Thomas M. Koulopoulos
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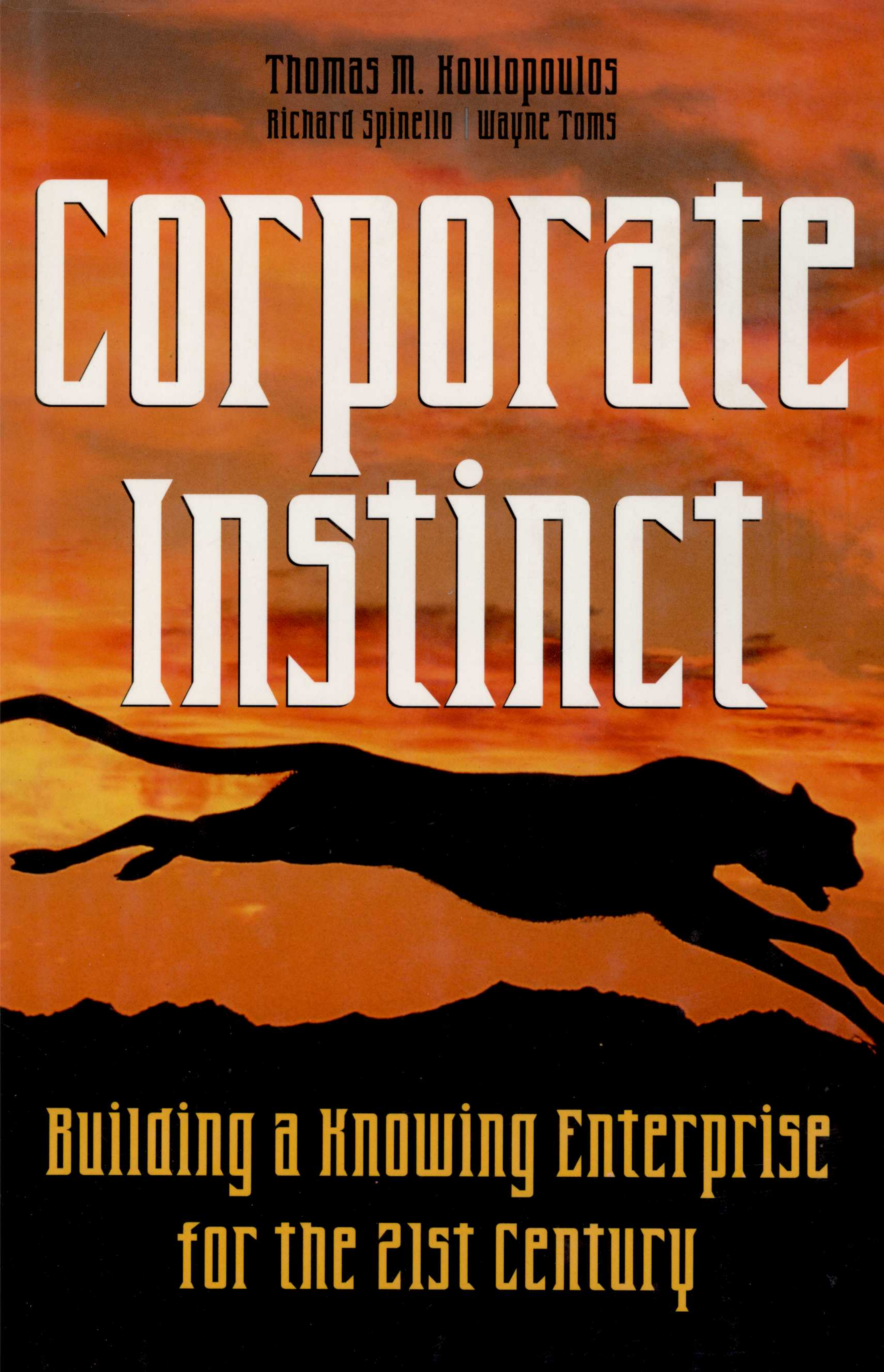

Building a Knowing Enterprise for the 21st Century

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The ideas presented in this book are generic and strategic. Their specific application to a particular company must be the responsibility of the management of that company, based on management's understanding of their company's procedures, culture, resources, and competitive situation.

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To my grandparents,
Tasso & Marika, Nicholas & Angeliki—
whose love gave me the confidence to follow my instincts

T.K.

