

ALIGNING KNOWLEDGE MANAGEMENT WITH THE DOMINANT CUSTOMER VALUE DISCIPLINE

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Abstract

Organisations differ in the type of customer value provided by their products and services. Successful organisations concentrate their efforts on a particular type of customer value and excel at it. Excelling in providing customer value requires a fit between the knowledge management configuration and the dominant customer value discipline. This paper describes various types of knowledge management configurations supporting different types of customer value disciplines. The research to validate the hypothesis of a fit between knowledge management and customer value included twenty organisations, both profit and not-for-profit. The results provided some support for this hypothesis. This paper discusses these results in detail.

Keywords: knowledge management configuration, customer value discipline, knowledge management alignment, strategy assessment.

Aligning Knowledge Management with the Dominant Customer Value Discipline

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Organisations differ in the type of customer value provided by their products and services. Successful organisations concentrate their efforts on a particular type of customer value and excel at it. Excelling in providing customer value requires a fit between the knowledge management configuration and the dominant customer value discipline. This paper describes various types of knowledge management configurations supporting different types of customer value disciplines. The research to validate the hypothesis of a fit between knowledge management and customer value included twenty organisations, both profit and not-for-profit. The results provided some support for this hypothesis. This paper discusses these results in detail.

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Suggested track: Managing organisational knowledge and competence (A)

1 Introduction

In daily practice, Knowledge Management has many colours and flavours. Most theories however treat this subject as if there is only one road to Rome. An alternative is given by Hansen *et al.* (1999) in a two-way roadmap: the codification strategy and the personalisation strategy. This strategic approach, however, only works well by increasing the so-called knowledge awareness. Practical knowledge management requires both codification and personalisation (Oldenkamp, 2001, 2002). There is however a strong need for a strategic alignment approach. Most organisations do not have a clear strategy or well-defined objectives for knowledge management. Our attempt to help organisations find their own best way to Rome is founded in the

customer value discipline approach (Treacy and Wiersema, 1995). What type of value does an organisation (or a department) wish to offer to its customers (outside or inside the organisation)? What type of knowledge management would most support this customer value discipline?

2 Theory and Issues

Organisations differ in the type of customer value provided by their products and services. Treacy and Wiersema (1995) proposed three customer value disciplines, as a way to focus an organisation's activities. Successful organisations concentrate their efforts on a particular area and excel at it, rather than trying to be all things to all customers and failing to excel at anything. The three disciplines providing different types of customer value are:

- *Operational Excellence* (OE) to offer the best price,
- *Product Leadership* (PL) to offer the best product, and
- *Customer Intimacy* (CI) to offer a tailor-made solution.

Operationally excellent companies deliver a combination of quality, price and ease of purchase that no one else in their markets can match. They are not product or service innovators, nor do they cultivate one-to-one relationships with customers. They just execute to an extraordinarily high level and their proposition to customers is guaranteed low price and/or hassle-free service. Organisational characteristics that indicate the customer value discipline of operational excellence are the following:

- A centralised control of the organisation;
- A tight style of management;
- Highly standardised methods of working;
- Highly formalised patterns of behaviour;
- A strong identification with the organisation; and
- Minimal variation in products and services.

A company pursuing product leadership continually pushes its products into the realm of the unknown, the untried, or the highly desirable. Its practitioners concentrate on offering customers products or services that expand existing performance boundaries. A product leader's proposition to customers is best product, period. Organisational characteristics that indicate the customer value discipline of product leadership are the following:

- Organised around products and services;
- The organisational structure is loose and flexible (e.g. organic);
- A low number of fixed procedures;
- Little formalisation of behaviour;
- An ongoing chain of striking new products and services;
- The work gets done in interdisciplinary teams; and
- A strong identification with colleagues (in- and outside own organisation).

