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Tapping the Power of Organizational Knowledge

In an era in which rivals can quickly copy a company's products or services and competitive advantage is temporary at best, world-class knowledge management is mission-critical. Whether a company is seeking to cut costs, reduce risk, or increase productivity and efficiency, managing organizational knowledge is crucial to achieving corporate objectives and responding to marketplace competition.

A knowledge management system in itself cannot push a company ahead of its competitors. However, incorporating a knowledge base into operations is a good starting point. But to truly gain competitive advantage, companies must eliminate knowledge silos in individual departments and focus on leveraging the power of collective organizational knowledge.

From a profitability perspective, constant improvements in operational effectiveness are crucial to reducing costs and sustaining a competitive advantage. To keep pace with the competition, companies have pursued initiatives such as continuous quality improvement, employee empowerment, and change management. Knowledge management leverages these initiatives and others to further improve productivity.

Information Overload

Knowledge management also is the key to helping professionals cope with information overload—the down side of the cyberspace era. Today's professionals are confronted with a deluge of information—voice mail, cell phones, pagers, E-mail, Web sites on the Internet, internal knowledge repositories, and periodicals. Yet despite this flood of available data, one study found that the average worker spends 35% of his time searching for information, often unsuccessfully.

Knowledge management systems help professionals sort through the confusion to zero in on the information they need to be productive.

In addition, such systems enable managers to better channel the information that flows into an organization every day, ensuring that the right information is brought to the people who need it.

Tacit Versus Explicit Knowledge

In the past, knowledge management involved a set of disconnected activities directed at increasing the productivity of white-collar workers and maintaining trade secrets. As the focus shifts toward collective organizational intelligence, two types of knowledge—explicit and tacit—are viewed as critical to organizational success.

Explicit knowledge is information that is written down or captured by some other means. Examples include procedure manuals, diagrams, and reports—such as a report prepared by a claims manager detailing the steps needed to achieve the claims-handling goals set by management.

Tacit knowledge, in contrast, consists of undocumented ideas, methods, and procedures—for example, the unrecorded procedures used by the claims manager to expedite claims handling. Both types of knowledge must be effectively captured, packaged, and reused to fully tap the power of organizational knowledge.

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Measuring Value

As a discipline, knowledge management forces the continual growth and improvement of intellectual capital, both explicit and tacit. However, the value of knowledge management processes cannot easily be measured, especially if significant tacit knowledge remains undocumented. In most cases, knowledge



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management is more appropriately tracked as an activity-based, value-creating function.

As a result, both hard and soft measures are used to measure the effectiveness of a knowledge management system. For example, benchmarks and statistics that can be tracked over time include the percentage of all tangible intellectual capital captured by the system and the average amount of time required to retrieve information.

Other measures, such as the extent of duplication of effort, are more difficult to quantify and are regarded as soft measures. One engineering firm estimated that it lost \$30 million a year in duplication efforts on large construction projects because, instead of reusing designs, the company always started these projects from scratch. This example illustrates how an organization's failure to leverage knowledge can adversely affect the bottom line.

The Tip of the Iceberg

Discussion databases, data warehousing, and library management all play a part in knowledge management, but they are only the tip of the iceberg. Unfortunately, most organizations perceive the benefits of having a knowledge management system but fail to recognize the difficulties involved in creating one.

Managing an organization's intellectual capital is much more complex than it first appears, and many challenges lurk beneath the surface. In developing a knowledge management system, an organization must consider its business processes, its people, and its technology—all within the context of the desired content of the system.

Processes. Knowledge management requires capital investment, new or retrained personnel, and new ways of managing. But this involves some difficult tradeoffs. Just what does the organization have to give up to become more effective in key areas? This is where hard choices need to be made to match strategy against tactical execution.

An insurance organization is composed of hundreds of business activities. Identifying the knowledge flows within and among these activities will make it possible to identify the areas that would benefit from investment in a knowledge management system.

In business units such as New Product Development, Finance and Accounting, and Order Processing, knowledge management can have a dramatic impact on day-to-day business by helping to extract, capture, and repackage knowledge. At the same time, knowledge management makes it possible to leverage the knowledge and experience gained by other business units and professionals throughout the organization, for the benefit of each operating area.