To Susan—
for her wise counsel and loving support

R.S.

To my parents—
who taught me how to think

W.T.

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The idea that became the seed for *Corporate Instinct* was planted more than two years ago. Since then it has had the benefit of countless contributors, supporters, and critics. As authors, it was our responsibility to articulate the idea, but its evolution rests firmly on the bedrock of support that we received from many individuals. Foremost among these are our clients and the companies discussed in the book. Both have played a valuable role in formulating the precepts of corporate instinct through their fundamental belief in the unlimited power of human innovation. We are especially grateful to the hundreds of individuals who participated in the early Corporate IQ test. Their insights and attitudes have been critical in formulating our own views on corporate instinct and in demonstrating its value to successful organizations.

Among those who helped us to create the book, none had greater perseverance than our agent, John Willig, who nurtured the original manuscript through three proposals over a period of nearly a year. John's soft-spoken manner was critical when it needed to be, but his commitment to the project was unwavering. John Boyd, our Publisher at Van Nostrand Reinhold, saw the early potential in the book and helped to provide the initial structure for organizing the many concepts included. John and our Senior Editor, Tony Vlamis, also lead the Van Nostrand Reinhold team which, from the initial meeting complete with chicken soup for one of the ailing authors, made it clear that this was the sort of organization where the idea of corporate instinct would be right at home. Our developmental editor, Jayne Pearl, worked around the clock, with at least one known nap at the keyboard, while trying to restructure the original manuscript under incredibly tight deadlines. She questioned everything and we got away with nothing. Any confusion that remains in the book is probably attributable to our not taking her advice. The production team, including Jo-Ann Campbell, at mle design, Chris Bates and Carl German at VNR, worked their usual magic by putting the manuscript through its final paces.

Then there are the thought leaders whose input helped us form our ideas and validate our assumptions. Many graciously contributed time to read the manuscript and provide comments on its many iterations. Among those we would like to single out are: Geoffrey James, one of the first people to see the proposal for *Corporate Instinct,* who was quick to offer support and advice on the nuances of publishing such an aggressive project; Jonathan Foster-Pedley, Professor at the University of Cape Town, who provided feedback on the article which eventually turned into this book; Jeffrey Miller of Documentum, Jay Tanna of Altris, and Larry Bohn, former president of PC DOCS, who were all sounding boards for the initial *BusinessWeek* section on corporate instinct; Bob Guns for his thorough review of the book and insights into knowledge management; Paul Strassmann for his honest and tenured critique; and Jim Champy, who has provided encouragement and wisdom as a generous mentor and muse.

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As authors, we are able to recoup something tangible for all of the trials which writing entails. It is small recompense, however, when measured against the greater reward of knowing these very special people. We hope the results are worthy of their support.

Introduction

Swift instinct leaps;
Slow reason feebly climbs.

Edward Young,
Night Thoughts

I live in a 200-year-old house that is still heated by 100-year-old steam radiators. Despite the advantages of the last hundred years in heating systems, steam is still one of the most efficient and comfortable ways to heat a house. Except for one slight problem. The exposed radiators can be scalding to an unaware visitor.

Two years after buying our old home our first daughter, Mia came along. I was panic-stricken as Mia grew beyond the toddler stage and began exploring the house. But she never once scalded herself. She quickly developed a keen sense of when the radiator was on and always kept a safe distance.

As a child, I melted all sorts of objects—crayons, toy soldiers, my mother's "nylons"—as experiments to test how these various items, and my parents, would hold up. Of course, Mia would test the *concept* of heat by running her hand close to a radiator, pointing to it on occasion and telling us it was *hot.* But never once did she need to touch it to tell it was hot. Like many new parents, I had severely underestimated her ability to understand and adapt to the world around her.

I have no illusion. Mia will eventually burn herself, as most children do, if not on the radiator then somehow, somewhere. But the wonder of the human mind is that it is wired to make connections between accepted truths, pieces of otherwise unlinked information, thereby connecting concept and reality in such a way that even a toddler can *know* what it means to be *hot*, without needing to fully experience scalding heat. These links create an ability akin to a sixth sense that helps us to navigate successfully through the world by giving us the capacity to visualize the future results of our actions.

What does Mia have to do with organizations and the topic of corporate instinct? Ask yourself this question: How close does your organization have to get to the fire to know it is hot?

