Second Edition

KNOWLEDGE MANAGEMENT
AN INTEGRATED APPROACH

Ashok Jashapara

Pearson

Knowledge Management

Critical thinking and reflection

Reflect on the strategy in your organisation. Describe how you perceive the corporate strategy of your organisation. To what extent were you consulted in the preparation of it? In relation to your organisation, what do words such as 'mission', 'vision' and 'strategy' mean to you? How alive are those words in informing your everyday actions? How typical are your views compared with those of colleagues in the organisation? Is there any advice you would give to senior managers in the preparation of annual strategies?

Industrial organisation tradition

In the industrial organisation (IO) tradition, the relationship between the firm and industry is central. The performance of a firm is determined by the structure of the industry and its market structures. Many of the principal models about market structure and competition come from rational microeconomic theory. At its most basic level, the market is concerned with the supply and demand of goods and services and the elasticity or inelasticity of the demand curve. Ideally, firms want elastic demand curves where price falls can still lead to revenue increases. Without labouring over the intricacies of microeconomics, the market structure can lead to perfect competition (large number of buyers and sellers), a monopoly (allowing the firm with the monopoly to earn abnormal profits) or an oligopoly (competition among a few firms). The dominant form of market structure in many countries is an oligopoly where firms tend to fluctuate between intensely competitive and often unstable collusive behaviours.

The nature of competition in this school is determined by the number and relative size of firms and the barriers to entry to that market (Bain 1956). From this perspective, the raison d'être of the firm is to reduce the level of competition either by collusion, creating higher barriers to entry, greater differentiation of their products and services, or lowering costs. The intended consequence is to reduce the number of firms in the market and lead to greater profits. The notion of differentiation has its roots in Chamberlinian economics which recognises the unique capabilities of a firm, such as its know how and reputation, and tries to exploit the firm's uniqueness through its strategies (Chamberlin 1933; Pettigrew and Whipp 1991).

The industrial organisation tradition has been influenced by a design model and a planning model of strategy (Ansoff 1965; Chandler 1962; Porter 1980). In the design model, the central technique is to use a SWOT (strengths, weaknesses, opportunities and threats) analysis in order to design a unique response following the dictum that structure follows strategy (Chandler 1962). In the planning model, different generic strategies are forwarded to respond to certain market conditions (Porter 1980):

- *cost leadership* – reducing the cost of product and services relative to competitors with a drop in quality;
- *differentiation* – providing products or services which are unique or different and valued by customers;
- *focus* – providing high perceived value justifying higher prices in certain market segments such as traditional corner shops compared with supermarkets.

In the planning model, adopted by most MBA students and executives, the traditional approach to strategy is along the following rather mechanical lines (Johnson and Scholes 2002):

- Conduct a PESTEL (political, economic, social, technological, environmental and legal) analysis at a macro level within the external environment and its likely effect on the firm.
- Conduct a SWOT (internal – strengths, weaknesses; external – opportunities and threats) analysis and look at half a dozen critical success factors in a particular industry.
- Analyse the competitive environment using Porter's (1980) five-force framework exploring the threat of entry of new players, the power of buyers and suppliers, the threat of substitutes and the extent of competitive rivalry.
- Analyse the impact of the industry lifecycle such as growth markets that require strategies to fight to increase market share compared with mature markets that require strategies to maintain market share.
- Use scenario planning techniques to determine how different scenarios may affect your strategy.
- Analyse resources in terms of Porter's 'value chain analysis' where activities are isolated that have a perceived value to the customer. Linkages between different activities are seen as competitive, particularly where competitors cannot imitate them.
- Examine strategic options such as generic strategies and whether to follow different directions for strategy development such as withdrawal, consolidation, market penetration, market development, product development or diversification.
- Evaluate the strategic options and check for their suitability in terms of organisational structure and cultural fit. Use a BCG matrix (cash cows, stars, question marks and dogs linked to a plot of market share and market growth) to determine which products or services to divest or invest. Consider a strategic planning or financial control style of operation.
- Manage strategic change through forcefield analysis to identify forces for and against change and adopt suitable management styles to circumstances.

