

Industry Briefing

Knowledge Matters – Developing a Knowledge Management Strategy

Executive Summary

The knowledge deficit – the cost to a business of what it doesn't know – is growing. Success in today's knowledge-based economy demands an effective knowledge management strategy, but there is not one solution that fits all. However, there are certain fundamental questions that need to be addressed before a strategy to maximize the knowledge within your organization is developed.

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Knowledge Matters

If knowledge management is a cost, no knowledge management is a greater one. An IDC study in 1999 attempted to put a cost on the "knowledge deficit" operating within most companies. The deficit is a measure of the cost of work that is redone, or substandard, or where there have been difficulties in locating the right knowledge – either information or expertise.

And the deficit is growing. From \$12 billion in 1999 the knowledge deficit, in just the Fortune 500 companies studied, is expected to rise to \$31.5 billion by 2003. That represents a cost per knowledge worker of \$5850.

Knowledge assets will also disappear unless there is a system to actively capture and transfer corporate expertise. The study estimates that some 3.2 percent of a company's knowledge is wrong – or becomes out of date – every year, while 4.5 percent of a company's knowledge base is lost through staff turnover, information mismanagement or a reluctance to share personal knowledge.

As a result IDC believes there will be a significant increase in KM spending over the next three years, rising to \$12.1 billion in 2003. So, in developing our own knowledge strategy how do we ensure it is money well spent?

Business first

Firstly, we need to accept that knowledge management is not a goal in itself. It's not enough just to create a platform for people to communicate and share. There needs to be clear business objectives. Will the investment help improve customer service, make the company more competitive, cut development time, improve decision making, and ultimately enable us to offer products or services to customers more quickly cheaply and efficiently?

That is, we need to determine how the knowledge strategy will help the business - what value it will provide and to whom.

It's a People Thing

There has been a shift within knowledge management practice from a knowledge-centred approach to a people-centred one (see the Gold Industry Briefing: *People as the New Paradigm*). Previously, the emphasis has been on dividing knowledge into Tacit, that which is locked within people's experience and is difficult to capture, and Explicit, that which is externalised in documents, databases, manuals etc. Explicit knowledge is often thought of as objective, but is rarely so, as it can often be interpreted differently according to who has accessed the information.

Systems to capture and sift explicit knowledge are not sufficient. Rather we need a strategy that also nurtures the people with knowledge – in particular accessing the tacit knowledge locked within their heads.

Nor does that knowledge have to be made explicit. It's not always easy to express the intuitive knowledge acquired through experience that marks one designer from another or one copywriter from the next. What is it that makes one choice of colours or combination of text work better than another? There is value enough in being able to readily locate and access the expertise available.

While companies can build on their corporate knowledge through people collaborating in knowledge networks or places (see Gold Industry Briefing: *Knowledge Management, Knowledge Places*) knowledge sharing is not empowered simply by technology.

For people to share knowledge willingly there needs to be a corporate culture that encourages such co-operation and learning. It's difficult to discourage staff from hoarding personal knowledge if the company is laying off staff or has an intensely competitive work ethic. Members in a knowledge network have to be motivated to find others with knowledge to share, and they in turn have to have compelling reasons to share their knowledge when asked.

The Knowledge Virus

In other words, there needs to be a strong community of interest. Where there is knowledge can spread as rapidly and pervasively as a virus. The effectiveness of the viral spread of information is a notion that author Seth Godin, who developed the concept of permission marketing, has already exploited to good effect on the Internet.

The Ideavirus, says Godin, is "an idea that spreads unchecked, through a population of like-minded people. The best ideaviruses do so with the active participation and co-operation of the people involved".

In other words get your customers to tell their friends. It's a technique he tested with his book *Unleashing the Ideavirus*, which was published free and in its entirety online. It was also then made available in a published hard copy at a hefty \$40.

There were 500,000 downloads of the free book - five times the readership of Godin's first title on permission marketing. Even more surprisingly, sales of the paid for hardcopy were as high as those for his first conventionally published book – despite the high price and the fact it was available for free on the net. His conclusion is that sales increase the more you give away.

To spread your ideavirus means doing whatever you can to reduce the friction of communication, believes Godin. Similarly with knowledge we need to do anything we can to aid frictionless communication, so that knowledge can spread through a "population of like-minded people" as a result of their "active participation and co-operation".

Don't Get in Line

We do need to be more aware of the interactions that are the norm in our world. To do that we have to tap into the experience of others – in all its unstructured complexity.

But we have a bias against complexity, which is even reflected in the language we use. As Alan Beyerchen, Associate Professor of Modern European History at Ohio State University, points out we use terms like nonlinear, asymmetrical, disproportionate and disequilibrium, which imply that the norm is the opposite; the natural order is linear, symmetrical, proportionate and in equilibrium.

Such language reinforces the belief that the world is ultimately simple and that's what we should expect. Applied to business, we look to develop organizations that yield linear responses, where we can predict behaviour and so control what goes on.

The norm, argues Professor Beyerchen, is for managers to engage in linear extrapolations of familiar patterns. "Senior managers are often like generals, always ready to fight and win the last war. Why? Because they were successful in that war. Higher and mid-level managers were also successful in some earlier period of competition and were advanced in authority and responsibility as a consequence of their success."

Such a linear approach is misleading. It's too narrow, idealised and restrictive. Managers have forgotten that times change, flux is the norm, believes the Professor. Those organizations that are successful are so because they encompass great variety and adapt.

