

# Strategic Management in the Knowledge Economy

New Approaches and  
Business Applications



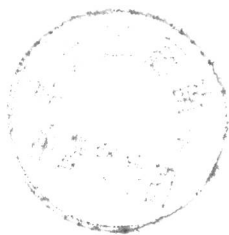
MARIUS LEIBOLD  
GILBERT PROBST  
MICHAEL GIBBERT



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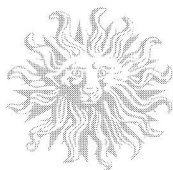
New Approaches and Business Applications

By Marius Leibold,  
Gilbert J. B. Probst  
and Michael Gibbert

Second Edition, 2005



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## Preface to the Second Edition

This book has met with wide acceptance and success since first being published at the end of 2002, despite it being leading edge and ‘pushing the envelope’ in the field of strategic management, and thus somewhat controversial in content. The suggestions and evidence in the text for new supplementary approaches to strategic management due to the knowledge economy have become widely accepted, although some remain (as can be expected) skeptical and refer to the perceived ‘demise’ of the knowledge economy.

What has been especially encouraging is that the book has resonated with both practicing managers and academicians, being used in customized company workshops and by various universities and researchers in North America, Europe, Africa, and Australasia. This in itself has not been surprising, as the evidence of the inadequacy of existing approaches to strategic management has been mounting, and the book clearly and practically illustrates this by way of reasoned arguments, leading articles, corporate case studies and company examples.

We were also encouraged by well-balanced and positive reviews of the book. One review published in *Long Range Planning* in February 2004, included the following comments: “What intrigues us about this book is that it’s the first thing we’ve ever read that is a coherent alternative to most of our existing MBA texts ... This text made us want to teach a strategy course in a business school in a fresh, original way ... The book is really too good to be offered only to MBA’s ... It should be studied seriously by anyone interested in strategy or the role of knowledge in organizations, be they private business or public enterprise”. Another review of the book in *Strategy + Leadership* by Tom Davenport mentions “It’s Michael Porter updated for the twenty-first century. It’s Henry Mintzberg without the crabbiness. It’s James Brian Quinn minus the messianic view of software. This is a highly synthetic and contemporary approach to strategy that could excite even the most credential-hungry MBA”.

The second print has become necessary to meet rising demand, and after careful review of the contents we have decided to make no contextual or content changes at all, but only some minor editing and grammatical corrections: this speaks well for the relevancy of the text and its appropriateness for various purposes. We wish the reader and practitioner success in the use of the book for their purposes.

Marius Leibold, Stellenbosch, South Africa, and Boston, USA  
Gilbert Probst, Geneva, Switzerland  
Michael Gibbert, Milan, Italy

*January 2005*

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# Preface to the First Edition

## Why this book now?

This book is based on the premise that from about the middle of the 1990s onward the global environment has been causing “revolutionary” changes in traditional industries, corporations and business models. Extant strategic management approaches and tools cannot adequately cope with the scope and thrusts of these dynamic knowledge-enhanced changes. We have entered a knowledge society and our companies are increasingly becoming knowledge-based entities, without giving enough thought to the impact of knowledge dynamics on strategic management.

Strategy approaches have to be changed, companies need new competencies, and the business logic and models have to be revisited. Companies are realizing that the competitive, information-based method of strategically managing enterprises in the previous century is fundamentally changing in a knowledge-based, networked society in which *strategic collaboration* is becoming as important as *competitive strategy* mindsets and practices.

## What this book is about?

This book provides understanding of the dramatic shifts in the knowledge economy and the resulting significant implications for traditional strategic management theory and application. It furthermore helps the reader to learn and discover pre-eminent writings as well as methods and tools for strategic management in the knowledge society. Strategy innovation in the knowledge economy requires a new mindset, rooted in a systemic (networked, interactive) view and not a traditional (mechanistic) value-chain, industry-bound, or an existing resource capability orientation. Companies should no longer only focus on efficient intra-organizational knowledge creation and sharing, but should also include the inter-organizational realm, as well as other relevant stakeholders in its ecosystem and relevant socio-cultural networks.

*The key message is that the new knowledge-networked economy requires a totally different strategic management mindset and toolbox.* The traditional approaches are not completely obsolete, but used on their own they are inappropriate for sustainable organizational performance and survival in today’s knowledge-networked economy.

Step by step, each chapter leads the reader towards a better understanding of the environment, the need for a new approach and the tools available today. Per chapter the authors furthermore offer a brief introduction and theoretical overview, followed by selected research papers and viewpoints, which are concluded by clearly related and embedded case studies, developed by the editing authors.