If you're still struggling with the answer, let's make it a bit more real. Imagine yourself seated at a fancy Japanese steak house—the kind where eight to twelve people are crowded around a sizzling stove-top table. Now hold your hand out in front of you about six inches above the hot table top. Close your eyes and imagine how the dissipating heat would feel at six inches.

Now consider yourself as a metaphor for your company. Your hand is the company's ability to sense a new market, or a shift in the market. And the heat is the intensity of that market shift. Slowly begin lowering your hand and stop when the heat is intense enough for the company to take positive action.

How close did you get? Five inches? Two? Barely touching the surface? Some companies need to smell burning flesh before they take action. Even then, the action may be to figure out what the smell is—not remove the hand! The motto these companies seem to follow is, "Where there's smoke, there's a committee."

How many markets pass companies by, how many new opportunities get grabbed up by competitors, how many employees take good ideas elsewhere because their companies lack an awareness of themselves, their abilities, and their markets? In short, how many companies fail to feel the heat of the market before it's too late?

Why is it that some companies react while others are rendered helplessly numb?

Microsoft came to market with an inferior user interface in the 1980s and early 1990s, trailing behind Apple's extraordinary user interface. Its inferior Internet strategy in the mid-1990s lost ground to that of wunderkind Netscape. New models for computing, such as Oracle's NC (Networked Computer), are the latest challenge to Microsoft's edge. Yet, Microsoft has continued and is likely to continue coming out on top. How? Microsoft simply keeps putting out products. It keeps reevaluating even its most popular and profitable products and strategies and constantly comes out with new and improved versions. The process, some would say, drives its customers crazy—more to the point, it drives its competition insane!

So while Apple has been fearful about making profound changes in its products, Microsoft eagerly improved Windows 3.1 with its rollout of Windows 95. Industry experts believed Microsoft was slitting its own throat, that no one would upgrade. Clearly, the pundits were wrong. Microsoft knows its strength is in desktop computers. What desktop computers will look like is secondary to the company maintaining its leading edge. To do so, Microsoft has no reluctance to cannibalize its own products.

Compare these instincts with those of the 1980s Digital Equipment Corporation. DEC responded to the threat of personal computers by attempting to compete with IBM in the ebbing mainframe computer market and introducing a new generation of mainframes.

Which one was better able to feel the heat, DEC or Microsoft? Both had extraordinary resources, in people and finances. In fact, during its 1987 DECWORLD conference in Boston, Digital Equipment actually leased the QEII for a week simply to hold evening parties for prospects, partners, and clients. There was no lack of financial or creative resources at DEC.

I recall a conversation on the deck of the QEII with a DEC employee who speculated whether Ken Olsen, founder and then president of DEC, would pursue the PC market. At the time it was a matter of great debate at DEC, although middle management and just about every salesperson at DEC could have answered the question as easily as my two-year-old daughter can tell when the radiator is hot by the whistling steam valve and banging pipes.

There are countless examples of companies that were nearly engulfed in flames, yet still lacked the ability to sense the heat and react to the market. It is far too easy to chalk this ineptitude up to simplistic market positioning, poor management skills, or inadequate financial resources. Especially when the most notable failures have involved companies whose health and prosperity were unquestionable when they fell from grace.

What then is the problem? How can companies feel the heat before it's too late to take action, before their competency fades into complacency? To probe these questions, we interviewed 350 organizations. The most successful of these companies shared similar attitudes, organizational structures, and, most important, a knack for ignoring their own corporate memory when good ideas came along. Their answers, sprinkled throughout the book, along with anecdotes and case studies of companies on various points along the spectrum of responsiveness lead to the formulation of three key concepts: *corporate instinct,* which is the sixth sense the companies exhibited; the *knowledge chain,* which was the mechanism of their success; and the *knowing enterprise,* which is how we characterize these highly responsive and aware companies.

The most important and consistent trait in these companies was an ability to unlearn as quickly as they re-learned, thereby pushing aside their own best ideas for new ones that meet the rapidly changing markets they inhabit.

Arie de Geus, in his book *The Living Company,* describes many such companies that have survived far beyond the average corporate life cycle of twenty years—companies such as Stora, a Swedish chemical manufacturer that started off as a copper mine 700 years ago.

De Geus and his researchers at Royal Dutch Shell found that "across the Northern Hemisphere, average corporate life expectancy was well below twenty years. Only the large companies [they] studied, which had started to expand after they survived infancy (during which the mortality rate is extremely high) continued to live, on average, another twenty to thirty years."