Despite the popularity of the industrial organisation tradition, it does have its shortcomings. The drawbacks of this approach include the following (Mintzberg *et al*. 1998; Pettigrew and Whipp 1991):

- Only 10 per cent of formulated strategies get implemented.
- Separating thought from action by isolating the formulation and implementation processes.
- Assuming that firms and individuals have perfect knowledge of market changes when in reality there may be considerable ignorance leading to questioning of the rationalist tenets of the microeconomic tradition.
- No real conception of competition as a process over time.
- Environments assumed to be predominantly stable.

- Detachment of management from everyday actions and processes.
- Focused more on large businesses.
- Denial of internal social and political influences on strategy.

Excellence and turnaround

With the Japanese beating US competition in terms of design features, price, reliability, speed to market and quality in the 1980s, there was an enormous need to show managers how to respond effectively to these threats. This gave rise to an extensive literature in excellence and turnaround based on a wide range of managerial remedies and recipes of successful companies (Grinyer *et al*. 1988; Peters and Waterman 1982). Many of these publications became bestsellers in airport lounges and made a considerable impact on management strategy.

In Search of Excellence (Peters and Waterman 1982) prescribed eight attributes that characterised excellent and innovative companies: 'a bias for action, close to the customer, autonomy and entrepreneurship, productivity through people, hands-on/value driven, stick to the knitting, simple form/lean staff, simultaneous loose-tight properties.' Many similar books defined half a dozen or so prescriptions for success, with amusing anecdotes to support them, and offered glib platitudes and panaceas in easy-to-read form (Newstrom 2002). They confirmed the beliefs and attitudes of the typical managers, providing them with simple lists for success where they were in control and promoting universal application of their prescriptions across different sectors and environments (Huczynski 1992). The effective management of cultural change often plays an important role in these prescriptions. In order to win hearts and minds, ordinary people are espoused to do extraordinary things thanks to the strength of corporate cultures (Peters and Waterman 1982):

> *'The top performers create a broad, uplifting, shared culture, a coherent framework within which charged-up people search for appropriate adaptations. Their ability to extract extraordinary contributions from very large numbers of people turns on the ability to create a highly valued sense of purpose. Such purpose invariably emanates from love of product, providing top-quality services, and honouring innovation and contribution from all.'*

This literature continues to play a role in strategic development, particularly where managers require ideas for quick-fix solutions. For example, a recent remedy to turnaround situations suggests the following prescription for managers (Reisner 2002):

- Don't miss your moment – the importance of timing in strategic initiatives.
- Connect change initiatives to your core business.
- Don't mistake incremental improvements for strategic transformation (a call for double-loop learning?).
- Be realistic about your limits and the pace of change.

The shortcoming of this school of thought is the overemphasis on the firm and internal processes rather than on competitive changes in the external environment.

There is also often a lack of empirical evidence to support the remedies prescribed. In fact, it is hard to see how the excellence and turnaround literature has contributed to further theory development in strategic thinking. In the face of objective scientific inquiry, the remedies offer little evidence of reliability, validity, practicability and integrating with a firm's existing knowledge base (Argyris 2001). Ultimately, many of the successful companies cited as following many of these bestseller prescriptions have often declined in performance or in some cases ceased trading.

Institutionalist perspective

The institutionalist perspective draws heavily on Schumpeter's (1934; 1950) stream of microeconomics which argues against the rational and stable notions of competitive forces and the external environment. Instead, this perspective suggests that competitive forces are inherently unstable and in a continual process of 'creative destruction' (Schumpeter 1950). As one can imagine, this perspective does not sit comfortably with strategic planners following the industrial organisation form of analysis.

