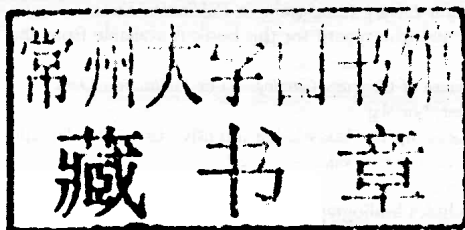


NICOLAJ EJLER, FLEMMING POULFELT
AND FIONA CZERNIAWSKA

**MANAGING
THE
KNOWLEDGE-
INTENSIVE
FIRM**

MANAGING THE KNOWLEDGE- INTENSIVE FIRM

*Nicolaj Ejler, Flemming Poulfelt and
Fiona Czerniawska*



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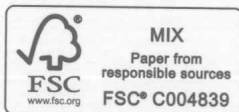
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MANAGING THE KNOWLEDGE-INTENSIVE FIRM

Over the last decade, there has been a substantial rise in the number of knowledge-intensive firms – constituted primarily of professionals. The core assets of these businesses are the people themselves. Handle them badly, and they may defect or stall. Successful managers of knowledge-intensive firms must create meaning among and inspire their employees to ensure high performance. To achieve this, leaders must understand how to target each employee's ambitions and challenges to facilitate their personal and professional development.

This book examines what sets knowledge-intensive firms apart from other types of organizations, and the resultant organizational and strategic differences in business models, talent management, and client-handling approaches. The authors bring their own complementary perspectives on the subject: one, as the manager of a private consulting firm with a strong research background; another, as a business school professor whose practice-based skills are fundamental to his work; and a third, a world-leading commentator on professional service firms acting as a consultant, business school researcher, and a manager.

Ejler, Poulfelt and Czerniawska present a new model for transforming the management of knowledge-intensive firms, which is supported throughout with practical examples and cases.

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PREFACE

Over the last decade there has been a substantial rise in the number of what we call knowledge-intensive firms – i.e. organizations whether private, public, or third sector constituted primarily of professionals: people with a high educational training. As knowledge-intensive firms grow to play an increasingly important role in local and international economies, it is vital that internal management styles and expertise keep pace.

Leading a knowledge-intensive workforce is quite unlike running a commodity-based business, where tried-and-tested methodologies and processes can be applied to motivate and get the best from people. Knowledge-based work relies on the unique strengths, experience, and client engagement styles of individuals employed in the firm. The core assets of the business, then, are the people themselves. Handle them badly, and they may defect or stall.

Successful leaders of knowledge-intensive firms must create meaning among and inspire their employees, to ensure high performance. To achieve this, leaders must understand how to target each employee's ambitions and challenges to facilitate their personal and professional development.

This book is the result of a common interest among its authors in the successful management of the knowledge-intensive firm, and an observation that, whether in the private, public, or third sector, this field has until now been subject to a 'management deficit'. Typically, this is because *professional* credentials have been assigned greater priority than appropriate *management* skills when appointing leaders in these organizations.

Our objective in writing this book is to contribute to the continued advancement of management approaches within knowledge-intensive firms, by examining what sets these organizations apart from other types or organizations and the required differences therefore in organizational and market strategy, business models, talent recruitment, and management, and client-handling approaches.

The book's title, *Managing the Knowledge-intensive Firm*, signals our belief that the challenge of managing this particular type of organization extends beyond that faced by most other companies. Although we argue that the requirements are complex and demanding, we are passionate in our belief that these challenges can be overcome – once recognition exists that a different approach and a certain dedication to the cause are needed.

The authors have brought to the table their own, complementary perspectives on the subject: one, as the manager of a private consulting firm with a strong research background; another, as a business school professor whose practice-based skills are fundamental to his work as he actively advises in the field; and a third, a world-leading commentator on professional service firms acting as a consultant, business school researcher and a manager. In combining our relative frames of reference, we have developed and refined a new framework and best-practice model for transforming the management of knowledge-intensive firms, which we support throughout this book with practical examples and observations gained through our combined experience of working in this field.

We would like to thank the many people who have contributed to this book, in particular the numerous people in the business community who have taken time out to share their management experience with us. We also owe a huge debt of thanks to colleagues with whom we have exhaustively dissected parts of the book. A grateful thank to Sue Tabbitt who challenged our wording to ensure that our views are readable to a large audience. Finally, we would like to extend our thanks to our publisher for supporting this initiative, providing a formal outlet for observations and conclusions which we hope will add new value to this developing debate.