Identifying and enabling key knowledge areas is a critical aspect of knowledge management. If one defines an organization by its major intellectual capital drivers, rather than by its traditional business units, one is able to quickly identify the areas, which may benefit from a knowledge management system. The results of such an analysis will vary, depending on whether the company is a life or a property/casualty insurer and the lines of business in which it specializes.

For example, a life insurance company that is developing products for the retirement market would have more of a need for market research and demographic knowledge, whereas a property/casualty insurer writing business in hurricane-prone areas has an ongoing need for information on losses.

Knowledge management and increased operational effectiveness go hand-in-hand. Efficiencies are gained by using collective organizational knowledge to eliminate wasted effort, use more advanced technology, improve employee motivation, or to achieve better activity management.

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People. Lack of proper foresight in establishing critical system enablers, such as an underlying performance & rewards system, can get implementation off to a false start. Rewards, recognition, customer feedback, sponsorship, communications, and change management all require careful consideration in the design of a knowledge management system. Unless senior management demonstrates sponsorship in the performance and rewards system, employees will not regard knowledge management as important and will not contribute their experience and expertise to the organization.

Educating people to use the new knowledge management system is a separate but equally important issue. Organizational knowledge sharing requires people to spend time using new procedures and technologies that may not relate directly to their primary responsibilities. Specially trained and dedicated personnel may have to be deployed to train workers in these new procedures.

Technology. The implementation of a knowledge management system is virtually impossible without groupware technology. However, the effective use of technology must be combined with a well-designed knowledge process.

A common mistake is to permit technology to lead the process, resulting in an over-engineered system. Installation of software and hardware does not automatically lead to more efficient knowledge processes. One needs to ensure a proper balance between extracting knowledge on the supply side and packaging it to support users' demands.

While over-engineered technology is cumbersome, under-engineered technology lacks functionality. Therefore, appropriate technology standards must be established in designing and deploying the system, especially since users will want to tweak knowledge applications to capture every bit of data imaginable. Lack of standards not only will slow down implementation but will severely impair the capacity of designers and

system administrators and make training and deployment much more difficult.

Software selection, screen design, server and hardware selection, on-line or remote access considerations, system response issues, user needs assessments, and cost tradeoffs are some of the other technology issues that must be considered in designing the system to achieve the right balance between accumulating information and providing users with expert knowledge.

System Content. The desired content of the system needs to be carefully evaluated in designing a knowledge management system. Critical business drivers should be identified and tied into the system design and implementation plan. Knowledge can flow more freely and be captured much more readily than in the past, but only with proper management.

Content-related considerations include the quality, reusability, depth, breadth, and accessibility of content. Since workers will not contribute to a system that they themselves do not find useful, the system initially must be "seeded" with high-quality content that is simple to access. To encourage use, the information should be clearly organized and packaged, so that people know how and where to get the information.

A knowledge flow process must be implemented to provide workers with timely, high-quality content that is easy to access. The knowledge flow is iterative—knowledge is reused, improved upon, and reused again. For this flow to occur, the organization needs to provide a knowledge acquisition, storage, and deployment process in which value is added through each iteration through a complex infrastructure consisting of technology, people, and the organization.

Successful implementation requires overcoming the many implementation barriers related to system content and people. Often the problem is not the lack of formal responsibility but a lack of ownership, which results in poor execution.



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Designing a system for maximum participation at the grassroots level is a key goal for sponsors and users. But without proper management and standards, discussions regarding knowledge mining, taxonomy structure, and software navigation design can easily go astray, making it difficult to access and use the content.

For example, the design of a storage taxonomy may become overly complicated and may need to be simplified. Obviously, if a taxonomy is so complex that users cannot wade through it, use of the system will decline and sponsorship will wane. To ensure that the system is properly planned and executed, support staff issues, help-center design, and a host of other issues also need to be considered.

A Powerful Force

The development of a knowledge management system involves distinct challenges. However, companies that are further along the implementation curve will be better able to capitalize on opportunities as the marketplace shifts increasingly toward integrated financial services. In this new environment, speed of change and ability to adapt will be key to organizational success—and both will rely heavily on the manner in which organizational knowledge is leveraged. Insurers that tap the power of collective organizational knowledge will find that they have more resilient organizational structures. They will be more adaptive to change and will be better able to sustain competitive market positions.

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