Institutional economics places greater emphasis on agents (individuals) and suggests that their economic relations are determined through their experience and learning over time rather than through some form of rational maximisation behaviour. In this explanation, economic activity is dynamic and is informed by social institutions that interact with agents. In turn, competition is viewed as dynamic, impermanent and a continual process informed by people's day-to-day learning. This uncertainty in competition contrasts directly with the industrial organisation tradition that treats it as a steady-state affair. For strategic planners, their rational conjectures of competition led to considerable shock waves in the 1970s when their assumptions of incremental change were severely challenged as a result of an oil crisis. Subsequently, the notion of discontinuous (uncertain) change has come into mainstream thinking and many strategic planners have tried to rationalise it through the process of scenario planning. This attempts to create a number of plausible scenarios and considers effective management responses to them. However, one wonders how many scenario planners predicted the consequences of discontinuous changes, such as the September 11 attacks in America, the fall of the Berlin Wall in Germany and the end of apartheid in South Africa.

In the case of September 11, the events leading to it may be considered wholly unpredictable in terms of location and timing, even though some may argue that conceptually this was not the case. In this instance, we can deal only with the consequences of the event. However, with the fall of the Berlin Wall and the end of state socialism in Eastern Europe, a wide range of scenarios had been predicted with reasonable accuracy. Similarly, the end of apartheid was not entirely unexpected, though few scenario planners would have envisaged the peaceful transition to democracy and multiculturalism.

Strategy from an institutionalist perspective is seen as a process over time and considered synonymous with strategic change. Strategic change is informed by the managers' (or other agents) understanding and learning of a situation over time. This includes their subjective and objective understandings of the competitive environment in relation to their firm as well as the political dimensions pertaining to both. In this respect, competition and strategic change are viewed as intimately linked (Pettigrew and Whipp 1991). A contrast between the industrial school tradition and the institutionalist perspective in terms of their approach to thought and action is shown in Figure 4.2.

Mintzberg (1991) has provided a major strategic framework from an institutionalist perspective that examines the dynamics of competitive forces in an organisation. This framework doesn't provide a blueprint for organisations but rather an understanding of the interplay between competitive forces, as shown in Figure 4.3. The underlying assumption of this model is that there is the potential for one or more of seven forces to dominate an organisation at any given time:

- the force for *direction* is concerned with strategic vision and may relate to organisations in startup or turnaround situations;
- the force for *efficiency* is concerned with standardisation and formalisation of processes and may relate to bureaucratic organisations where rationalisation and restructuring are a major focus;
- the force for *proficiency* is concerned with tasks requiring high levels of knowledge and skills and may relate more to professional organisations;
- the force for *concentration* is concerned with concentrating efforts on serving certain markets, particularly in large diversified firms;
- the force for *innovation* is concerned with discovering new things for the customer and may relate to adhocracies comprising skilled experts or multidisciplinary projects.

