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Knowledge Management as a Competitive Advantage

Knowledge Management professionals have often heard the following anecdote from KM experts:

“You know, KM and knowledge sharing concepts have actually been around for centuries? It’s really nothing new. In fact, people like Albert Einstein and Peter Drucker were commonly using KM concepts many, many years ago by sharing knowledge with their colleagues.”

While that is nice to know, such common anecdotes do little to help business leaders and KM professionals understand the complexities of successfully implementing a KM initiative in today’s business environment – as well as the potential competitive advantages that can be achieved. And why, after so long, is it still so difficult to implement? What today’s professionals need to know is what to expect when they begin to plan and implement KM strategies for their organizations and deal with the real the real issues that make KM implementations so difficult. While anecdotes and academic theory are useful, companies that want to improve their performance through better KM need to understand the best practices of successfully implemented KM processes. This doesn’t mean a simple pilot program or silo implementation. Best Practices in KM have come from large-scale successes. Organizations like Ernst & Young and Microsoft have successfully implemented such programs. In fact, Ernst & Young’s was possibly the first large-scale, global implementation that truly succeeded.

An explanation of what KM is and its relation to the rest of the organization (when

everything is working properly) begins with an organization’s reason for being in business (its business model). A successful business, whether it is a manufacturer or services organization, designs and sells its products and competes in the marketplace based upon the quality and usefulness of its intellectual capital versus its competitors. Hopefully, that capital results in better designs, better products, lower costs, higher quality, better service, etc. So the difference between competitors comes down to the difference in their collective intellectual capital (or knowledge) in designing, building, selling and servicing its products versus competitors. Simply stated it means, “An organization’s ultimate product is its knowledge in relation to its competitors.” Managing that knowledge and its flow should have a direct impact on the productivity, efficiency and creativity of the organization as well as the bottom line on the P/L statement.

How does the ability to manage knowledge impact the business processes in an organization? In large organizations it is common for employees to seek solutions for their daily questions, problems and issues from a multitude of sources that may or may not be very efficient. While some sources might be valuable, most are simply convenient and may not provide the best answers, which ultimately affects quality and efficiency. In many cases workers can find solutions to problems that other workers might also find useful if shared -- but they must have a platform for sharing. When a worker finds a creative solution, how easily or quickly can that knowledge be transferred to others? Whether that knowledge is documented (explicit) or not



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(tacit – what people know but have not documented), the longer and more complex the process is to transfer knowledge to other employees, the less efficiently the organization is performing. The question is, how can one efficiently manage the flow and quality of explicit and tacit knowledge?

An Example of how KM contributes to the bottom line

For example, a large, multi-national organization manufactures its products in eight facilities around the world. Assume that there exists a set of production and design problems that affect the manufacturability of the product in all eight facilities. The problems are not large enough to shut down the lines but they negatively impact productivity and quality. One facility has implemented creative solutions to some of the problems, while the people at another facility have created even more ingenious solutions. The other six facilities place a series of band-aid solutions or simply live with the inefficient results. Therefore, product cost and quality is inconsistent between facilities. This creates a “knowledge gap” where the intellectual capital to fix the problems exists within the organization but is not easily available to all that can use it. Some of the problems are small and some are large. Some are more costly to deal with than others.

The end result is that the whole company suffers. It is sub-optimization borne out of good intent. The employees who solved the problems at the two facilities believed that they did a great thing for the company. But lacking the ability to easily share caused the other six facilities to be mired in sub-optimization on those *solvable* issues – unaware of the existence of the solutions. In

fact, while two of the facilities successfully solved their problems, it is likely that one of those solutions was superior to the other. So in reality only one facility was optimizing.

It is no wonder that in almost all large companies that produce the same product at multiple facilities, the quality of the product varies depending upon which facility it was produced at. Variant product quality is also an issue for companies that produce a multitude of products at different facilities. Solutions to problems related to one product or process can often be transferred to others. A nagging competitive issue at most companies is that knowledge about ongoing improvements and new discoveries are not easily transferred outside of the silos that found them. As this situation grows it becomes more costly for the company.

This type of scenario is common in most organizations, both manufacturing and service, and justifies the need to manage knowledge in the minds of many CEOs. But even in today’s organizations with corporate intranets, document management systems and Chief Knowledge Officers (CKO), we find that managing the flow of large stores of dynamic knowledge is a huge and complex undertaking. Often the results are not as successful as desired and mostly frustrating to those actually implementing the KM processes. Many employees are inundated with e-mail, Internet/intranet sites, non-standard document repositories and a host of other places to go for reference, learning and sharing. Many options are often redundant and sub-optimizing. No longer is the corporate library a single, viable option in today’s competitive world where those who can achieve high quality solutions the fastest will continually win. Therefore, an objective of KM is to reduce that cycle time from



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problems to optimal solutions -- from concepts to reality -- while increasing quality and raising all functions and internal processes to the highest level of the best possible performance. So in our corporate example, the goal would be to raise all eight facilities to the best practices of the leading two (or one).