### Who should read this book and how should it be used?

The book is aimed primarily for use at MBA-level and PMD-executive courses, as well as for capstone undergraduate courses in strategic management. In addition, strategists and top managers will find it an effective aid in understanding the shifts and impacts of the knowledge society on strategic management, as well as the need for new tools and methods. The book originated from a realization that students and business leaders cannot be educated/oriented in strategy by simply reviewing extant strategic management theory and applications. Our approach is not to teach theory or cases, but to understand the evolution of strategic management thought, related to historical timeframes and contexts, and the difficulties of extant strategic management approaches and tools in dealing with current “discontinuities” in the environment. Additionally, we provide integrated substantiation for a new approach by corporate leaders and strategists to strategic management in the knowledge economy – *systemic strategic management*.

The contents and style of the book are significantly different from the usual strategic management textbooks. The content is a unique combination of theory, published articles, and case studies, all designed to make key points and bring across messages that substantiate the proposals for new and complementary strategic management approaches and applications. The style of the book is easily readable by advanced students and business executives alike. Case vignettes are provided to amplify key points, and a list of questions are provided at the end of each chapter to stimulate further review, comparison and debate.

The overall learning objective is to provide a strong basis (aptly argued and substantiated) for the acceptance of new strategic management approaches and tools to be used complementary to extant strategy approaches and tools. The purpose is not to make a case that extant approaches and tools are obsolescent or invalid in the “knowledge economy”, but that they are inadequate if used on their own.

The book’s major new (or additional) conceptual contributions to the field of strategic management are:

- The concept of *systemic strategic management*, in contrast to the traditional concept of analytical strategic management.
- The concept of *business socio-cultural network dynamics* – including business ecosystems perspectives – in contrast to the traditional industry or internal business value chain perspective.
- The concept of *systemic scorecard (SSC)* in contrast to the traditional balanced scorecard (BSC). The latter focuses more on single enterprise strategy dynamics, while the SSC emphasizes stakeholder systems dynamics in an increasingly collaborative, knowledge-networked environment.

### The writing of the book

This book became reality due to stimulating personal meetings and an intensive virtual knowledge exchange between the authors. The common systems-oriented background, dynamic teaching and practical experiences, and learning-based, corporate



case writing allowed the authors to make it happen. But many other people's contributions have made this book possible. First of all, we are indebted to Gerhard Seifried for his incisive and thoughtful editorial assistance. Many thanks are due to Liisa Valikangas, Ellen Enkel, Carlos Jarillo, Barry Nalebuff, Georg von Krogh and Johann Kinghorn. Our discussions with them, their queries and comments helped us greatly in shaping our ideas. Johann Kinghorn made an important contribution with his article on organizational sense making for strategic leadership. Our gratitude to Eva DiFortunato, research assistant at HEC, University of Geneva for her most helpful work in the fine-tuning of the cases and her valuable comments. Special thanks to Ms Jo-Marie Pretorius for the word processing of the chapter texts, and to Mr Solomon Habtay, research assistant at Stellenbosch University, for reading and commenting ably on the draft chapters. Gunhild and Wolfram Elwert allowed us to communicate easily by sharing their telephone lines and creating a great working environment. And last but not least we thank Ilse Evertse for her editorial magic. Her disarming criticism, infinite patience and imperturbable personality are more than any author could wish for.

Marius Leibold, Stellenbosch, South Africa  
Gilbert Probst, Geneva, Switzerland  
Michael Gibbert, New Haven, USA

*September 2002*



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# I Introduction

# Chapter 1:

## Fundamental Impacts of the Global Knowledge Economy on Strategic Management

### An Emerging New Era

The global economic landscape and business world are changing rapidly. Strategic management in turbulent conditions needs to be pro-active. Just when managers think they have developed a strategy for future success, a new technology, process, competitor or customer behavioral pattern emerges. While a sharp focus and “sticking to the knitting” are sometimes the key to success in more stable conditions, the turbulent, knowledge-driven markets of today require dynamic new strategic management approaches and tools.

In the fast-changing, network-innovative, knowledge-driven global economy that mainly gained momentum in the last decade of the 20<sup>th</sup> century, the deficiencies of the traditional, relatively static strategic management approaches, tools and processes are becoming evident. The stakes in global business are too high to continue to rely on inappropriate strategic management practices, and this book offers a platform for sensible, new strategic management approaches and tools in a today’s environment. A sound understanding of the dramatic, even revolutionary, *shifts* that the knowledge economy is causing in the business competitive landscape, and a resulting grasp of the *implications* of these shifts, are both essential in order to realize the necessity of new strategic management practices, and the relevance of the proposed strategic management concepts, approaches and tools in this book.