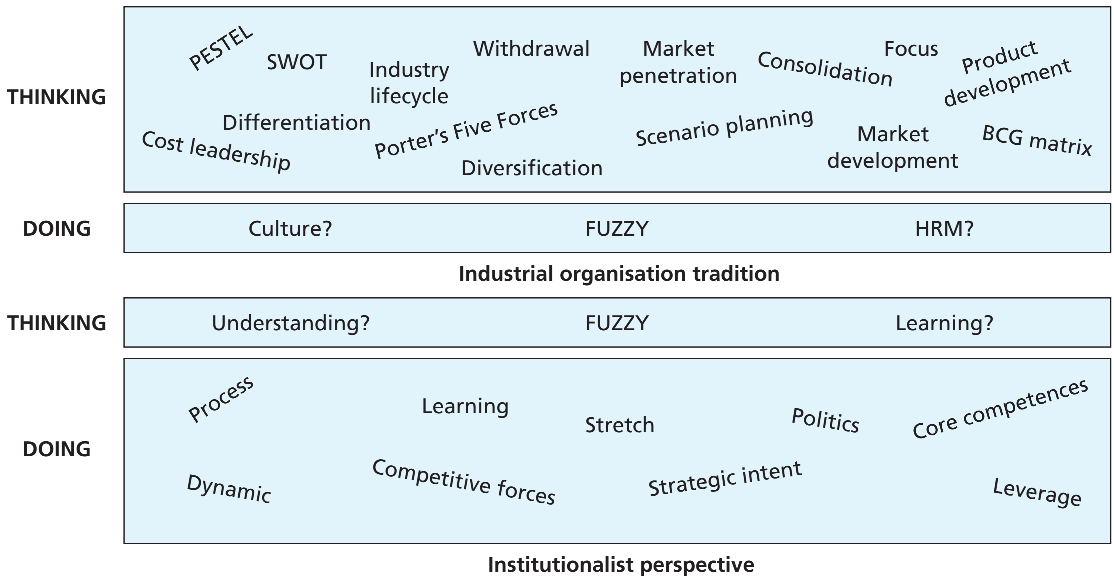

Figure 4.2 Strategic thought and action: industrial organisation tradition and the institutionalist perspective

TERMINOLOGY
Configuration – one force dominates

Combination – no force dominates

Conversion – go from one force to another

Cleavage – two or more forces confront each other

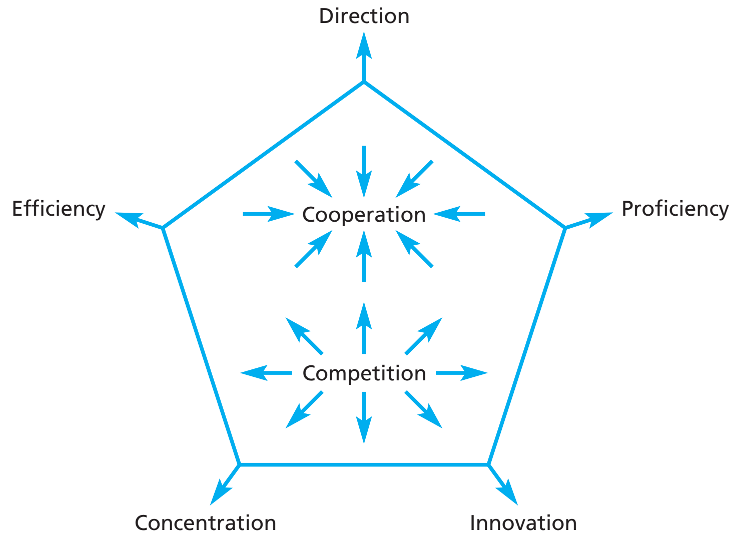

Figure 4.3 Dynamic forces in organisations (adapted from Mintzberg 1991)

The internal catalytic forces comprise forces of cooperation and competition. The force for cooperation is concerned with the pulling together of ideology such as norms, beliefs and values. At one extreme, dominant forces of cooperation may result in ideological organisations such as an Israeli kibbutz. The force for competition is concerned with the pulling apart of politics and may relate to political organisations where infighting is rife. There may be limits to levels of cooperation as ideology discourages change and if individuals perceive a need for change, they may be forced to challenge the ideology which breeds politics. From the industrial organisation perspective, the force for efficiency and innovation could be seen as similar to generic strategies of 'cost leadership' and 'differentiation' respectively.

In line with an institutionalist perspective, there is a recognition that these forces are rarely static but rather tend to vary continuously over time. A state of 'configuration' occurs when one force dominates and the organisation is drawn towards a coherent established form. However, configuration can lead to the problem of 'contamination' where the dominant force undermines other equally valid forces. For instance, a firm dominated by the force of efficiency may be hindered from following the force for innovation in response to critical changes in the marketplace.

In some periods, an organisation may go through states of 'combination' of different forces where no single force dominates. This may result in periods of 'conversion' from one form to another. For example, an adhocracy may develop a highly successful product or service and settle down into a bureaucracy to exploit it. The state of 'combination' may result in problems of 'cleavage' where two or more forces may confront each other and eventually paralyse the organisation. One can imagine only too well the consequences of boardroom battles where different factions try to pull the organisation in different directions based on their understanding of competitive changes. The internal forces of competition and cooperation can act as useful catalysts to manage the