Ten Steps Towards Getting Business Value from Knowledge Management

Stephen Denning

In this article, Stephen Denning drew on his latest book, *A Leader's Guide to Storytelling: Mastering the Art & Discipline of Business Narrative* (San Francisco: Jossey-Bass, 2005). Formerly the Program Director, Knowledge Management, at the World Bank, he advises organizations world-wide on leadership, knowledge management and organizational storytelling.

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 hot: in a survey of 1,656 senior executives from around the world in late 2005, 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]

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 that have descended on knowledge in the last decade. Sadly knowledge management generated massive oversell. There were grains of truth in some of the pitches, but also many half-truths.

And it wasn't only sales pitches. Over the decades, many pearls of wisdom fell from Peter Drucker's lips, but when he said that ***"knowledge has become … the dominant – and perhaps the only source – of competitive advantage***," he helped launch a dense and pervasive fog of misleading hyperbole.[2] Drucker's qualifier, "perhaps", was forgotten: possibility was turned into a certainty - and the unqualified statement became the endlessly repeated mantra of the knowledge management movement.

Not everyone in the KM world stopped to consider whether Drucker's dictum was true. The reality is that knowledge is an important source of competitive advantage, but clearly not the only one – not in 1993, when Drucker said it, or now in 2006, or ever. There are other sources of competitive advantage – focus, consistency, values, imagination, 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 when KM did indeed arrive in many organizations around the world, the business landscape was not transformed. Knowledge management programs made useful contributions to firms that were successful in implementing them. Even in firms like BP that made extraordinary business gains from KM, knowledge occupies a relatively modest place in the corporate pecking order, generally somewhere on a par with inventory control. Every sensible company needs inventory control. It often lowers costs, sometimes dramatically. If you don’t have one, you need to be more efficient in other areas to be competitive. But inventory control doesn’t generally transform the business landscape. And neither did most KM programs.[4]

2. Fight Off The IT Firms

One of the elements that led to a disillusion with knowledge management was the aggressive selling by IT vendors who led unsuspecting companies to believe they could buy “knowledge management in a box”. When managers bought the box and installed the software, they found out that knowledge management still didn’t happen and 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. Libraries have been available for millennia but there are rarely lines of people waiting. The web now makes access to knowledge infinitely easier and quicker, but it does nothing to enhance demand for knowledge. If we look at the many debacles in the private and public sector of the last decade, better knowledge was generally staring decision-makers in the face. The problem wasn’t supply of knowledge: it was lack of demand. Until the demand side of knowledge is addressed, it is unlikely that enhancing the supply of knowledge will make much difference. And IT itself does little, if anything, to address demand for knowledge.

The truth is that although technology is an essential accelerator of knowledge management delivery, making knowledge management work is essentially a people-based challenge. 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.

You should use IT in support of knowledge management, but use it intelligently, as a support to the business objectives of knowledge management, not the whole ballgame.

3. Take a Hard Look At Your Own Organization

Before launching a knowledge management, 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 not because they are stupid or lazy or evil, or because they lack technology to share knowledge. Generally, it's because the customs, habits, values, incentives and disincentives of the organization discourage knowledge sharing. It's because the organization is stove-piped so that organizational structures are getting in the way of knowledge sharing. And it's because the entrenched power structures of the organization are likely to provide strong support to preserve the status quo. As a result, knowledge management is going to have a tough time succeeding, without these fundamental organizational issues being addressed. 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. It entails a collective visioning as to how sharing knowledge can enhance organizational performance, and the reaching of a consensus among the senior management of the organization that the course of action involved in sharing knowledge will in fact be pursued. Implicit in such a process is a set of 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]

Thus knowledge management strategies can vary. The focus of knowledge management might be, as in BP, essentially one of ***reducing the cost*** of drilling oil wells. Or it might be one of ***enhanced effectiveness***, through sharing knowledge both internally and with external clients, as in the World Bank. The principal focus might be on ***connecting*** people together, or it might be on putting together ***collections*** of 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.

Making a decision to proceed. In large organizations, discussions of strategy can go on for long periods, sometimes years, without ever coming to closure on the components. In the end, actually crossing the Rubicon and unambiguously deciding to share and communicating that decision explicitly throughout the organization is a key step in launching a knowledge sharing strategy. An explicit decision is critical because knowledge management typically involves a shift from a vertical hierarchical mode of operation to a horizontal boundary-crossing mode of operation: such a shift is unlikely to occur on a sustained basis unless that there is an explicit decision at the very top of the organization that it should occur. Without such a decision, the opponents of KM will sooner or later be able to block the shift, and so thwart the organization's systematic ability to share its knowledge.