Pull not Push

We should also recognise that knowledge places work through people “pull” rather than company “push”. In fact, pushing knowledge at people is only likely to lead to information overload. It’s demand led rather than supply driven, where the demand comes from those who need help in solving business problems. Information is sought at the moment of actual need, as a form of just-in-time training.

To encourage such learning you do need a corporate culture where people are not only encouraged to share their expertise, but also to seek it.

The fact that they don’t maybe because they are afraid of appearing ignorant. Alternatively, and perhaps more alarmingly, they have too much confidence in their own decision-making abilities. A research study by Jack Soll, Professor of Decision Sciences at INSEAD, looked at confidence in decision-making among several professional groups. The professor asked people a series of questions, such as how much older is Bill Clinton than Madonna, and asked them to come up with an answer they were 90 percent confident of.

In fact, most were wildly over-confident – on average they were correct less than half (45 percent) the time. The results varied between professions; best were weather forecasters, who are perhaps more experienced in dealing with inaccurate predictions, while worst were managers.

Perhaps such over confidence is needed to get on in the corporate power struggle, in which case the challenge is to create a culture where teamwork and co-operation are welcomed and where the manager can draw on the knowledge of others without feeling undermined.

Decisions don’t need to be made in isolation. Rather than individuals relying on their own experience to make decisions KM systems can automatically provide relevant information and expertise.

Not One Size Fits All

Knowledge is not generic – we don’t just know, we know about something. It is set in a context whether it’s marketing, manufacturing, or IT. Knowledge is also not singular, it can be of many different types. It can be a knowledge of a specific business process, such as production, or of rules, such as a compliance officer might need to know, or of design skills acquired by an architect through years of training and experience. In the same way there is not one knowledge strategy that fits all.

Strategies need to be adapted to the culture of the company. In a “forgiving” culture the freeflow of ideas is likely to be encouraged, while in a less risk-oriented environment knowledge management strategy may be more focused on disseminating best practice and procedures.

Whatever the strategy for your organization there are certain fundamental steps that need to be addressed in order to find the best solution possible.

1- What Do You Know?

First, you need to discover what knowledge is available – both tacit and explicit – and who has that knowledge. What importance (priority) does it have to the company and who else would benefit from knowing it?

How can it be made available? What tools and technologies are needed to help make the relevant knowledge resources available for the right people?

There are already sophisticated, integrated platforms, such as the Lotus Knowledge Discovery System, which can tap into a common culture. It's a knowledge management strategy based on People, Places and Things. The KM tools bring together widely dispersed People into online Places, which can either be personal places or communities, so they can collaborate on shared data, information and processes (Things).

At the front end is the K-station Knowledge Management Portal that provides a single point of access to critical information. It is integrated with collaborative tools such as Sametime for instant communication and QuickPlace for rapidly building online communities.

The Lotus Discovery Server extends the functionality of K-station by mapping the expertise within the organization, assembled through analysing unstructured content and by tracking user activity. By linking an asset map of relevant documents, the people who know about them and those with special knowledge you can assemble the best team for the right job at the right time.

By using familiar tools, with a single source to experts, drawing on the benefits of both synchronous and asynchronous collaboration, staff can concentrate on the value they can deliver through their knowledge rather than the technology.

In discovering what we know, we can also see what knowledge is lacking and establish where the stresses are and where further support, resourcing and training is needed.

2-Regroup to Motivate

To make the best use of the knowledge we have, we need to establish the right culture and collaborative infrastructure.

Companies need to be ready to reinvent themselves. In an increasingly global, fast-moving marketplace, there is often more synergy in establishing small international teams based on project affinities or mutual areas of interest. Individuals are likely to be more motivated if they can work and share knowledge with people who have a common interest.

3-Pilot the Rollout

Pilots get a lot of attention and support, but difficulties emerge if key people move, the marketplace changes or resources are deployed elsewhere. Worse projects can get stuck in the pilot phase. To avoid that, plan the roll out with the pilot phase, so no one is unaware of the scale of the investment needed.

There will be expense. The US-based American Productivity and Quality Center (APQC) has conducted several benchmark studies of KM in major enterprises. Most spent \$1million to get programs started and a similar amount annually to develop and maintain them. Some firms spent significantly more. Accountants Ernst & Young spend some six percent of revenue on KM, although this includes technology investments that have benefits beyond knowledge management.

4-Measure for Measure

It is traditionally difficult to measure intangible assets such as intellectual capital but at end of the day knowledge strategy has to be reflected by measurable improvements in performance and profitability.

In creating a knowledge-based strategy there are two potential measures – an outcome measure and a process measure.

The Outcome measure is linked to the traditional business objectives you're trying to reach through better knowledge management. To track it, it needs to be aligned with a particular business goal – such as increased productivity, faster turnaround time, etc.

The Process measure looks at usage of system and whether people are doing what you want them to do – tapping into the database, joining in online communities, sharing or seeking expertise, putting designs in the design bank, and so on.

Additionally, the value of the knowledge assets developed by the KM system should increase over time as people use the system, learn from it, and develop expertise they can then share.

Conclusion

The cost to a business of what it doesn't know – is growing. We need to narrow that gap between what we know and what we need to know, in order to stay competitive in today's knowledge economy. To do so we need an effective knowledge management strategy that will maximize the value of knowledge within our companies. In part, that will involve technological systems to capture and sift knowledge and expertise. But more fundamentally, it also involves developing a corporate culture that encourages co-operation and learning.