the hope lingers on that, somehow, there are structural solutions to the lack of demand for knowledge sharing. Somehow, if they can just find the right organizational arrangement, the right directive, the right top-down decision, the right mix of carrots and sticks, the desire to share knowledge will somehow burgeon.

Command-and-control approaches won't generate the necessary enthusiastic support for knowledge sharing, particularly where large-scale changes in behavior and understanding of the mission of the organization are required. However, using narrative techniques to spread the word about the successes of real knowledge sharing situations can inspire the organization to understand the implications of the change and get enthusiastically behind it. In the World Bank, for example, a story about a health worker in Zambia getting access to knowledge about malaria from the website of the Center for Disease Control in Atlanta Georgia, helped spark interest in the World Bank sharing its knowledge with internal and external clients.[7]

6. Pay special attention to organizational values

Because knowledge resides in human minds and bodies, it has to be addressed indirectly through people, culture and technology. A crucial aspect of the organizational culture is the set of values embraced by the organization, i.e. the principles and standards which determine what is important and unimportant and which guide the actions of people within the organization.

Underpinning every successful knowledge management program is an organizational embrace of the value of sharing. If this value is absent from the organization, knowledge management will have a tough time succeeding. Conversely if sharing for the common good is a dominant value in the organization, then implementation of knowledge management will be relatively easy. In this respect, knowledge requires a supportive value system. It may even be a good idea to think of knowledge management as "values management."

Thus Mindtree Consulting launched a persistent multi-year effort to establish five values as the dominant values of the organization:

- Caring – requires empathy, trust; needed to enable sharing and individual push of knowledge
- Learning – required for individual pull of knowledge
- Achieving – high performance requires resourcefulness and heavy reliance on knowledge
- Sharing – active cooperation; requires fair process, openness, transparency.
- Social Responsibility – an outward extension of all the above values

The focus on values greatly facilitated the implementation of knowledge management in the firm.[8]

7. Encourage communities and cross-communities

The nurturing of knowledge-based communities of practice is the best way to promote significant knowledge sharing. Such communities are typically based on the affinity created by common interests or experience, where practitioners face a common set of problems in a particular knowledge area, and have an interest in finding, or improving the effectiveness of, solutions to those problems.

Communities of practice are relevant both the connecting and collecting aspects of knowledge sharing.

- ***Connecting people*** who need to know with those who do know requires an element of trust that is often lacking in large organizations, particularly when it comes to sharing knowledge across organizational boundaries. Thus, asking for advice or other opinions can be seen in a low-trust environment as tantamount to an admission of ignorance. Advertising that ignorance across the entire organization is unlikely to occur if there is a risk that it may have personnel sanctions, particularly in organizations that are downsizing.
- ***Collecting information and know-how*** that can be shared through the web or other technology, and in due course become knowledge with the addition of human understanding. This approach also comes to be dependent on communities, since it is only in communities of practitioners that share common objectives and pre-occupations that it can become apparent as to what information and know-how needs to be shared. Efforts to build collections in the hope that "users will come" almost always encounter a disappointing response, since the builders find it difficult anticipate what knowledge users will want, and even if they succeed in theory, the users will regard the collection as something external and foreign unless they had a hand in designing and constructing it.

Launching and nurturing communities of practice for knowledge sharing programs can be accomplished in a variety of ways, including endorsing informal communities that already exist, or finding out what issues people are passionate about and encouraging the emergence of communities around those themes. Using the narrative techniques of leadership can promote sharing between communities.[9]

8. Set your incentives (carefully!)

Since knowledge sharing usually entails a change in the way the business of an organization is conducted it is important that managers and staff can see that knowledge sharing is one of the principal behaviors that the organization encourages and rewards.

In setting incentives for knowledge management, it's wise to make sure that the behavior you seek is the behavior you really want.