Finally, we are immensely grateful to our families for their tolerance and unwavering support.

Nicolaj Ejler, Flemming Poulfelt, and Fiona Czerniawska
Copenhagen and Oxford, April 2011

INTRODUCTION

Today, being a successful leader requires highly specialized qualities and nowhere more so than among knowledge-intensive organizations, where success depends heavily on the approach, actions, and performance of key individuals.

Strong leaders must therefore be able to inspire and to create meaning and passion among their employees, to ensure high levels of targeted performance. To achieve this, they must understand how each employee envisages and can optimize their personal and professional development, so that they are able to facilitate this progression and provide appropriate support.

Yet this must be achieved in a way that fulfills the over-arching company strategy, which is not always easy when the professionals involved are highly qualified, independent thinkers with their own agendas, professional ambitions, and styles of working.

Large groups of professionals (defined as highly educated people) have a curious ambivalence in their expectations of working life, and therefore of their managers. On one hand, they demand independence and autonomy to work creatively and play to their strengths; on the other, they demand attentive management with support and coaching for continuous development, and expect their results to be recognized and acknowledged. If they are disappointed or the balance isn't right, there is a very real threat that they will go elsewhere to have their needs met.

If this happens, the impact on the knowledge-intensive firm can be great. Talented, experienced, specialist professionals are hard to replace. A

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loss of key personnel can jeopardize hard-won client relationships, cause a deterioration of service, and weaken the organization's brand.

This is much more than a HR challenge.

Addressing the management gap

For too long, management research and theory has been generic in nature, applying methodologies indiscriminately across all sectors. It has failed to identify the need for different leadership styles depending on the type of 'product' being offered and the type of employee driving the business. Rather, the discipline has appeared to assume that a firm of lawyers, an IT consultancy, a government department, or a hospital can be managed in the same way as a mass manufacturer.

Or until recently, certainly. Now, differentiated attention and initiatives are being applied to the professional services sector. Initially, private, consultancy-driven organizations were singled out as having special needs. In the latest development, however, the term 'knowledge-intensive firm' has been coined in acknowledgement that there are other specialist services organizations that share the same challenges and concerns as more traditional consultancy businesses. This category might include *internal* service organizations, for example, which have begun to look and behave more like external consultancies. It also includes any organization where the majority of employees are highly skilled – for example, hospitals, universities, pharmaceutical companies, banks, and government ministries.

Books on leadership and management are beginning to dedicate chapters to this category of organization, in acknowledgement that their challenges differ from those of product-oriented or low-skill service businesses.

In dedicating an entire book to the subject of managing knowledge-intensive firms whether private, public, or third sector we have gone a step further, such is the strength of our belief that knowledge-intensive firms comprise a segment with its own distinct challenges and requirements.

Cross-sector challenges

Although we recognize that many challenges will be different across the private, public, or third sector (comprising charities, the voluntary sector, not-for-profit and non-government organizations), we claim that there will also be great similarities. Differences may be dictated by differences in business drivers – for example, whether the main focus is achieving a

profit, or 'best value'. Although the public sector is being driven increasingly to think like businesses as they balance their budgets and justify services, direct profit does not exist to the same degree as in the enterprise sector. The same is true of the third sector. Equally, we acknowledge that some conditions will vary both within as well as across sectors.

In spite of these differences, however, we maintain that there are many parallels that apply across all knowledge-intensive organizations, which offer learning opportunities to all managers of professionals despite sector. More often than not, the decisive factor is not the *sector* but the characteristics of the *people* working in knowledge-intensive firms, and the way in which clients draw on their services. And these people in knowledge-intensive firms have quite similar demands to and motivators in their working life.

One of our aims with this book is to contribute to the development of a shared language, and new, 'best practice' approaches to the management of knowledge-intensive organizations. We are convinced that, in the interests of optimal success, the management of knowledge-intensive organizations must unfold and develop in consistent ways across all sectors.

We hope this explains some of the deliberate generalizations we have arrived at.

For the purpose of this discussion, we have identified three main types of knowledge-intensive firms:

1. *The classic professional services firm* – providing services such as legal advice, financial/accounting services, architecture, engineering services, advertising and communications agencies, management consultancy, and IT services.
2. *The internal service organization* – providing services to a large company or public sector organization, such as human resource departments, communications departments, education departments, research and development departments, internal accounting departments, and so on. This type of organization finds itself increasingly called upon to demonstrate value in its services.
3. *Other knowledge-intensive organizations* found across the private, public, and third sectors, where the ratio of highly skilled specialists to support/admin personnel is high. This category includes organizations providing research and analysis, development, design, government policy departments, and development and training institutions, as well as hospitals and universities, banks and financial companies, medico industry, etc.

