

Wherefore Knowledge Management ?

Leaders everywhere are grappling with organisational issues, as they align their strategies to reflect a new set of competitive givens. And as they reshuffle, spin off or acquire, the overriding global vs. local dilemma has not only become old, it's become painful. In an age where even the largest, most powerful companies are reaching parity with each other on such crucial fronts as market position or manufacturing scale, many are struggling to differentiate themselves. These are the competitive dynamics that have, slowly but surely, given birth to knowledge-based business models. Because knowledge will ultimately differentiate leaders from followers, it is a company's ability to leverage its knowledge that will secure its competitive edge, and its future.

In today's global village, many companies still require a centralised decision hub, tightly controlling the flow of resources, goods and information. Such a centralised corporation model has enabled many companies to "integrate globally." Yet at the same time, the need to remain locally responsive –including making real-time decisions without validation from HQ–

has led many companies to adopt a decentralised "federation model." But what happens when you realise that you need a bit of both? The only way to reconcile global integration with local responsiveness is to pool your worldwide learnings. Enter the knowledge-based organisation. These are companies where:

- strategic decisions meet local market imperatives
- co-ordination and control, complex as they may be, are tight
- the flow of technological, financial and, most importantly, human resources and information is ongoing and intense
- knowledge is never limited to just one individual or team (the opposite scenario can render your organisation extremely vulnerable)
- codified knowledge gradually becomes a powerful competitive edge

DEBUNKING MYTHS

Electing to become a knowledge based organisation is not a flavour of the month syndrome. Despite commonly held beliefs, the very notion of knowledge management is not a "soft" topic, and certainly not a "side issue."

The management of knowledge is a process you can measure, manage accurately, and create real incentive for.

And here's another myth debunked: knowledge management does not belong under the jurisdiction of HR. Becoming a knowledge-based organisation is not a means of making employees happier and more productive: it is first and foremost a way of delivering real results in a competitive climate.

When you manage knowledge correctly you not only capture, transfer and access the right information at the right time, you also make higher-quality decisions and undertake the kind of actions that truly support your business strategy.

KNOWLEDGE MANAGEMENT AS ACTION

Knowledge management ties directly into an organisation's core strategy. Of the 4 C's that exert the most direct impact on a company's results –Cost, Customers, Competition and Capabilities– it is this last one that is gaining pre-eminence in the current decade. "Capabilities" are often touched upon in board meetings, but their depth and scope never fully analysed. The reality is that a company's capabilities are what determine its core competency and, ultimately, its strategy.

A new way to think about core competencies is to structure them around key knowledge types –technological, market and customer, competitors, suppliers, functional, and process knowledge– that your company can leverage. You need not excel in all six, but should

be able to identify which is the most important for your future, perfect it and leverage it. Only knowledge that can be codified can be leveraged. And only knowledge that can be leveraged can become a real source of competitive advantage.

ZOOMING IN ON YOUR COMPETITIVE ADVANTAGE

Different knowledge-based business models focus on a specific competitive advantage, of which the main ones are:

Innovation

Intel's source of competitive advantage is innovation. This has enabled it to craft its business model around truly shaping an industry.

Market and customer intelligence

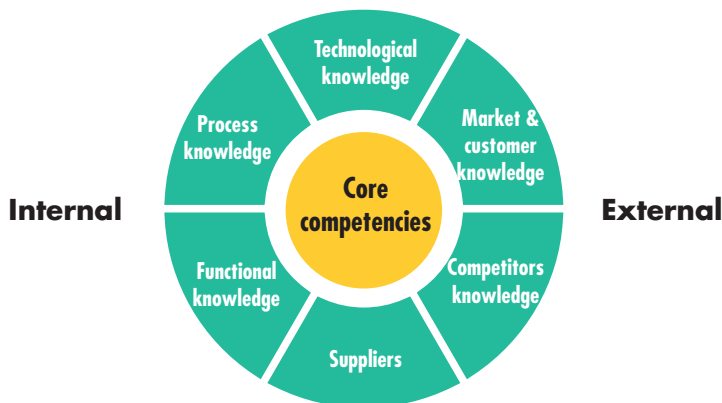
Dell's source of competitive advantage has always been the market and customer intelligence it possesses, something Dell has gone to great lengths to codify thoroughly. It supports Dell's business model which is built on direct distribution, it cuts out the middleman, lowers product stock, and reduces unit costs drastically.