For instance, in one consulting company, the staff was given strong incentives to contribute to, and use resources from, an intra-firm knowledge base in making client proposals. Large-scale sharing of materials took place, but in the result, organizational performance suffered: the use of standardized materials was less attractive to clients than tailor-made context-specific proposals. In fact, studies showed that teams had a lower chance of winning bids if they utilized electronic documents from the corporate knowledge base, because the corporate materials failed to differentiate the firm from its competitors.[10]

Initially, the informal incentives created by top management's insistence on the value of sharing set the stage for cultural change. In the long-term, however, the establishment of formal incentives through the regular personnel and reward system of the organization can support a clear value framework that confirms that knowledge sharing is not merely a passing management fad, but rather part of the permanent fabric of the organization.

9. Measure Progress (Carefully!)

Organization-wide knowledge sharing programs require significant investments and will entail major management effort, as well as behavioral changes throughout the organization over a significant period of time. Without measurement, there is an ever-present danger of premature abandonment of successful efforts, or alternatively, of complacent continuation of unsuccessful efforts when course correction is needed.

Putting in place a system for measuring progress will therefore be an essential step for a sustainable knowledge-sharing program. The organization must be prepared to accept some ambiguity, or at least to rely on non-traditional measures, when it tries to evaluate the impact of knowledge-sharing.

The relevant metrics will depend on the objectives of the knowledge management program. For instance, if the objective is to reduce costs as in BP's program, then the metrics will relate to the impact on cost-savings. If the objective is to enhance effectiveness by sharing knowledge with external clients, then the metrics will relate to the access to knowledge that is provided and the impact that it has on those who avail themselves of that access.

There is also a measurement paradox: the more the organization is successful in mainstreaming knowledge sharing as the normal way of conducting the business of the organization, the more difficult it will be to isolate the impact of any particular actions or expenditures in knowledge management. Nevertheless, the measures of inputs, activities, outputs and outcomes can go a long way to track progress and keep the organizational focus on performance.

10. Recognize the limits of knowledge

It's true that knowledge generally helps innovation, when the innovation involves the firm doing the same thing, but cheaper, quicker or better. However, the ability to run fresh mental simulations in *new* situations is what distinguishes true innovators from mere experts.[11]

This is why, when it comes to transformational innovation, expert knowledge can become a handicap. The people who know how things are done, the official experts, generally know why transformational innovation won't work. And all the innovators have to offer is a mere dream of how the world could be different. Expert knowledge becomes a barrier to disruptive innovation when communities of practice become bastions of support for the status quo, at the expense of high-value innovation. Management's support for expert knowledge management must thus be conditional.

In the final analysis, knowledge management may not transform the business landscape, but it is an essential element of the modern organizations. If these 10 basic principles are followed, managers should be able to capture its much of knowledge management's potential while avoiding its most serious pitfalls.

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Endnotes

[1] http://www.eiu.com/site_info.asp?info_name=eiu_Cisco_Foresight_2020

[2] Drucker, P.F. 1993. *Post-capitalist Society*. New York: HarperCollins Publishing.

[3] http://www.creatingthe21stcentury.org/JSB14-k-sticky-leaky.html

[4] An exception would be where knowledge became the organizational strategy, as in the case of the World Bank.

[5] Common sense might suggest that self-interest would push people to want better knowledge. But while the desire for better knowledge is evident ***within*** a discipline or community of practice, it is less so ***between*** disciplines or areas of expertise. Putting in place arrangements that will facilitate sharing within the discipline is usually an important step in KM. But this should not blind us to the reality that, when it comes to learning from different disciplines, the interest in learning is not always evident.

[6] http://www.stevedenning.com/stategy_knowledge_sharing.html

[7] Denning, S.: *The Leader's Guide to Storytelling: Mastering the Art & Discipline of Business Narrative* (2005, Jossey-Bass), chapter 3.

[8] "Building a Knowledge Culture", presentation by Raj Datta, February 21, 2006.

[9] http://www.stevedenning.com/communities_knowledge_management.html; Denning, S.: *The Leader's Guide to Storytelling: Mastering the Art & Discipline of Business Narrative* (2005, Jossey-Bass), chapter 7.

[10] Haas, M. R. & Hansen, M. T. 2005. When Using Knowledge Can Hurt Performance: The Value of Organizational Capabilities in a Management Consulting Company." *Strategic Management Journal*, 26(1): 1-24.

[11] Klein, G., Sources of Power: How People Make Decisions. 1998, Cambridge: MIT Press.