



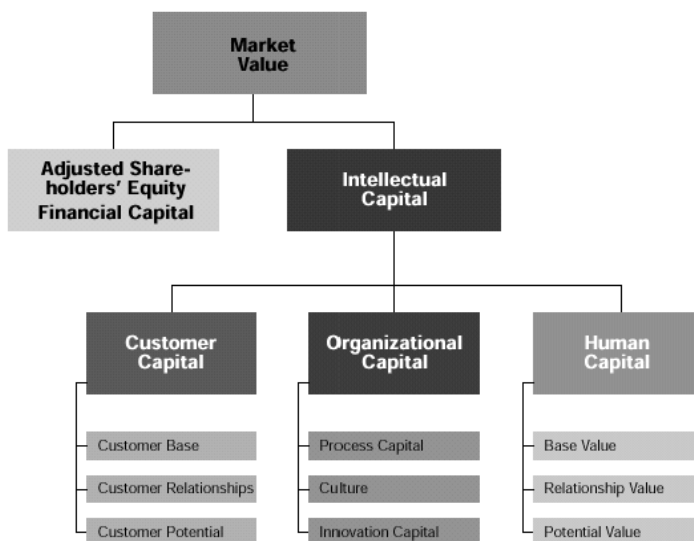
## Intellectual Capital, Social Capital and Communities of Practice

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*This, the third of a series of articles on Managing Knowledge, visits the concepts of intellectual and social capital and looks at communities of practice, with a real example; Fujitsu’s Café VIK. Later articles will address learning, categorising and searching, and will attempt to define a knowledge management system and suggest a path towards exploiting knowledge for profit.*

I wrote in a previous article about knowledge having both a value and a cost. The value is often discussed – look at any advertisement for knowledge management ‘systems’ or consulting companies – but the cost is usually ignored. We shall return in a later article to the concept of cost and the knowledge market, but let us first look at that of value. A lot of the original work on this came from the Nordic countries, where Karl-Eric Sveiby<sup>i,ii</sup> and Leif Edvinsson<sup>iii</sup> at Skandia<sup>iv</sup> created the concept of *Intellectual Capital*.

Consider Microsoft’s market value. Subtract from that the financial capital, represented



**Figure 1 Financial and intellectual capital (after Edvinsson)**

by the assets on the books, and you are left with a very large positive number. This is deemed to represent the intellectual capital, which is further broken down into *structural* or *organizational* capital and *human* capital (Figure 1). A further refinement is the addition of *customer* capital, which includes the customers you have, your reputation and relationship with them,



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what you know about them and the potential business that you might do with them.

Human capital, according to Edvinsson, is defined as the combined knowledge, skill, innovativeness and ability of the company's individual employees to meet the task at hand. It also includes the company's values, culture and philosophy. Structural capital is defined as the hardware, software, databases, organisational structure, patents, trademarks and everything else of organisational capability that supports those employees' productivity - in a word, everything left at the office when the employees go home. He includes customer capital as part of the structural capital. Many of the earlier attempts at managing knowledge attempted to move the contents of the human capital box into the structural capital one. Whereas it is valid to make explicit and to capture in systems and processes as much knowledge as possible, this strategy can at best be of limited use if we accept the premise (stated in an earlier article) that the really valuable knowledge is actually in people's heads.

Edvinsson has set up a company called Unic<sup>v</sup>. It has no employees and so, by definition, cannot have any knowledge. Its value is said to be in its knowledge recipes (which I surmise are like KnowNet's<sup>vi</sup> 'knowledge objects'). Setting up such a company may seem to be a bit off-the-wall right now, but it is certainly ground breaking and it is worth taking a look at [www.unic.net](http://www.unic.net). Edvinsson describes this initiative as representative of a shift from 'being an enterprise' to 'being enterprising'.

**Social Capital**  
consists of the stock of active connections among people;  
the trust, mutual understanding and shared values and  
behaviours that bind the members of human networks and  
communities and make cooperative action possible  
*In Good Company, Cohen & Prusak, 2001*

**Figure 2 Social Capital (from Cohen and Prusak, 2001)**

Another term coming into popular usage is social capital. The definition in Figure 2 is from the excellent book by Cohen and Prusak, 'In Good Company'<sup>vii</sup>. They display evidence of their membership of the real world in that they warn

that it is not the key to organisational success, that it is neither a business strategy nor a marketing plan, and that it has a downside, which they call "the ties that blind". This refers to the "groupthink"<sup>viii</sup>; the self-reinforcement of perceived truths within the community; the sanction against questioning the groups norms. These lead to peculiar forms of blindness, for instance failure to perceive threats from changing market conditions. In Digital (later Compaq, now HP), Ken Olsen (the founder, for those lucky enough to be too young to know, and also famous for calling the Unix operating system 'snake-oil') decreed that the PC could not even be discussed, and so the company failed, not surprisingly, to formulate a sensible reaction it.