A company that delivers value via customer intimacy builds bonds with customers similar to those between good neighbours. Customer-intimate companies don't deliver what the market wants, but what a specific customer wants. The customer-intimate company makes a business of knowing the people it sells to and the products and services they need. It continually tailors its products and services and does so at reasonable prices. Its proposition is: 'We take care of you and all your needs,' or 'We give you the best total solution.' The customer-intimate company's greatest asset is, not surprisingly, its customers' loyalty. Organisational characteristics that indicate the customer value discipline of customer intimacy are the following:

- A centralised organisation combined with delegation of responsibilities;
- Excellent collaboration between operations, sales and research and development (i.e. highly pragmatic);
- Intensive use of organisational networks for delivery capacity;
- Tight fit between customer demands and available offers;
- Long-lasting customer relationships

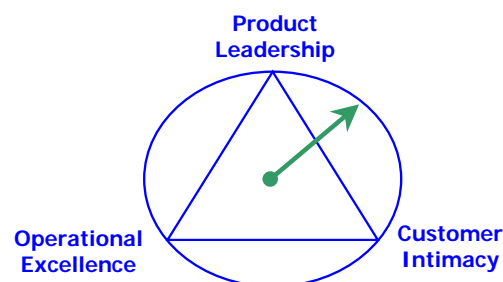


Fig. 1. Three Customer Value Disciplines

These value disciplines reflect the fact that 'customer value' is determined as a trade-off between convenience, quality and price. It is the inherent tension between these three qualities of a product that makes it necessary for an organisation to focus on

excelling at just one of them. Only very few organisations have managed to become leaders in two disciplines. They have done this by focusing on one area first before turning to a second. Leadership in all three of the value disciplines is by definition not possible (Treacy & Wiersema, 1995). Based on this, we defined twelve customer value discipline types in analogy with the twelve hours of a clock face (see Fig. 2).

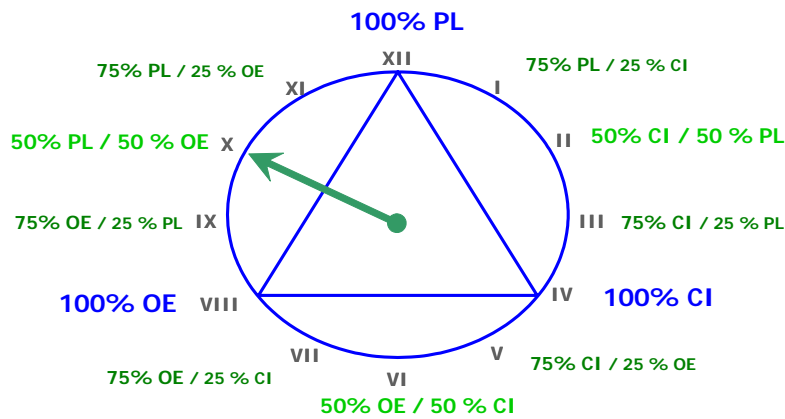


Fig. 2. Twelve Customer Value Discipline Types

The twelve customer value discipline types consist of 'pure' types (XII, IV en VIII), of equal mixtures of two types (II, VI en X), and of mixtures of a 'pure' type and an equal mixture (I, III, V, VII, IX en XI).

Competencies for Knowledge Management

Each customer value discipline requires a different configuration of knowledge management. In order to make the concept of knowledge management more specific, we distinguished four knowledge management (KM) competencies (see also Fig. 3):

- Orderly Production (to enable re-use of knowledge)
- Personal Development (to increase corporate knowledge)
- Accelerated Innovation (by combining available knowledge for new challenges)
- Intensive Collaboration (by cross boundary (inter organisational) sharing of knowledge)

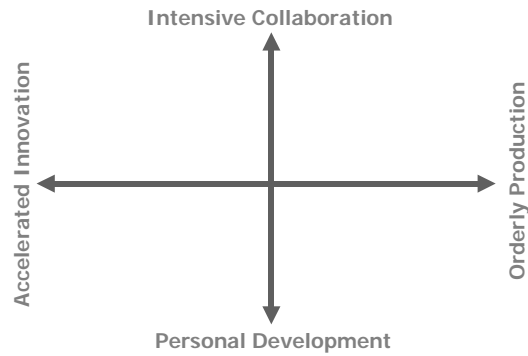


Fig. 3. Knowledge Management Competencies

Orderly Production

The knowledge management competency of orderly production requires an excellent long-term corporate memory. Most organisations, however, suffer from a chronically corporate amnesia, even on the short-term. Orderly production is in fact based on an ongoing chain of mandatory briefings and debriefings. During the *debriefing* phase, after finishing a project or a process, all new knowledge that might be relevant to future situations gets captured (as much as possible). Everyone involved updates the personal profile sheet or resume. In the *briefing*, before actually starting a project or process, all relevant captured knowledge gets collected and all colleagues with relevant knowledge are contacted. Additional colleagues might be added to each of these phases, in roles such as knowledge broker, knowledge steward, or even knowledge journalist.

