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Leading With Knowledge

The Nature of Competition
in the 21st Century

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with assistance from Daniel Rabinovitch

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With
Knowledge

INTRODUCTION

To know that we know what we know, and that we do not know what we do not know, that is true knowledge.

—Confucius



he hierarchical structure that once characterized corporate America has become much flatter. The giant corporations that first appeared on the scene at the end of the 19th century and dominated the economy for most of this century, although not gone, no longer define the economic landscape. This may appear to oversimplify what has and is taking place in corporate America, until one considers the following:

- ▶ In 1979, 43% of the workforce was employed in corporations of 500 or larger.
- ▶ In 1998, 19% of the workforce was employed in corporations of 500 or larger.
- ▶ In 1979, 6% of the total workforce was employed in companies with 20 to 250 employees.
- ▶ In 1998, 47% of the total workforce was employed in companies with 20 to 250 employees.¹

In 1954, *Fortune* magazine published its list of the 500 largest companies in the United States for the first time. By 1997, 66% of the companies that were on the initial list were out of business, merged with other companies, or were no longer large enough to be included.

Not only are companies becoming flatter and smaller, but giant companies are also seeking out niche strategies to survive. Consider that not too long ago corporate “giants such as Proctor & Gamble might have ignored market segments of less than \$200 million. Today, they [and other large corporations] covet niches a quarter of that size.”²

CHANGES IN CORPORATE EDUCATION AND THE EMERGENCE OF KNOWLEDGE ORGANIZATIONS

Less obvious than the changes in corporate structure and size are changes in the role of corporate education and the emergence of knowledge organizations. Yet these changes will have far greater impact on the future of corporate America than the more easily observable changes in corporate size and structure, and companies are beginning to balance the short-term fixes of restructuring with the long-term opportunities of relearning.

In today's corporate America, we live in an age of rapid change—mergers, reengineering, downsizing. Countless popular books, consultants, and seminars offer prescriptions on how to survive in flatter, high-speed, customer-oriented organizations. But despite the flood of available literature and advice, many in corporate America, from entry-level employees to CEOs feel they are drowning in the flood of change. Concurrently, there is also an emerging theme that an emphasis on corporate training and education or perhaps even becoming a “learning organization” or “knowledge organization” will enable both individuals and organizations to survive and perhaps even prosper in these turbulent times. Always, there is the hope of finding the “silver bullet”—the appropriate management tool or approach. Micklethwait and Wooldridge, in their 1996 book, *The Witch Doctors*, take the position that the business world is overrun by management fads. The authors maintain that the management gurus—high-powered consulting firms, business school professors, and motivational speakers—are latter-day “witch doctors,” each in his or her own way promising a cure for the ills of corporate America. The authors state that 72% of managers believe the “right” management tools can ensure business success, even though 70% also state that most of the tools promise far more than they deliver.³ Fre-

quently, the results include thousands of people losing their jobs or having their work lives dramatically changed forever.

THE EARLY ROOTS OF KNOWLEDGE ORGANIZATIONS

Ours is a time of great change, and the flood of management advice may seem to muddy the waters, making it unclear which remedy is fact and which is fad. One may gain some comfort from knowing that even the most current batch of management buzzwords—*knowledge management*, *intellectual capital*, *learning organizations*—all stem from theories set forth long ago. Sixty years ago, in 1938, long before management theorists began to underscore the importance of sharing knowledge, Chester Barnard emphasized in his classic work *The Functions of the Executive* the importance of employee expertise and the role of communication in the organization.⁴ According to Barnard, an essential role for executives to perform was to “provide the system of communication . . . promote the securing of essential efforts . . . formulate and define purpose.”⁵

Nearly 40 years ago, in 1960, Douglas McGregor published the first edition of *The Human Side of Enterprise*.⁶ McGregor’s Theory Y celebrated the mind of the worker and warned managers that authority in an organization is a two-way street.

The Church as an organization rests on dependence which is essentially one way. The ultimate source of all authority and all power is God, and all members of the organization are, therefore, dependent upward. In the military . . . individuals are required to sacrifice their personal goals and needs to the necessities of the national crisis and to accept dependence upward.⁷

In industry, on the other hand, dependence is mutual. The manager may not escape dependence on the worker to get the job done, says McGregor, a situation he describes as interdependence. McGregor made a prescient insight into the nature of human resource management. According to the dominant mode of management—what he calls Theory X—direction and control are the bases of organizational management. This paradigm, vividly apparent in scientific management, stands in stark comparison to McGregor’s Theory Y. According to Theory Y, managers must create

conditions in which members of an organization may best achieve their personal goals by working toward the goals of the enterprise.⁸ Theories X and Y really are diametrically opposed when one considers the implications for managerial roles. Warren Bennis illustrated the difference through General Motors' example, in the foreword to the 25th anniversary edition of McGregor's work.