In fact, more than half of all the companies in the Fortune's Top 100 industrial group ten years ago are no longer there, and long protected industries have been completely restructured.

Companies like Stora have surely been innovative, but after the turmoil of the 1980s and 1990s, every astute manager recognizes the need for constant innovation and the ability to react rapidly to change. Recognizing the need for agility and reengineering is only a diagnosis; it is not a prescription for change. What was still missing was a concrete set of tools and *a unifying framework* that would enable organizations to react and reform on a continuous basis.

Corporate instinct is such a framework. It is also a new way of thinking about organizations and a novel way of applying specific technology tools (most of which you already have).

Your organization most likely has an information technology system infrastructure, such as a database and e-mail. You may even be starting to think of a knowledge management system to manage digital information that employees constantly create. That information represents your organization's competitive edge.

How are you using that digital information? Are you burying it by putting it into systems that don't allow you to reevaluate the context in which the knowledge was originally created? Are you focusing all of your energy on getting knowledge out of your information systems or are you considering how to get it in, perhaps even how to turn that energy into knowledge? The promise of corporate instinct —the ability to sense the market, access your organization's resources and competencies, and act instantaneously—can only be realized if you capture and organize internally and externally generated knowledge in a way that creates an intimacy and awareness in the organization of why things are being done the way they're being done.

All of this sounds relatively straightforward until it comes time to put it into practice. Although the concept of corporate instinct may be easy to grasp, it requires changing attitudes and some very strongly held beliefs. It also requires constant vigilance—what Andy Grove, Intel's Chairman, describes as a fair measure of "paranoia." This book is a detailed road map intended to provide you with a case for developing your own corporate instinct and a comprehensive context for understanding how and why corporate instinct offers enduring competitive advantage.

The book is divided into four parts that will guide you through corporate instinct: the basic principles of corporate instinct, how to apply and manage it, the economic and social imperative to create instinct, and finally a Corporate IQ test for evaluating your own corporate instinct quotient.

A quick tour of the book will help you better understand its structure and the variety of new concepts presented.

- Part I begins by differentiating between instinct as it is commonly defined when referring to the animal kingdom, and how it is defined within the context of an organization. It then distinguishes corporate instinct from *corporate memory,* and describes how a strong corporate memory can become the water wheel that shackles an organization to a single stream of thought, making it difficult to move into new markets and take advantage of new opportunities. The *knowledge chain* will provide a glimpse of how an organization can overcome its corporate memory by focusing on its *internal/external awareness/responsiveness,* allowing it to accelerate the speed of its innovation and more effectively compete. Most important, Part I will review the *eight attitudes* of organizations, which embrace corporate instinct, thereby transforming themselves into a *knowing enterprise*—an organization that is constantly aware of itself, and responsive to its business and market environment.
- Part II delves deeper into the concept of the *knowledge chain* and describes how it is facilitated or impeded by the structure of an organization. Part II also introduces a new means of organizational structure that hinges more on time than on form, the *perpetual organization.* The role of *metaskills* and *communities of practice* will be introduced here, as well as the importance of balancing the chaos of fast innovation with the necessary *coordination* of an organization's resources. Finally, we review some of the specific technologies that can be used to create corporate instinct.
- Part III reviews the economic, managerial, and social context for corporate instinct. It focuses on

how radical changes in the very rules of economics and the valuation of organizations, as well as workers, are leading to the inevitability of corporate instinct as a competitive cornerstone. Part III also looks carefully at the leadership styles and qualities that are essential for an instinctive organization to thrive, and the ways that executives can cultivate corporate instinct. Finally, we review the virtues of an instinctive organization and the compelling reasons to adopt this new concept in your organization.

- The appendixes introduce the Corporate IQ test—a brief test to measure your own corporate instinct and to rank it against the hundreds of organizations that have already taken the test.

Any company that has even a modicum of success has instinct. If you are able to react to the market more quickly than your competition, even if only by the grace of dumb luck, you have tapped into your company's instinct. But most corporate success stories are short stories, not epic novels. They are like the many rock bands from the 1960s and 1970s that made the charts with a hit song, never to be heard from again. Doing it once may get you in the limelight, but it won't get you into the Hall of Fame. Corporate instinct is about developing your organization's ability to feel the heat, using its sixth sense of the market, and perpetuating success.

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