A major difficulty is that employees, departments and individual facilities normally never have reason to focus beyond the micro-world in which they exist (their silo). It is probably not normal procedure for the technicians from the eight facilities to utilize processes to share their creativity and solutions with the other facilities. Even if they wanted to, sharing it is not that easy because there might not be a satisfactory standard platform to share over. Moreover, while the six sub-optimizing facilities could profit from the knowledge of the successful ones, in return they too may be able to provide useful knowledge about creative solutions to *other* problems that *they've* developed. Unfortunately, in many cases silo departments and facilities create their own unique platforms whereby sharing can easily take place within their particular silo but they have isolated themselves from the other departments and facilities. They do this by investing their budgets in developing "one-off" sharing infrastructures that are unique to their silo. Not only are they redundant, but also the added costs of duplicating are actually helping to isolate the facilities, creating more problems than they are solving.

Provisioning Knowledge to the right people in real-time

While an organization's overall culture, technical infrastructure, and business

processes are barriers for KM to take hold, simply availing knowledge to the masses through technology is not enough and can become quite complex for the average user to navigate. Busy employees cannot be expected to simply know that useful knowledge exists in some series of internal repositories and is ultimately available for them to infuse into their work. All large organizations consist of necessary departments, processes, technologies and job responsibilities that enable its general on-going operations. Simply creating and availing a large repository for everyone with reusable content does not always assure that people will know that the content is there, and then know how to sift through the complex, overabundance of that content. The concept of "Build it and they will come" does not work, no matter how well a technology is designed. Instead, employees often become frustrated in the complex set of technologies, websites, e-mail, and other places to look for answers to their issues. Many opt to simply ask their friends, find their own sources, reinvent the wheel, create a costly work-around, or simply live with the current situation. This is often true even if technical standards are created and deployed.

Because of this, organizations are willing to spend large budgets on consultants and Knowledge Management experts to help untangle and dissect their content structure and to deploy a standard, rational KM process that everyone can understand and use. They are looking for people who can help them *manage their knowledge*. However, KM is a difficult science when you factor in the cultural issues of attempting to significantly change processes, work habits, and technologies that people had previously bought into -- even if they had been previously non-standard and inefficient.



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Untested and expensive academic KM theories often break down under the weight of reality. Resistance to change and the willingness to hold onto the status quo can be strong. Some people are “far too busy” to make changes that will make them more efficient. Again, many small parts within organizations may have already created their own “silo” solutions, making sharing easy within their silos, but effectively cutting themselves off from the rest of the organization and probably duplicating others’ solutions. It is not easy to break down those silos in order to develop firm standards and avoid duplicating costs.

In many cases, silos that have invested heavily in their own local KM solution often envision that their particular “pilot” should be the one that should be adopted organization-wide. Unfortunately, many large organizations can have as many as a dozen of these “pilots” simultaneously claiming to be the eventual organization-wide solution to managing knowledge – consuming a dozen times the necessary cost, which only isolates themselves further! Each pilot is likely sold or implemented by well-meaning consultants, vendors or department heads.

Conversely, the more organized and efficient a firm can become in broadly managing the process and flow of its knowledge and intellectual capital, the more successful it will be in competing in the marketplace. Identifying and supporting internal *communities* of common interest within *and across* silos and then enabling their collaboration and sharing are critical in accomplishing this. Whether knowledge is formally documented or resident through discussions or other means is not initially important. The important issue in building a broad KM process is to break down

barriers between silos and then create conduits to freely and efficiently flow all types of useful knowledge for communities and individuals to reuse and continuously build and improve upon previous iterations.

How a better understanding of KM concepts helps all business people

While a goal of this report is to provide a basic understanding of the complexity behind successful KM processes for KM leaders and professionals, it is equally useful for all businesspeople to understand how KM practices can significantly impact their organizations’ competitiveness through improved efficiency, productivity and quality. Providing a realistic expectation when building and deploying a KM process gives reassurance that despite the difficulties in building and maintaining it, the benefits of a successful implementation can be exponential to revenue growth, product quality, and cost management. Understanding successful *real world* experiences helps to guide around many potential dangers of blindly following the latest formulas, which are all too available in the KM world.

Simply because a company CEO publicly announces a goal of making their organization a “Learning Organization” or a “World Class KM Organization” does not necessarily mean that it will happen. Few people, including many CEOs, truly understand what that commitment means and how difficult it might be to implement and profit from. It is no doubt that doing nothing will simply hurt an organization, while the potential pay-offs of a well-designed KM process can be great. But investing resources in a poorly designed or misguided KM strategy can be frustrating,



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costly and create a sub-optimized situation. Unfortunately, that is what often happens.

Therefore, it is incumbent upon organizations to differentiate KM best practices from the smoke and mirrors of “one-off” silo implementations they’ve heard of. There have been enough books written that offer theories along with some “one-off” vignettes to illustrate them. Instead, organizations would have higher prospects for success in KM if they understood the realities of a successful approach to pervasive change versus that of an untested theory or a single departmental silo.