Personal Development

The knowledge management competency of personal development deals with directing the scope of the development of individual talents and abilities. Mostly this involves personal development plans, coaching and mentoring, all under the colours of professionalisation. This KM competency sometimes also goes by the name of 'competency management'. This means that individual profiles are developed to meet the demands of role-specific profiles. The KM competency of personal development puts stress on increasing the level of knowledge on a corporate scale.

Accelerated Innovation

The aspect of innovative power takes a central position in the third competency of knowledge management, *i.e.* accelerated innovation. This KM competency allows an organisation to create a trend instead of following it. In order to do so, the organisation

must constantly be aware of changes in its environment. Timely adaptation to critical (future) changes directs the accelerated processes of innovation by combining available knowledge for these new challenges.

Intensive Collaboration

Organisations that lack the knowledge management competency of intensive collaboration can be characterized as islands without outer connections. Most of these organisations not only fail to collaborate with other organisations, interdepartmental cooperation is also poorly developed. This type of 'squirrel behaviour' (collecting 'acorns' of knowledge only for own consumption) is in fact more commonly the rule than the exception. Organisations that are capable of collaborating intensively are constantly striving for maximum transparency (who knows what) and optimal internal flexibility. Both features give cross-boundary (inter-organisational) sharing of knowledge a strong boost.

Research Hypothesis

Our hypothesis is that each customer value discipline type (as shown in Fig. 2) requires different knowledge management competencies. The strategic option of 'operational excellence' puts the most stress on the KM competency of orderly production in combination with personal development (to ensure this orderly production). The strategic option of 'product leadership' puts the most stress on the knowledge management competency of accelerated innovation at the level of departments and on the competency of personal development for individual 'top-of-the-bill' expertise. The third strategic option, 'customer intimacy' puts the most stress on the knowledge management competency of intensive collaboration in the front office in combination with accelerated innovation in the back office to ensure timely adaptation to the customers' demands. To make our hypothesis more specific, we attributed percentages to the four KM competencies for each of the 'pure' types of customer value discipline (see Fig. 4). For example, a percentage of 100 means that all possible measures to strengthen the KM competency has been taken, while 10% means that hardly any such measure has been taken.

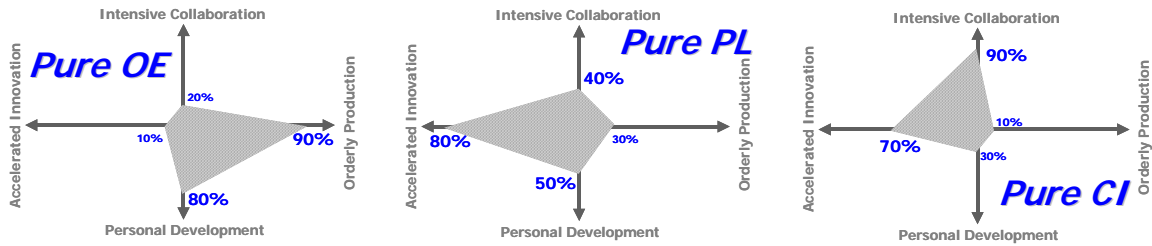


Fig. 4. Knowledge Management Configurations of the 'pure' types of Customer Value Discipline

Fig. 4 shows the percentages of knowledge management competencies, which are Orderly Production (OP), Personal Development (PD), Accelerated Innovation (AI), and Intensive Collaboration (IC) for the three 'pure' customer value discipline type, which are numbered XII, VIII and IV, respectively. Table 1 shows these percentages for each Customer Value Discipline Type (CVDT) as shown in Fig. 2. The percentage per CVDT is expressed per Knowledge Management Profile Type.