Knowledge-intensive firms and the economy

The potential impact on the economy of having well-managed knowledge-intensive firms is substantial.

Classic professional services firms are already acknowledged to account for the employment of an increasing number of people, and their contribution to the economy continues to grow. In 2008, legal services, management, and IT consulting, together with accounting and insurance, are together estimated to have been worth around \$1.2 trillion globally, larger than the entire Mexican economy and only slightly smaller than India's (Czerniawska and Smith, 2010).

The financial impact of the services provided by such firms to client organizations is considered to be much greater than this, too. This is because most would expect to get back more than they had invested (on average six times the fees paid, according to 2010 UK statistics) (MCA, 2010).

Internal service functions, meanwhile, are also seen to make a tangible contribution, by improving an organization's efficiency, impact, and competitive edge, contributing to economic growth. The same can be said of specialist outsourced services, whose benefits to clients include transformed productivity.

Both directly and indirectly, then, knowledge-intensive firms play an important role in the global economy, with a steadily increasing significance to economic growth and absorption of labor. As a consequence, those companies' professional employees account for an increasing share of the labor market.

Winning the 'talent war'

To capitalize on the growth in demand for professional services – and to differentiate themselves as the market become increasingly crowded with players – knowledge-intensive firms need to develop their management capabilities to ensure they will be able to fire on all cylinders, both now and in the future. The 'war for talent', so dubbed by McKinsey & Company (2001), is particularly acute in the knowledge-intensive services industry. If a knowledge-intensive firm is only as good as its people, its long-term prosperity will depend on the ability to hold on to and to develop these vital assets.

Based on our own work and experience in this area, we have developed a practical framework for the enhanced management of knowledge-intensive firms. This will unfold across the pages of this book, supported by a range of case study examples taken from across the three categories of knowledge-intensive organizations defined above.

Our goal in developing and articulating this model is to provide both inspiration and practical advice grounded in consolidated experience, to help tomorrow's leaders of high-performance organizations develop a winning and sustainable management and personnel development strategy that addresses the peculiar needs of knowledge-intensive firms.

The journey

The structure of this book reflects the journey that knowledge-intensive firms will need to make to overcome current and future management challenges.

Chapter 1 introduces the framework we have developed to characterize the management of knowledge-intensive firms. Here, we discuss the three essential sets of parameters to manage a knowledge-intensive firm: the clients, the organization, and its employees – and the interplay between the three.

Chapter 2 takes a closer look at the role and needs of *clients* of knowledge-intensive firms: what they buy and what they expect from their service providers in terms of the way they are handled. Knowledge-intensive firms often place clients at the center of their company strategy. We offer best-practice solutions to how this might be done without conflicting with or undermining the needs of valued professionals.

Chapter 3 considers the inner workings of knowledge-intensive firms in more depth, exploring the need for and optimum development of strategy, business models, organizational structure, profitability models, systems, and culture. We then go on to discuss a range of common dilemmas faced by managers when translating *theory* and best intentions into continuous, everyday *execution*.

Chapter 4 deals with the relationship between the client and the knowledge-intensive firm. This is where the execution of strategy becomes critical. Strategic objectives of the service organization must be converted into consistent, coherent actions in terms of market development and client management. We argue that the firm must not deviate from its strategy, even in the event of a lack of business, as this may catastrophically harm the strategic identity of the firm.

Chapter 5 focusses on the needs of professionals – the core assets of knowledge-intensive firms. Here, we argue that business success relies on an ability to give equal priority to the firm's clients *and* its employees. While clients must have priority when a specific task is being undertaken, professionals should have priority when determining which particular projects to accept.

Chapter 6 then goes on to consider the relationship between the knowledge-intensive firm and its employees. Here, we examine value management, noting that managing professionals is about culture and values – guiding principles that must be brought to life and passed on through the actions of managers, backed up by visible systems and processes, including incentives and sanctions.

Chapter 7 looks at the final level of interplay – the relationship between professionals and clients. Given that, in knowledge-intensive industries, services are delivered by individuals or teams of individuals, this is the most important direct relationship between the firm and the client. Since managers are not able to oversee every interaction between professionals and clients, or decision made, it is vital that the culture and values originating at a management level are consistently carried through by professionals in their work with clients. This will set the standard for all service delivery.