Time-to-market

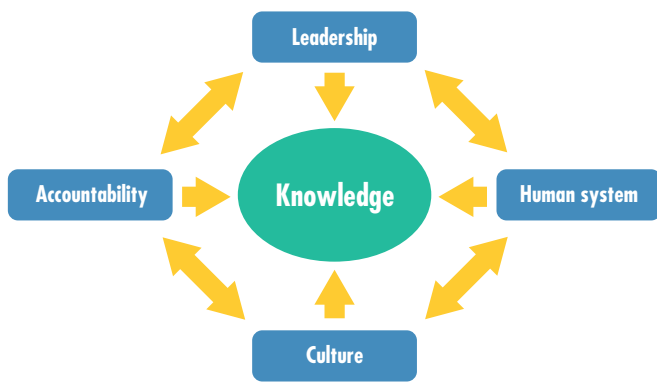
In many industries, a source of competitive advantage could be time-to-market. The first mover to sell the hot product –Nintendo is a good example– wins; the second entrant loses or, at best, has to contend with a smaller audience.

Yield loss optimisation

Pharmaceutical companies who limit costly trial and error in R&D will do better than those who do not. Typically, larger pharmaceutical companies



Core competencies represent knowledge that a company can leverage



Elements supporting your knowledge strategy

can absorb the cost of R&D better. Similarly with large automobile manufacturers like Toyota where scale advantage is critical.

ADOPT THE RIGHT KNOWLEDGE STRATEGY

A leader must choose from one of two knowledge strategies: codification or personalisation. The aim is obviously to select the one that optimises value creation.

A codification strategy invariably works best when aiming for greater scale and duplication. It is best suited to companies offering highly standardised products or services, and/or mature products or services. It also applies to a company that relies on internal knowledge— which is easily stored and retrieved— to solve explicit problems. In short, it involves a codification of knowledge that enables duplication

A personalisation strategy is appropriate for companies seeking out differentiation.

These are typically innovation-driven companies offering customised products and services, and conducting more one-off batches than large-scale production. The personalisation strategy leverages knowledge that really needs to be communicated from one human to another, rather than explicit knowledge that can be "empirically" codified.

SYSTEMS AND INCENTIVE

Once you've chosen between the two, you need to ensure that your IT system will support you and that your entire team will play ball. But getting people to buy into a new system, and getting them motivated, means rising above yet more myths.

Myth: You build it, they use it

The belief that, if you build a new system, people will start using it is unfounded and dangerous. Equally misleading is the belief that the implementation of a technology that harnesses internal knowledge will eliminate the need for

interpersonal information exchanges. The upshot is: you need to encourage both the use of the technology and face-to-face interactions.

Myth: aggressive goals do not provide incentive

The next, and by far most critical, step is incentivising people. Most employees' inherent resistance to change, and to adopting new systems, can only be overcome through a powerful incentive program. Rewarding behaviour is a logical way of going about it. However, another type of incentive building—used successfully by Ford when each plant needed to increase productivity by 5%— involves setting objectives that would be impossible to achieve without pooling knowledge with, say, another plant.

Stretching overall goals in this manner forces individuals to pick up the phone and work with one another, to pool what they know, to spread knowledge. In short, it forces them to leverage the company's worldwide knowledge base. At Ford, 40% of each plant's productivity improvements were tied into ideas that came from within. And what's more: as managers began to enjoy the benefits and to witness real value from working in this system,

a knowledge-sharing culture rose spontaneously at all levels of the organisation. It's also important to remember that knowledge management simply will not work unless individuals receive clear accountability for creating and sharing knowledge and unless they are given specific job roles, namely, driving knowledge management content, systems, and formal interactions.

BUILDING THE RIGHT KNOWLEDGE MIX

Identifying the capabilities that will drive your competitive advantage—rather than striving to be "best in class" in all capabilities—is vital. Equally crucial is addressing your company's "knowledge gaps," choosing the best knowledge strategy, and monitoring your progress in closing those gaps. The right incentive mechanisms and internal systems, combined with aggressive goals, can help you get there. Execution of all of the above takes effort and commitment and requires regular performance reviews. When all's said and done, becoming a true knowledge based organisation takes time, it is a journey, not a project. ✨

Philippe De Backer, Partner
Bain & Company Benelux



2002 has been a challenging year in many respects. At all levels, in every country and across most industries, no one was spared. Today the question on every leader's mind is: "How will we weather the storm?" At Bain we qualify that question by asking: "How do we tackle today—and tomorrow's— challenges from a strategic perspective?"

Business leaders, academics and industry analysts everywhere are unanimous: 2003 will also be fraught with challenges. Nonetheless, we hope it will allow our clients to capitalize our lessons learnt in 2002, when they had an opportunity to reconsider their strategy in a profound way.

We would like to thank our clients and collaborators everywhere for placing such faith in us this past year.

Allow us all, in Brussels and Amsterdam, to wish you a happy New Year and to savour the peace of knowing that better times lie ahead.