It used to be that the old fashioned GM philosophy of management could be summed up by this phrase: "DON'T THINK, DUMMY—DO WHAT YOU'RE TOLD!" Now, in GM's Buick City plant as well as a number of others, there is a new and very different credo which goes, "THINK! I'M NOT GOING TO TELL YOU WHAT TO DO!"⁹

Participatory management lies at the heart of Theory Y, and it is startling to note how similar McGregor's (1985) definition of the term sounds to today's discussion of knowledge management.

The effective use of participation is a consequence of a managerial point of view which includes confidence in the potentialities of subordinates, awareness of dependence downwards, and a desire to avoid some of the consequences of emphasis on personal authority.¹⁰

In hindsight, it may appear that McGregor predicted the coming of today's knowledge worker, someone whose worth to the organization is based on intellect and expertise. What makes *The Human Side of Enterprise* remarkable is its resonance today, in the midst of economic realities that were barely on the horizon in the 1960s.

Similarly, *The Social Psychology of Organizing*,¹¹ by Karl Weick, seems to have foreseen today's interest in learning and knowledge organizations. Published in 1969, Weick's book stressed the importance of being responsive to one's environment. This advice came at the exact time that many U.S. corporations were discovering just how out of touch they were with their customers, competitors, and suppliers. Organizing, Weick said, consists primarily of adapting to an environment that is the result of "interdependent human actors." In today's discussion of knowledge organizations, we hear echoes of Weick's assertion, "Organizations continue to exist only to the degree that they are able to maintain a balance between flexibility and stability."¹² There must be a dichotomy in the organization, said Weick, for without flexibility the organization

may not adapt to unforeseen circumstance. And without stability, the organization may not amass any history and organizational knowledge.¹³

Has the world nothing left to learn or say about management after McGregor's and Weick's books? Would that it were so. Circumstances and technologies that could never have been foreseen 30 years ago are now embedded in the corporate landscape. We cite classic theorists to point out that management advice must have a memory. In place of fads, the aim of this work is to provide facts about continuous corporate development that may lead to greater understanding. But how can we achieve understanding and offer useful direction for the future?

One of the first great futurists of modern times was H. G. Wells. Wells was trained as a historian, and his study of history led him to believe it was possible to understand and predict the future. Wells argued that if the long course of events is determined by our reaction to economic and technological events, then we could, in fact, make meaningful projections of what the future is likely to bring.

OVERALL APPROACH OF THIS BOOK

Our basic approach is that, following in the tradition of H. G. Wells, one can best gain perspective on the current chaotic corporate scene by considering both a historical and futuristic view of the corporation. In this book, we will do the following:

1. Examine the evolution of the corporation, from the early classic to the more recent adaptive model.
2. Illustrate the forces of change on corporate structure and the techniques used to restructure the corporation.
3. Analyze the impact of change on corporate education and the emergence of knowledge organizations.
4. Present a strategic model for conceptualizing and leveraging knowledge.

Represented by Figure I.1, our strategic model for conceptualizing and leveraging knowledge synthesizes much of what has been written to date on the topic of knowledge, current practices in corporate America, and the results of our national survey on the current state and future of corporate knowledge.

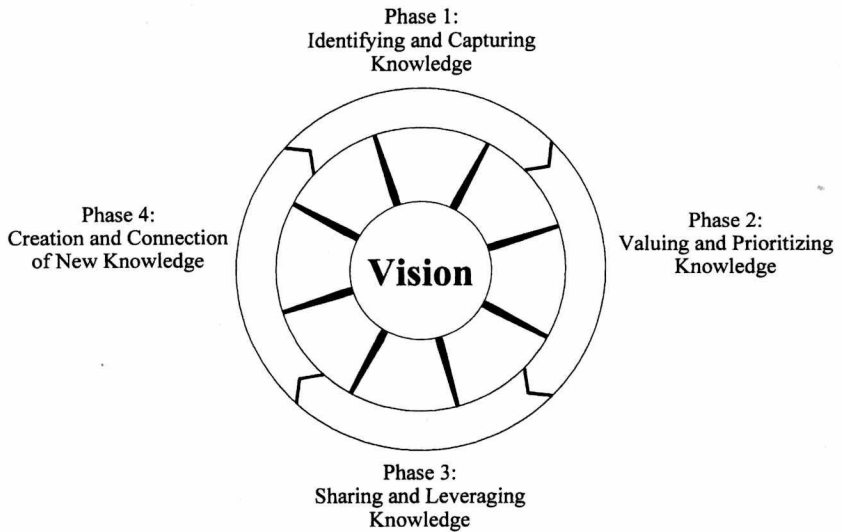


Figure I.1. A Strategic Model for Conceptualizing and Leveraging Knowledge
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This book seeks to examine changes in corporations in a way that enables one to put the current turbulence in perspective and position strategically for the following:

- A future in which the only constant will be change
- A future in which the corporation's primary advantage will be the ability to create, capture, leverage, and measure intellectual capital
- A future in which the sum of the company's intellectual capital will determine its competitive position
- A future in which corporations will strive to improve as quickly as they can, in some cases, just to maintain their current market position—a competitive environment that can be characterized as the realm of the Red Queen

THE REALM OF THE RED QUEEN

First proposed in 1973 by Dr. Leigh Van Valen, “the Red Queen hypothesis” suggests that in a highly threatening environment, organisms have to evolve as quickly as possible just to survive. The theory, which took

its name from Lewis Carroll's book *Through the Looking Glass*,¹⁴ holds telling implications for the modern corporation. Carroll's fictional character, Alice, remarked that no matter how fast she ran in the Red Queen's world, she made little progress.

"Well, in our country," said Alice, still panting a little, "you'd generally get to somewhere else—if you ran very fast for a long time, as we've been doing."

"A slow sort of country!" said the Queen. "Now, here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!"¹⁵

Today and for the foreseeable future, the modern corporation competes in the "realm of the Red Queen." Although some companies may appear to master change today, perpetual technological innovation and rapidly increasing global competition frequently negate any advantages that seem to be secure. We think it will become increasingly clear that becoming a knowledge organization will greatly enhance one's chances of surviving and even prospering in the realm of the Red Queen.

Attempting to build a knowledge organization, however, is neither a short-term effort nor a one-off project. The process of becoming a knowledge organization can be visualized as traveling along "the knowledge organization path." Some organizations are not even on the path, others are just starting on the path, and still others are further along. The underlying assumption is that those companies on the knowledge organization path envision and behave differently from the more traditional 20th-century companies. Those with a knowledge orientation focus on ideas, creativity, and knowledge. They speak of "intellectual capital" as opposed to traditional assets. Most important, the leaders of knowledge organizations fully realize that their most important assets walk out the door every night. Whether those assets show up the next day is of vital importance to the future of the knowledge organization.

NATIONAL SURVEY OF CORPORATE EDUCATION AND KNOWLEDGE PRACTICES¹⁶

In an attempt to identify some of the many steps along the knowledge organization path, we surveyed 202 of the 1,500 largest companies in

America. We asked respondents at those companies a series of questions regarding the ways they capture, store, and leverage knowledge. The results of our study were finalized during the first quarter of 1998. We share the results of our national survey with you later in this book and believe they provide some helpful illumination along the knowledge path.

But before you turn to those results, spend some time making your way through the rest of the book. If you want to create a knowledge organization, understand the backdrop and the context from which knowledge organizations are evolving. Knowledge is not another passing fad. In an age when reengineering and downsizing are commonplace for most organizations, the resulting consequences of losing valuable knowledge with the shedding of employees will haunt many organizations for years to come. Those employees who have survived and continue working in their organizations fully understand that the “employment for life contract” is no more. Many of these employees are beginning to understand the value of the knowledge they possess for their company—or perhaps for a competing company. Whereas the 1980s and 1990s will be remembered by many as a time when organizations abandoned employees, we are now at the beginning of a time when good employees increasingly will abandon their organizations—taking their knowledge with them. The leaders of knowledge organizations understand that we are in a dramatically different world when it comes to recruiting, rewarding, and retaining knowledge workers.

As we approach the new millennium, the key to running faster and faster in the realm of the Red Queen will be knowledge. Indeed, capturing knowledge, leveraging knowledge, and creating knowledge will provide the ongoing, sustainable advantage for a rapidly increasing number of successful organizations.

ACKNOWLEDGMENTS



Every book contains the weight of the authors' intellectual antecedents; this book, possibly more than most. We've been fortunate to have had generous mentors, stimulating colleagues, challenging business experiences (as well as hair-raising ones), and smart students.

During our careers, we've seen more than a few management theories become the latest hot practice. Somehow, we've avoided being charmed by most of them. But over the past 5 years, we have become intrigued with the impact of information systems and technology, and we are convinced that the most important element of them is people.

We've been in literally hundreds of corporations and agencies. Nowhere is the issue so clear as on the front line. Downsizing's little regard for knowledge management has gutted the competitive core of many companies because the people didn't just walk out the door at night . . . many left forever and took their invaluable knowledge with them.

This book is the result of many long talks with each other and our colleagues, but we alone are responsible for any ideas we've mangled or facts we've skewed. We would like to thank the good people at EC², the Annenberg Incubator Project at the University of Southern California—most particularly James Klein and Cindy Mitchell. John Faier of the Omnitech Consulting Group provided valuable assistance and support for our national survey of 202 knowledge organizations that we report

on later in this book. Zulema Seguel has been invaluable, as have been our friends at Sage Publications.

We hope the ideas and information we've presented will make you think, and puzzle, and act. It has been that way for us. We believe these ideas can speed the knowledge journey.

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