**Table 1.1** Environmental Turbulence, Knowledge and Strategy

<b>Time</b>	<b>Short term</b>	<b>Long term</b>
<b>Environment</b>		
<i>Unstable, chaotic, knowledge-networked</i>	Reactive, myopic strategy	Dynamic, “shaping”, robust strategy
<i>Stable, orderly, information-focused</i>	Static “fire-fighting”	Strategic planning and “adaptation”

The relationships between levels of environmental turbulence and types of strategy are indicated in Table 1.1.

The key issue illustrated in Table 1.1 is the types of response companies make to the increasingly unstable, chaotic, knowledge-networked nature of the business environment – either short-term reactive responses, resulting in partial and myopic strategy, or longer-term dynamic, shaping, robust strategy resulting in sustainable organizational fitness and survival. While all four strategy types could be valid in particular situations, the focus today is shifting to the upper right hand box – strategy that is dynamic, robust and “shaping” new customer value, and leading to major changes in and even reinvention of industries. What are the major shifts leading to this development?

## **Dramatic Shifts Due to the Global Knowledge Economy**

In the final decade of the 20<sup>th</sup> century we witnessed the end of the Cold War, a new appreciation of the value of freedom and diversity, dramatic changes in the way we work, and the emergence of a globally networked society accelerated by computer and communications technology. We are at a juncture in the era of organizational leadership in which the traditional Sloan, Taylor and Ford approaches can no longer cope with the exploding opportunities afforded in a global economy in rapid transition. Enterprises across all sectors of the economy have experienced excruciating measures during reengineering, downsizing, outsourcing, total quality standards, cost-cutting and productivity improvements. In many respects, creativity and innovation have been squeezed out of the system, and the real value of creativity and intellectual capability in sound inter-relationships have been neglected.

Since the late 1980s a major turning period in the world's economic, political and social history has occurred. The walls seem to have collapsed – between nations, between industries, between sectors of the economy, between organizations, and between functions inside an organization. Linkages, networks and symbiosis are becoming the order of the day, as evidenced in the increasing incidence of alliances, mergers, joint ventures, cross-functional project teams and communities of practice. *Inside* organizations, enterprises are realizing the value of *interdependencies*, rather than differences and independencies, through initiatives such as simultaneous development processes, concurrent engineering, agile manufacturing and resource management networks; and *outside* organizations the need for value system management (as opposed to value chain management), and business ecosystem influencing are now starting to be realized.

What has been happening, is that the speed and *complexity* of decision making have increased, as well as the acceleration of technological change and rapid acceptance of computer and electronic communications. Industries and markets are being shaped, reshaped and invented as niche-market vendors capitalize on connecting products, services, and businesses in ways unimagined a few years ago. Larger (incumbent) companies experiment with radical diversification and alliances of all forms, including those with archrivals, while smaller and “start-up” companies often upset industry



traditions through innovative new business models, often by circumventing traditional industry channels. The notion of independent, competitive strategies – although still prominent in business and government rhetoric – is being diluted by the intense need to *collaborate* in order to survive and prosper through the creation of significant new customer value propositions, enabled by new technologies.

There are at least *six major forces*<sup>1</sup> causing significant shifts in strategic management thinking and implementation. These are forces causing a shift from:

- information to knowledge and wisdom.
- bureaucracies to networks.
- training/development to learning.
- local/national to transnational/global and metanational.
- competitive to collaborative thinking.
- single connections to multi-connectivity to biocorporate systems in relationships among individuals, organizations and nature.

These forces are strongly interrelated, and there are numerous other forces, but for purpose of overall understanding, these suffice. The assumptions are that these shifts are fundamental and that organizations have to be able to make sense of them and develop appropriate strategic approaches and practices. Let's look into each of these forces.

### **Forces causing a shift from information to knowledge and wisdom**

In the information technology profession, there has been a natural evolution of computing. *Data* are elements of analysis. *Information* is data with context. *Knowledge* is information with meaning. *Wisdom* is knowledge plus insight and sound judgement. When applied to any community, these concepts refer to the sum total experience and learning residing within an individual, group, enterprise, or nation. The new source of wealth is knowledge, not labor, land, or financial capital. It is the intangible, intellectual assets that must be managed.

The shift in orientation from information to knowledge is not a cosmetic change. It requires an entirely new lens through which the world is viewed. But what in people is important? What constitutes value-added? The answer, naturally, is the *knowledge* they have to contribute to the business and their innate capability to continue to do so. Moreover, it is the ability of groups to learn from one another and contribute collectively to the solution of a problem and/or the identification of a new business opportunity.

Professionals have found themselves experiencing “information overload” and being starved for knowledge – the downside of a technologically sophisticated society. The challenge, then, is to develop mechanisms to ensure that time – the most precious commodity of all – is spent on genuine value-added, knowledge-creating and knowledge-utilizing activities. More important, mechanisms need to be established to be able to project viable businesses in future, while current practices track only past trends, resulting from static and incremental strategy thinking. This in turn involves