FC KNOWLEDGE EXCHANGE BY BROOK MANVILLE & NATHANIEL FOOTE

STRATEGY AS IF KNOWLEDGE MATTERED

IN AN INDUSTRIAL LOADING AREA in the cold, gray drizzle, 40 miles south of London, workers in blue overalls loaded and unloaded 200-gallon steel drums of knowledge. The barrels contained a mix of specialty ingredients, designer essences a manufacturer would soon add to laundry detergent to produce a distinctive "fragrance of spring." If the strategy worked, 10 million consumers would desert "air of lemon" for "fragrance of spring" when they reached for their next box of laundry detergent. 0 The fragrance business is ruthlessly competitive. Winning depends on knowledge: fragrance of spring was the culmination of an elaborate process of development and testing by chemists, perfumers, and chemical production engineers. Part science, part art, and a little bit of luck, the aroma was crafted by a team of industrial knowledge workers — men and women applying their special skills, their accumulated experience and knowledge of aromatics. their special noses — to the challenge of inventing the next 10 million-buyer hit. We have entered the knowledge economy. Suddenly knowledge is hot. Conferences on knowledge are the rage. Before we all get carried away with the exhilaration of knowledge, it's worth stopping long enough to identify some operating principles. We've been working on this question with Malcolm Wolf and other McKinsey colleagues for the past two years; here are the five we've found.

1. Knowledge-based strategies begin with strategy, not knowledge. The new form of intellectual capital is meaningless without the old-fashioned objectives of serving customers and beating competitors If a company does not have its fundamentals in place, all the corporate learning, information technology, or knowledge databases are mere costly diversions. The old truth is still the best truth: a company has to know the kind of value it intends to provide and to whom. Only then can it link its knowledge resources in ways that make a difference: serving customers around the world in a coordinated, consistent manner; responding quickly and effectively to changing competitive conditions; and offering its products or services to customers more quickly, cheaply, efficiently, and innovatively.

2. Knowledge-based strategies aren't strategies unless you can link them to traditional measures of performance. Supporters of intellectual capital are quick to argue that old financial measurements not only can't account for intangible assets, such as knowledge, but also discriminate against them by using obsolete accounting principles. But the hard truth is that if knowledge can't be connected to measurable improvements in performance — including improvements on the bottom line — then the knowledge revolution will be short lived, and deservedly so. It's not as if we don't already have solid examples showing that knowledge can have a clear impact on measures such as sales, costs, cycle time, productivity, and profitability. One pharmaceutical company, for example, increases sales significantly by sharing physician prescription patterns throughout its national salesforce; a computer manufacturer - speeds up its rate of new product development by systematically sharing information among its marketing, sales, and engineering departments; a farm equipment manufacturer adds a major new stream of revenue by reselling information about crop yields gathered and repackaged from its agricultural customers.

These successes can be tracked to the superior use of knowledge. And they are much more compelling than the warm and fuzzy argument that companies should adopt knowledge as a philosophical goal since learning and education are "good for the company"—or even "good for society." The point of a knowledge-based strategy is lot to save the world; it's to make money. It's for hard heads.

3. Executing a knowledge-based strategy is not about managing knowledge; it's about nurturing people with knowledge. Knowledge is also about ,oft hearts. And here's a key paradox. "Knowledge for knowledge's sake" lacks performance discipline; but efforts to engineer knowledge in some coldly bloodless way subvert the human dimensions of learning. The trick is to balance the "hard" with the "soft"—tapping the knowledge locked in people's experience. This "tacit knowledge" is frequently overlooked or diminished by companies. In contrast, most companies have elaborate systems to capture and share their "explicit knowledge"—the stuff that shows up in manuals, databases, and employee handbooks. This kind of knowledge never translates into a winning strategy. What good is a database if it doesn't include what the employees really know?

There is a corollary to the importance of tacit knowledge: people will not willingly share it with coworkers if their workplace culture does not support learning, cooperation, and openness. One office equipment manufacturer sought to increase the rate of "knowledge transfer" among its departments while simultaneously downsizing the workforce. The combination proved impossible. Who wants to share what they know when the boss is looking to cut head count and consolidate expertise in a smaller and cheaper organization?

4. Organizations leverage knowledge through networks of people who collaborate — not through networks of technology that interconnect. Despite endless media hype about groupware and the "interconnectivity of the '90s computer technology is not the real story. The IT graveyard is littered with companies that followed high-budget, "visionary" ClOs down the path of this or that client-server investment, or rolled out new e-mail systems — only to find that people skill didn't want to collaborate to share and develop new knowledge. Interconnectivity begins with people who want to connect. After that, tools and technology can make the connection.

When it works, the combination of people and technology produces networks of people who transform themselves into "worknets" — suborganizations or informal groups whose collective knowledge accomplishes a specific task. The key to this worknet transition is that its members have compelling reasons for finding others with knowledge to share who in turn have compelling reasons to share their knowledge when asked. Which leads to our next operating principle.

5. People networks leverage knowledge through organizational "pull" rather than centralized information "push." The engine that drives knowledge development and sharing is the worker's need for help in solving business problems; the power comes from the demand side rather than the supply side. In fact, companies that push information at their people may actually cause information overload, blocking them from developing their own networks.

The "pull-not-push" principle suggests that problems need to be framed and articulated specifically. For this reason, knowledge-based strategies should emphasize on-the job learning rather than traditional training. "Just in time" learning, which takes place in the moment of actual need, not only creates the most value; it also makes the biggest impression on the learner and the organization.

Ultimately learning is up to each individual — it's not something that management can require. The essence of successful knowledge based strategies is a company's capacity toe raise the aspirations of each employee. These are the people whose contributions and ongoing development become the life-blood of performance gains.

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