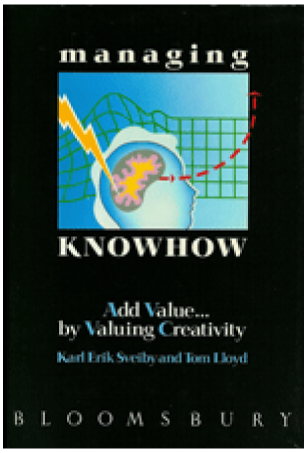

Managing Knowhow –

Preface for 2009 reprint of
Das Management des Knowhow

A new type of company arrived on the stock market in the 1980s. They had no real assets and produced nothing tangible. They sold the services of bright and talented people and, as a consequence, required new leadership and management skills. But these skills were not taught in business schools at that time. Managers had to learn them as they went along. *Managing Knowhow* emerged from our shared interest in what made these companies tick.

We used the term ‘knowhow’, rather than ‘knowledge’, because we felt the ‘stock in trade’ of such companies was practical professional knowhow, or competence, as opposed to information itself.

The rapidly proliferating professional services and IT-software firms exemplified the new breed. At the time we wrote we believed they presaged more general changes in society as a whole. We foresaw, for example, that the number of professionals in modern societies would increase dramatically, and predicted that knowledge, in its widest sense, would become central to the strategies of all organizations and that companies would have to compete for *knowhow workers,* in what would later be called ‘the war for talent’. We were right. Since the 1980s manufacturing companies have also learned to concentrate on their core knowhow and all businesses have become more knowhow-orientated. We used the term *knowhow management* to describe the leadership of and with people.

Managing Knowhow was written when the Internet was little more than a gleam in the eye of Sir Timothy Berners-Lee; when personal computers were barely transportable and mobile phones were carried as back-packs by information officers in combat fatigues. We would have been astonished if anyone had suggested that *information* management would become glossed up as *knowledge* management, and be heralded as the driver of a new “Knowledge Economy”. The 1990s was the decade of information and communication technology (ICT) and of a stock market boom for everything ICT-related, until the dot.com bubble burst in 2000.

Not so special people-businesses

After *Managing Knowhow* we went separate ways, but we kept in touch and continued our quests to understand what was happening in the business world along similar lines. The main idea in *Managing Knowhow* - that people businesses posed a new kind of management challenge – begged questions for both of us about how 'special' people-businesses really were. As services became more important in mature, western economies, was it reasonable to continue to assume the management challenges we had discussed in *Managing knowhow* only confronted a particular kind of business, or was it more sensible to see the people business as the emerging standard model?

Tom explored this idea in his next book, *The 'nice' company* (Bloomsbury, 1990), and concluded that managing modern companies as if they were primarily social, rather than functional, organisations, as we had advocated in *Managing knowhow*, was essential, irrespective of the industry. The argument, based on game theory, widened the focus on employees to include customers, suppliers and neighbours, and included what he would later call 'reputational assets' on the 'invisible balance sheet' concept we had introduced in *Managing knowhow*.

Karl-Erik developed the invisible balance sheet concept much further. *Managing knowhow* had included a few very early ideas about valuing intangibles from the perspective of our positions, at the time, of financial journalists trying to analyze the new breed of companies going public with enormous market capitalizations. Karl-Erik's response to the puzzle was to convene a working group, the 'Konrad group', of accountants and executives in Sweden to explore the issue. The group produced a book, *The Invisible Balance Sheet*, (Ledarskap, 1990), and a theory about *knowledge capital* with three main components: Individual Capital, Organizational Capital and Customer Capital. The theory aroused a great deal of interest in the Nordic countries and later globally, under the banner of *intellectual capital,* in both research and consulting.

Karl-Erik continued to investigate the internal workings of the organization in three Swedish works. He tackled the power-play in the knowledge organization and how to create value from knowledge in *Kunskapsledning* ('Leading with Knowledge', Affärsvärlden, 1990), discussed how environments conducive to knowledge creation and sharing could be developed in *Chef i Kreativ Miljö* ('Leader in Creative Environments', Affärsvärlden, 1992), and developed a flow theory for creating value from knowledge in *Kunskapsflödet* ('The Flow of Knowledge', Svenska Förlaget, 1996). These ideas were later expanded in *The New Organizational Wealth – Managing and Measuring Intangible Assets* (Berrett-Koehler, 1997).

The idea of 'reputational assets' led Tom to the then emerging area of 'Corporate Social Responsibility' (CSR) and the conjecture that charities and companies were on convergent evolutionary paths. The former were becoming more like the latter, in that they were being managed more professionally, and *vice versa*, in that companies saw in, giving to charity, volunteering, sponsoring good causes, etc., a ready-made source of reputational assets. Tom explored this idea in *The Charity Business* (John Murray, 1993).

Tom retained his interest in entrepreneurs and their relationship with ‘big business’, which he explored in *Entrepreneur!* (Bloomsbury, 1992). It was, and it remains, his view that it is the entrepreneur, not the limited liability, joint stock company, who exemplifies the spirit of capitalism. *Managing knowhow* suggested a way to incorporate entrepreneurialism into the management problematique. The softer management approach we had advocated, which took due account of the professional’s ability to deplete invisible balance sheets by walking away, could help big business harness the entrepreneurial spirit.

