Chapter 2

The Effects of a KM Strategy on KM Performance in Professional Services Firms

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ABSTRACT

Knowledge management (KM) is a critical issue in professional services firms (PSFs). Many researchers define a KM strategy as a crucial driver of KM success in corporations. Research demonstrates that there is a positive relationship between KM strategy and the performance of KM processes, which are both closely related to KM success. In the longitudinal benchmark survey presented in this paper, based on an integrated KM framework and focusing on PSFs, the authors found evidence of such an effect, that is, KM strategy’s impact on KM success.

1. INTRODUCTION

Since the early 1990s, knowledge management (KM) has become increasingly popular in business organizations, non-profit institutions, and public administration, as it promotes “factors that lead to superior performance: organizational creativity, operational effectiveness and quality of products and services” (Wiig, 1993, p. xv). According to Baskerville and Dulipovici, KM emerged to “a distinctive, important and practicable body of management theory” (2006, p. 83). The rise of the knowledge economy (Drucker, 1969; cf. Rooney et al., 2005) has promoted knowledge intensive business services (KIBS; Toivonen, 2004; Robert Huggins Associates, 2006) and knowledge workers (Drucker, 1959; cf. Stewart, 1997). At the frontline of this movement, professional services firms (PSFs), particularly consultancies and auditing firms, initiated and developed their individual KM initiatives. They were and still are early adopters in this field due to their dependency on leading edge
knowledge and fast responses to client enquiries (Alvesson, 2004; Løwendahl, 2005; Greenwood et al., 2005). Many PSFs, for example, Ernst & Young (2009), not only utilize KM practices internally to improve services, but actively propagate their KM in market offerings to demonstrate their high level of proficiency in the current competence and knowledge-based competition to their clients and prospects (Sanchez, 1997; Alavi & Leidner, 2001; Greenwood et al., 2005). KM has become a strategic success factor and differentiator (Hansen et al., 1999) in PSFs and in knowledge-intensive businesses on the whole (cf. von Krogh et al., 2001, for a consumer goods example). Some firms have even deliberately transformed themselves from a technology and product-focused company to a knowledge-intensive business (Massey et al., 2002, on Nortel Networks).

From our research and more than ten years’ practical experience with KM, we have ascertained that KM initiatives need significant investments, while our research partners in practice have pointed out that they are consequently subject to close monitoring by PSFs’ management. Most notably, this is evident in times of economic downturn, as at the start of the millennium and again from 2008 to date. The question arises: Does KM contribute to professional services companies’ performance and, if so, to what extent? Greenwood et al. detect a significant gap in the “explicit attention to performance” as well as a “lack of attention to strategy (as opposed to the strategy process)” (2005, p. 662).

In practice, only a few organizations from our research group measure KM outcomes and success accurately, even though some of them are among the world’s leading KM practitioners (MAKE, 2009). Mostly, they base their decision regarding whether KM budgets pay off or not on an inadequate data basis – which leads to the mentioned oscillating investments that affect our research partners when they plan their cost centers. Neither science nor practice currently provides commonly agreed upon absolute measures of KM success that could be used across different industries (Jennex et al., 2009). Nevertheless, an in-depth KM assessment of a single industry in which the business processes largely correspond is feasible.

We therefore chose the PSF industry for the following study, as its KM initiatives are comparatively mature and its client service approaches to project management techniques are largely homogeneous. Our results are derived from an ongoing KM benchmarking study we have conducted with renowned central Europe PSFs as well as global organizations (Palte et al., 2006; Palte & Riempp, 2006). We have validated the aforementioned service approaches with our research partners on a generic level to standardize the study’s methodology. The longitudinal, annual panel commenced in 2006 and the fourth iteration will take place in 2010. One of our research goals is to demonstrate that, in PSFs, KM process performance (a major driver of KM success as described in the subsequent section) is significantly dependent on an articulated and focused KM strategy. In the interim, researchers have found a correlation between organizations’ KM success/process performance, organizational performance, and financial performance (McKeen et al., 2006). Therefore, we have posited the following research question: “To what extent does a KM strategy impact the KM performance in PSFs and how can this impact be measured/assessed?”

The paper is structured as follows: In the next section, we address the foundations of the study, namely knowledge and KM, the integrated knowledge management systems (IKMS) architecture by Riempp (2004), as well as KM success and its relation to KM strategy. In addition, we take a closer look at PSFs as the focused industry. In the third section, we introduce the research methodology and process, and formulate the research question. Section 4 presents the key results applied to help answer this research question. Section 5 provides a discussion before the final section concludes this article by outlining the key findings as well as the limitations and further areas of research.