1.1 Knowledge and Knowledge Management

The twenty-first century marks the beginning of an era in which the traditional pillars of economic power – capital, land, materials and labor – are no longer the main determinants of business success; instead, achievement will be essentially determined by our ability to use knowledge, a precious global resource, wisely. This is due to the constant and overwhelming change in the business environment, from one in which the market assumptions were stable, the business rules were rigid, the command-and-control management model was adequate, competitors and customers were known and the future was almost predictable, to an environment in which the only thing that can be predicted is unpredictability itself.

Most companies of today are primarily run on the basis of insights gained from the successes of the manufacturing-based, capital-intensive industrial economy of the past. These companies have fallen or are rapidly falling out of alignment with the evolutionary direction of the future, as the economy transits from the post-industrial era to what is rapidly becoming a global knowledge economy.

In this knowledge economy most organizations depend for their value and competitiveness on the development, use and distribution of knowledge-based competences. As knowledge increasingly becomes the key strategic resource of the future, the need of organizations to develop a comprehensive understanding of knowledge strategies, processes and tools for the creation, transfer and deployment of this unique asset is becoming critical. The challenge is to seek fundamental insights, to help organizations to nurture, harvest and manage the immense potential of their knowledge; to help them to create new maps and measures and reinvent themselves in order to innovate and excel in the context of the knowledge economy.

The task of developing and applying knowledge management (KM) as a new discipline is a challenging endeavour. This new discipline must respond successfully to the diverse needs of companies in a timely fashion. However, despite a wealth of books, reports and studies, neither researchers nor practitioners have an agreed definition of “knowledge management”. The term is used loosely to refer to a broad collection of organizational practices and approaches related to generating, capturing and sharing knowledge that is relevant to the organization’s business. There are many different interpretations as to what exactly it means and how best to address the emerging questions about how to use its potential power effectively (see for example Nonaka and Takeuchi, 1995; Davenport and Prusak, 1998; Edvinsson and Malone, 1997; Wiig, 1995). Some would even argue that “knowledge management” is
a contradiction in terms, being a hangover from an industrial era when control modes of thinking were dominant.

Whatever the term and the definition employed to describe it, KM is increasingly seen not merely as the latest management fashion, but as signalling the development of a more organic and holistic way of understanding and exploiting the role of organizational knowledge in the processes of managing and doing work.

But what would "knowledge" be in an organizational setting? Debates and discussions about the definition of knowledge abound. In everyday language, it has long been the practice to distinguish between information, i.e. data arranged in meaningful patterns, and knowledge, i.e. something that is believed, that is true (for pragmatic knowledge, that works) and that is reliable. The interchangeable use of information and knowledge can be confusing if it is not made clear that knowledge is being used in a new and unusual sense, and can seem unscrupulous insofar as the intent is to attach the prestige of knowledge to mere information. It also tends to obscure the fact that while it can be extremely easy and quick to transfer information from one place to another, it is often very difficult and slow to transfer knowledge from one person to another.

In the West, intuitive knowledge has often been devalued in favour of rational scientific knowledge, and the rise of science has even led to claims that intuitive knowledge is not really knowledge at all. However, recognition of the difficulties inherent in transferring knowledge from one person to another has tended to highlight the importance of tacit knowledge, notably in the writings of Polanyi (The Tacit Dimension, 1966) and Nonaka and Takeuchi (1995). In the East, the tradition has been to celebrate the importance of the intuitive, in comparison with the rational. The Upanishads, for instance, speak about a higher and a lower knowledge, and associate lower knowledge with the various sciences. Chinese philosophy has emphasized the complementary nature of the intuitive and the rational and has represented them by the archetypal pair yin and yang.

Similar debates about the meaning of knowledge have continued for thousands of years, and seem likely to continue for some time to come. In this book we do not intend to examine the various epistemological definitions of knowledge, nor to analyse the various perspectives taken by philosophers in this field. Our interest is not focused on what knowledge is, rather it is on what knowledge can do. Hence the focus of this book is not on discovery and truth, rather it is on effective business action and organizational performance.

A definition that is suitable for our purposes is the one given by Davenport and Prusak (1998), who define knowledge as "a fluid mix of framed experience, values, contextual information, and expert insight that provides a framework for evaluating and incorporating new experiences and information. It originates and is applied in the minds of knowers. In organisations, it often becomes embedded not only in documents or repositories but also in organisational routines, processes, practices, and norms". This definition highlights two important types of knowledge: explicit knowledge and tacit knowledge (see also Nonaka and Takeuchi, 1995).

Tacit knowledge refers to that knowledge which is embedded in individual experience such as perspective and inferential knowledge. Tacit knowledge includes insights, hunches, intuition and skills that are highly personal and hard to formalize, making them difficult to communicate or share with others. Tacit knowledge is also deeply rooted in an individual's commitment to a specific context as a craft or profession, a particular technology or product market, or the activities of a work