When *Managing Knowhow* was published, Saatchi & Saatchi, the global advertising group, was at the height of its powers and growing rapidly, by acquiring smaller agencies and locking in their owners with so-called earn-out contracts. In an analysis of the Saatchi & Saatchi business model, we had questioned this acquisitive strategy on the grounds that knowhow could not be bought and sold in the same way as tangible assets. It came as no surprise to readers of *Managing Knowhow*, therefore, when Saatchi & Saatchi ran into trouble a few years later, and the Saatchi brothers, Maurice and Charles, having been ousted in a boardroom coup, set up a rival agency, M&C Saatchi.

The Saatchi & Saatchi story corroborated out belief that big business managers had yet to get to grips with the people- and knowhow-orientated approach. Ultimately, it was a question of the use of power. As Tom said in his first book, *Dinosaur & Co.*, (RKP 1984; Penguin, 1986), ‘the quickest way to go bust in Silicon Valley is to get tough with the staff.’ But could managers learn a more ‘empowering’ approach in their daily big-business environment?

Karl-Erik decided to find out. With Swedish simulation expert Klas Mellander he developed a business simulation board-game that allowed managers to practice knowhow management. Called *Tango*™, the game was launched in 1994 with Hewlett-Packard as the first customer. *Tango* has since become one of the world’s most played business simulations.

Managing Knowhow was optimistic

In retrospect, *Managing Knowhow* appears optimistic. We expected companies to be forced to adopt more people-orientated management approaches and predicted, amongst other things, that women would achieve more power in organizations. As corporate identity guru, Wally Olins, put it, in his Foreword to the paperback edition, we believed “the goodies” would win.

Two decades hence, although there has been some progress, as Tom and his co-authors pointed out in *A woman’s place is in the boardroom* (Palgrave Macmillan, 2005) and *A woman’s place is in the boardroom - Roadmap* (Palgrave Macmillan, 2007), women remain largely confined to the lower echelons of company hierarchies. And we have, sadly, seen very little progress in the development of such management values as compassion, humanity and empathy in organizations in general. On the contrary. The internet and huge investments in ICT have produced a global, 24/7 rhythm in most large companies, which is pushing many people over the edge. Work-related stress is the new plague in Western societies.

Our prediction of a shift in the balance of power from capital to knowhow has not been realized either. Again, on the contrary. In the past 20 years we have experienced the most rapid growth in financial capital markets in history and witnessed a surge in executive pay of mind-boggling proportions, largely driven by an avaricious financial sector, stumbling from one disaster to the next. *Managing Knowhow* was fresh off the press on the Black Monday of October, 1987. In December 2008, while we were writing this preface, a global financial melt-down was precipitating what many expected to be a deep and prolonged global recession.

Current leadership models make organizations bad for people

The problem of power, which we addressed at some length in *Managing Knowhow*, was acknowledged in the discussions of ‘empowerment’ in the management literature in the late 1990s. The idea of empowerment raised important questions about the nature of leadership, because it seemed to us that, if employees were to be empowered, their leaders must be correspondingly disempowered.

This may explain why one hears less about empowerment nowadays. If CEOs yield power to their employees there will be pressure on them to give up equivalent proportions of their huge pay packages. If the lessons of *Managing knowhow* had been better learnt an ‘empowering/facilitating’ model of leadership might have become standard, rather than the ‘charismatic/omnipotent’ model where the CEO takes all the credit for, and all the rewards of, success, but incurs none of the associated risks.

The problems associated with the ‘charismatic/omnipotent’ model of leadership, including the sense of unfairness that huge CEO rewards generate within organizations, and in society as a whole, beg the question of how else should our large corporations be run. This is the issue that currently pre-occupies both of us.

Karl-Erik has come to the conclusion that current management practices, in big businesses in particular, make *organizations bad for people* and has devoted his working life since publishing *Managing Knowhow* to trying to make them better.

Tom, who will be publishing a book in late 2009 on the decadence of the corporation and how to redeem it, believes part of the answer is the ‘empowering/facilitating’ leader; the leader who tells people not what to do, but what not to do; who helps them avoid mistakes; who proscribes, but does not prescribe. Another part of the answer might lie in the self-organizing qualities of what chaos theorists call complex adaptive systems. If a complex, adaptive, multi-agent system, of which the modern company is a prime example, can be under control when no one is in control, does it need a leader?

The idea that a hierarchical organization under the command of a single person is required to prevent organizational chaos and anarchy is a paradigm embedded in the public psyche by thousands of years of cultural conditioning. But it is not the only model.

During his years in Australia, Karl-Erik had a chance to explore what is quite possibly the *first leadership model*: the non-hierarchical leadership practices of the Australian Aboriginals. Their approach created a society with the longest continuous record of sustainability on the planet; perhaps as long as 60,000 years. His exploration became a book, *Treading Lightly – the Hidden Wisdom of the World's Oldest* People (Allen & Unwin, 2006), co-authored with Tex Skuthorpe, the custodian of the Nhunggabarra law stories.

The Nhunggabarra people had no omnipotent leaders. Depending on the situation and level of know-how, everyone in society had a leadership role in a specific area of knowledge. The baton of leadership passed from person to person, depending on the task and the situation.

This, the first leadership model, resonates strongly with both of us. We have come across it in many small, knowledge-based organizations since *Managing Knowhow* was published. It is a model that feels 'natural' to many knowledge workers; those with the most knowledge and experience in any given situation should be the leaders in that situation, regardless of rank or position.

Are we coming full circle? Although some of our specific predictions have yet to be realized, we were right in expecting the knowledge-based organization to become the dominant type of organization. It may yet herald the downfall of the omnipotent corporate chieftains and a return to 'natural' – more empowering – organizing principles.

Karl-Erik Sveiby
Helsinki, 2008-11-30

Tom Lloyd
Irchester, 2008-12-1