Table 1. Knowledge Management Profile Type per CVDT

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
OP	25	20	15	10	30	50	70	90	75	60	45	30
PD	45	40	35	30	40	55	65	80	72	65	58	50
AI	77	75	72	70	55	40	25	10	30	45	60	80
IC	53	65	78	90	75	55	40	20	25	30	35	40
		<i>PL/CI</i>		<i>CI</i>		<i>CI/OE</i>		<i>OE</i>		<i>OE/PL</i>		<i>PL</i>

3 Methods and Procedures

Supported by general management research and theories (e.g. Mintzberg, 1979; Porter, 1985), we were able to differentiate between the three 'pure' customer value discipline types based on general characteristics of the organisation, such as the strategy, the processes, the structure and the culture. We developed a questionnaire for determining the dominant customer value discipline based on both quantitative and qualitative indicators. This questionnaire consisted of 25 triple choice questions of which each answer supports one of the three primary customer value discipline types (i.e. Operational Excellence (VIII), Product Leadership (XII) and Customer Intimacy (IV)). To give an example, question number 14 asked about the managerial reporting

style (and the way each answer favours one of the three primary customer value discipline types as shown):

How much time do managers spend on written reports and communication (including memo's based on management information)?

- *A: a limited amount of time* [which is an indication for CI]
- *B: a fair amount of time* [which is an indication for PL]
- *C: a great deal of time* [which is an indication for OE]

Next, we distinguished in total 26 facilitating measures for the four knowledge management competencies. Each knowledge management measure supports just one KM competency. These measurements originate from information and communication technology, human resource management and corporate development. For each measurement we defined three levels of application: absent (0), partly applied (1) and fully applied (2). An example of such a knowledge management measurement is 'We measure the amount of reuse of knowledge-rich objects'. This measurement (number 3) supports the KM competency of Orderly Production.

4 Results

We tested our hypothesis on 20 organisations, both companies and public institutions. Not all questions concerning the customer value discipline turned out to be reliable. From the total of 25 questions 7 gave unbalanced answer profiles (i.e. 13 or more organisations gave the same answer). Based on the remaining 18 discriminating questions, we were able to determine the Customer Value Discipline Type (CVDT) of each of the twenty participating organisations. We developed a general interpretation table for the twelve types as shown in Fig. 2. This interpretation table allows an error margin of two answers indicating a 'wrong' value discipline (see Table 2).

Table 2. Interpretation Table per CVDT

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
OE	2	2	2	2	5	8	11	14	11	8	5	2
PL	11	8	5	2	2	2	2	2	5	8	11	14
CI	5	8	11	16	11	8	5	2	2	2	2	2

Table 3 shows the CVDT scores for the twenty participating organisations (numbered from 1 to 20). This table also shows the amount of 'errors'. An error concerning the CVDT score indicates an answer that does not fit with the typical CVDT distribution as shown in Table 2. On the whole, the error score equals the difference between the lowest score per type (see Table 2) and the actual score for this value discipline. When we draw the line at a maximum of two errors, 80% of the participating organisations fit in with a customer value discipline type.

Table 3. Research results for the CVDT scores

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
OE	5	8	3	4	5	5	8	2	2	6	0	7	3	12	5	5	5	4	5	8
PL	9	4	5	8	10	7	2	8	5	4	8	7	5	2	7	5	6	5	10	6
CI	4	6	10	6	3	6	8	7	11	8	10	3	10	4	6	8	7	9	3	4
CVDT	<i>I</i>	<i>VIII</i>	<i>III</i>	<i>I</i>	<i>XI</i>	<i>II</i>	<i>VI</i>	<i>II</i>	<i>III</i>	<i>V</i>	<i>III</i>	<i>X</i>	<i>III</i>	<i>VIII</i>	<i>II</i>	<i>IV</i>	<i>II</i>	<i>III</i>	<i>XI</i>	<i>IX</i>
Errors	3	2	1	2	1	3	0	0	0	2	0	1	1	2	3	¹ 3	3	2	1	2

Table 4 shows the research results concerning the knowledge management competencies. This table presents the percentages per KM competency for the twenty participating organisations (again numbered from 1 to 20). For each organisation, we compared these percentages with the percentages of the Knowledge Management Profile Type (as shown in Table 1). This resulted in a Knowledge Management Profile Type (KMPT) score. Based on the similarities between the norm percentages and the actual percentage, we calculated the misfit score by comparing the similarity in ranking (according to the principles of concordance by Kendall (1975)). Full concordance means a misfit of 0. A misfit of 1 equals a swap of the lowest two percentages. A swap of the second-highest percentages and the second-lowest percentage means a misfit of 2. We interpreted all other decreases of concordance as a misfit of 3. When we again draw the line at a maximum of two misfits, 75% of the participating organisations fit with a knowledge management profile type.