5. Use Narrative Techniques To Communicate Your KM Strategy

The fundamental obstacle to knowledge sharing in an organization is typically lack of demand, 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. 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 grow, expand, even explode. This faith is similar to the faith in the Tooth Fairy, and equally misleading.

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. Using narrative techniques that build on real knowledge sharing situations can inspire the organization to understand the implications of the change and get enthusiastically behind it.[7]

6. Pay Special Attention to Organizational Values

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 is in a sense subservient to values. It may even be a good idea to think of knowledge management as more accurately described 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]

Establishing values is the work of top management: they have to set the example. They can talk all they like about the importance of sharing knowledge, but if they don't themselves embody this value in their own conduct, there is little likelihood that the staff will pay much attention to what they say. Once established, the values need to be communicated by a pervasive environment of stories, rituals, slogans, symbols, language, and the physical setting of the organization. Values are crucial because they go to the central challenge of knowledge management – that of enhancing the demand for knowledge, not just supply.

7. Encourage communities and cross-communities

In undertaking knowledge sharing programs, organizations find – sooner or later – that the nurturing of knowledge-based communities of practice is a sine qua non to enabling significant knowledge sharing to take place. 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 knowledge*** so that it can be shared through the web or other technology 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 knowledge needs to be shared. Efforts to build knowledge 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.

Passion: communities thrive on passion, and die from lack of it. That is to say, communities depend on the members of the community being interested in, enthusiastic about and committed to the issues around which the community is formed. Communities comprise volunteers, not conscripts, and the community exists only so long as the members are willing to contribute their time and effort to promoting the community and its interests. Communities cannot be commanded into existence, and if this is attempted, they will become something other than a community, except in name.

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.[9]

Communities tend to be allergic to command-and-control techniques. Instructing leaders to form communities is usually a recipe for disaster, unless the leaders so designated happen to be informal leaders on the relevant issues, or unless they elicit the co-leadership of others who already possess this informal leadership status. Here again using the narrative techniques of leadership are crucial to inspiring understanding of and passion for communities of practice, and to get sharing across communities.[10]

8. Set Your Incentives (Carefully!)

Since knowledge sharing usually entails a change in the way the business of an organization is conducted – including a shift from vertical “look up and yell down” modes of behavior to horizontal knowledge-sharing behaviors – it is important that the relevant behaviors are reflected in whatever incentive systems are in place in the organization. Thus, it is important that the value of knowledge sharing be reflected in the on-going personnel evaluation, periodic merit review or pay bonuses of the organization, so 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 keep in mind the old Chinese curse: “May your dreams come true.” Incentives can be a powerful driver of behavior. But you should make sure that the behavior you seek is the behavior you really want.

For instance, in one consulting company, staff were 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 were 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.[11]

In the short run, formal incentives aren’t essential: the absence of formal incentives in the early days of knowledge sharing can become a mere pretext for not implementing the program. What is more important in the short run is the informal incentives created by top management’s insistence on the value of sharing. 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. Measuring that impact, either in terms of return on investment (for private companies) or development impact (for public sector institutions), remains problematical. In principle, inputs lead to activities, which generate outputs, which in turn produce outcomes, which in turn result in overall impact. But each link of this chain poses its own measurement difficulties, and measurement becomes the art of the possible.

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.

It is also important to keep the activity of measurement in perspective. You should remember that if what you measure becomes an objective, then it ceases to be a measure – a fate that occurred in the example of the consulting firm cited in the previous section.[12]

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. The ability to run mental simulations in *new* situations is what distinguishes experts from journeymen. The journeymen may have mastered some routines but if pushed outside the standard patterns, they can't improvise. They lack a feel for the dynamics of the situation.[13] It is easy to slide from this truth that knowledge generally helps innovation to the half-truth that knowledge ***always*** helps innovation.

When it comes to transformational innovation, knowledge can become a handicap. The people who know how things are done around here, the official experts, generally know why transformational innovation won't work. They know why the cost of disruption will be excessive. Moreover they have market research, and studies showing the technology isn't proven, that necessary competencies are lacking. And what do the innovators have? A mere dream of how the world could be different: for instance, a world in which hundreds of millions of people might fall in love with an iPod. This wasn't knowledge. It was a hunch, a surmise, a guess by Steve Jobs. In disruptive innovation, knowledge can be a barrier, not an asset. Even communities of practice can thus become bastions of support for the status quo, at the expense of high-value innovation. Management's support for knowledge management must thus be continually tempered by an alertness to the limits of the value of knowledge.

Conclusion

Knowledge management may not transform the business landscape, but it is an essential element of the modern organizations. If the basic principles outlined in this article are followed, managers should be able to capture its potential while avoiding the most serious pitfalls.

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[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

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

[11] 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.

[12] Haas & Hansen (2005) op. cit.

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