Finally, *Chapter 8* draws together the themes explored in the previous chapters, emphasizing that, while management in knowledge-intensive firms depends on having a purposeful and consistent approach to clients, the organization's direction, and the recruitment and development of professionals, lasting success rests on the optimal interplay of these three critical elements.

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VALUE CREATION IN KNOWLEDGE-INTENSIVE FIRMS

How knowledge-intensive firms differ

Knowledge-intensive firms are unique in their delivery, in that the service or product being provided has usually been tailored to the client's unique needs, following an intimate interaction with the professional who has been assigned to the project. It is during this highly individual exchange that the client's exact requirements will be assessed, and the professional's knowledge adapted and applied to the particular project.

This contrasts significantly with the relationship between a manufacturing company and its customers. Here, the output is a tangible product that has been produced anonymously in a factory, usually without any direct contact with the customer.

Although the general service industry has more parallels with knowledge-intensive firms in terms of the nature of the 'product' being delivered, this field is typically associated with *commodity* services. As a result, the majority of employees will require limited knowledge, skills, or experience – for example, waiting on tables in a restaurant or providing cleaning services. If staff leave, there is an inconvenience factor, but replacements will be found and customer service levels will suffer minimal interruption. (Not to say that personal motivation and service standards do not matter.)

Knowledge-intensive firms, by contrast, deliver specialist services provided by highly educated employees such as lawyers, accountants, communications advisors, management consultants, IT consultants, engineers, architects, HR specialists, researchers, trainers, doctors, and so on. Output is likely to require specialist skills, extensive experience, and qualifications, and a professional

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approach to work and clients. The professionals fulfilling these roles are much harder to find, command high salaries, and are difficult to hold on to without the right incentives, challenges, and job satisfaction. They can also be harder to manage.

The origins of value

In the case of a knowledge-intensive firm, the real and perceived value of what is being delivered will depend on how easy it is for the client to find comparable services (by specialist skill, quality, and experience) in the marketplace, and the impact of these services on the client's business.

To create and maintain this value requires clear vision and planning on the part of the knowledge-intensive firm and its leaders.

Typically, value creation in knowledge-intensive firms is delivered through a delicate interplay of factors relating to the client, the professional employees, and the company itself. The essential elements of value creation are illustrated in Figure 1.1.

Clients have a need and request a service.

Professionals deliver this service through their engagement with the client. (Because the output is highly dependent on the client's individual needs and the professional's interpretation of and response to those requirements, two apparently similar professionals or teams might produce different results.)

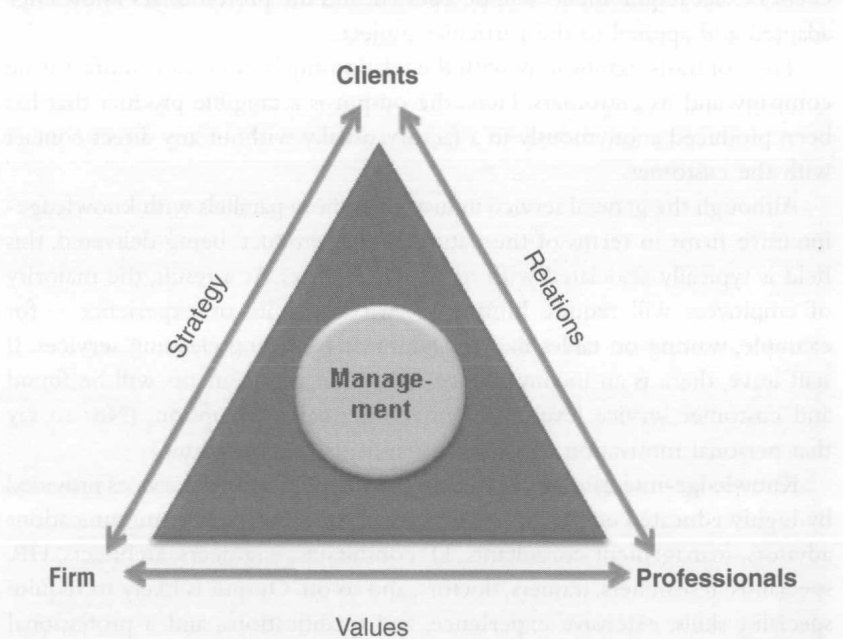


FIGURE 1.1 Framework illustrating the management of knowledge-intensive firms