¹ With an average error of 3 the CVDT score of organisation number 16 can be a III or a V. For a CVDT score of IV the prescribed error score should otherwise have been 6.

Table 4. Research results for the KMPT scores

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
OP	50	75	50	50	81	69	31	75	75	38	50	69	38	69	81	63	31	38	50	75
PD	71	57	57	43	43	79	57	79	86	21	71	43	36	57	57	29	36	71	93	57
AI	83	83	75	83	92	83	67	92	58	50	67	83	50	50	83	83	50	67	75	92
IC	70	100	100	70	70	100	70	70	70	63	60	70	40	50	50	70	70	100	80	70
KMPT	XII	V	IV	II	XI	IV	III	I	VI	IV	XI	II	II	VII	XI	II	IV	IV	VI	XI
<i>Misfits</i>	0	1	0	1	3	0	0	3	2	1	1	1	1	1	3	1	0	2	3	3

The final step in analysing the actual research results is a comparison for each organisation of the score for the customer value discipline type with the score for the knowledge management profile type. In this comparison, we allowed a difference between both scores of at most two. Table 5 shows the results of these comparisons, i.e. the amount of difference (abbreviated as 'Diff.') between the CVDT score and the KMPT score.

Table 5. Comparison of the CVDT scores and the KMPT scores

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
CVDT	I	VII	III	I	XI	II	VI	II	III	V	III	X	III	VIII	II	IV	II	III	XI	IX
<i>Errors</i>	3	2	1	2	1	3	0	0	0	2	0	1	1	2	3	3	3	2	1	2
KMPT	XII	V	IV	II	XI	IV	III	I	VI	IV	XI	II	II	VII	XI	II	IV	IV	VI	XI
<i>Misfits</i>	0	1	0	1	3	0	0	3	2	1	1	1	1	1	3	1	0	2	3	3
Diff.	1	2	1	1	0	2	3	1	3	1	4	4	1	1	3	2	2	1	5	2
		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>						<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>		

For 14 of all twenty participating organisations (i.e. 70%), there is a sufficient fit between the CVDT score and the KMPT score (i.e. the difference between both scores is 2 or less). This fit is 73% when only organisations are included with reliable CVDT and KMPT scores (i.e. 2 errors or less and 2 misfits or less; in Table 5 these organisations are indicated by the grey columns).

5 Conclusions

Our research showed that organisations can be reasonably confidently classified in regard to the dominant customer value discipline on the basis of the 18 general indicators. For 80 percent of the participating organisations, the customer value discipline type could be determined within the reliability margin of at most 2 errors. Only 20 percent, however, of these organisations had a zero-error classification. For a next

sample, we reformulated the seven unbalanced questions. This should increase the questionnaires reliability even further.

Our research also indicated that the actual knowledge management configuration can be classified with some confidence on the basis of the 26 measures related to the four KM competencies. For 75 percent of the participating organisations, the knowledge management profile type could be determined within the reliability margin of at most 2 misfits. Again, however, only 20 percent of these organisations had a zero-misfit classification.

Most importantly, our research showed a clear coherence between the customer value discipline and the knowledge management configuration. The hypothesized fit was found at 70 percent of the participating organisations. After exclusion of all unreliable classifications, this percentage increased slightly to 73 percent.

Organisations can make use of these findings in two ways to improve their performances. First of all, an organisation can increase the focus towards a specific customer value discipline. Our questionnaire makes clear which (implicit) choices have been made concerning the intended customer value offered by the available products and services. And secondly, an organisation can adjust the knowledge management configuration to make it more coherent with the customer value discipline. A follow up research on the participating organisations that do so, should show a drastic decrease in errors and misfits.

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