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Communities of practice are among the major sources of social capital in organisations. Wenger and Snyder<sup>ix</sup> define them as “groups of people informally bound together by shared expertise and passion for a joint enterprise”. They continue: “managers cannot mandate communities of practice. Instead, successful managers bring the right people together, provide an infrastructure in which communities can thrive, and measure the communities’ value in non-traditional ways.” Communities appoint their own leaders but they need a lot of support - both from senior management and in terms of infrastructure and funding.

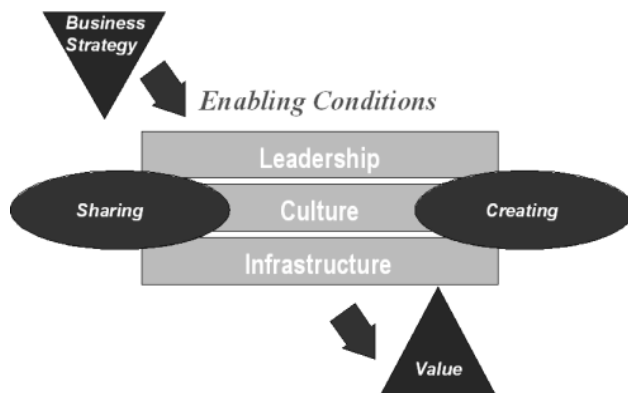
## Communities of Practice

- Self-organising
  - They cannot be managed into existence
  - “Stewardship of an ecology as opposed to the construction or maintenance of a machine”
- Small (50 - 250)
  - “Networks of Practice” if bigger
- Knowing a man who can
- Enabling Conversations
- “Gossip”
- “What’s your NQ?”

Communities of practice tend to be small; Brown and Duguid<sup>x</sup> prefer the term “Networks of Practice” for the larger groups that probably don’t actually know each other well, if at all.

Communities are, in many cases, about “knowing a man who can”, and they enable conversations that transfer knowledge around the group. A lot of this would be called gossip by some managers. That’s just what it is, and you run a big risk by preventing it. I’ll come back to this later.

**Figure 3 Characteristics of communities of practice**



**Figure 4 Value from Knowledge (after The Performance Group)**

Let me leave this topic for now with the suggestion from Tom Boyle of BT that the intelligence of a company may be measured by its NQ; its networking quotient! IQ purports to measure the intellectual capability of an individual (or, if you are cynical, the ability of said individual to perform IQ tests); NQ, by contrast, attempts to convey the extent to which people in organisations engage in networking.

Fujitsu Services (then ICL) did a lot of research into getting value from knowledge, and chaired a consortium of Ciba Specialty Chemicals, ICI, ICL, Neste, Monsanto, Statoil and Unilever. Each wanted to become better at managing its business

from a knowledge perspective. They visited world-class companies in Japan, the USA



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and Europe including 3M, Buckman Labs, Chevron, Dow, GM, SRI, Steelcase, Sun Microsystems, Teltech, Fujitsu and Kao.

The main lessons<sup>xi</sup> were that you need to start with a strategy (although this may seem obvious). What this strategy might be is beyond the scope of this article, but it helps to have one. It is very difficult to support the business strategy with knowledge (or IT systems for that matter) if you don't have one in the first place. The process of creating value has to include both the creation and sharing of knowledge – most people forget about creating it - and finally it requires all of the three enabling conditions: leadership, culture and infrastructure. This is consistent with the findings of Nonaka and Takeuchi (1995), in their classic work 'The Knowledge-Creating Company'<sup>xiii</sup>, which I would suggest is mandatory reading for anyone interested in managing knowledge for profit.

Back in 1996 ICL decided to take its own medicine, or to 'eat our own dog-food' as the current American parlance has it, and set up a knowledge sharing intranet. It was called Café VIK, and we learned a lot from it - including a great deal about how not to do it.

VIK had many of the right ideas, and was way ahead of its time. In many ways it still is, although it has become to some extent a victim of its own success.

It was intentionally designed with a less "buttoned-up" look and feel, and the human element, the hanging out and chatting, was very much in evidence. It was launched with a road show where the VIK team travelled from office to office and, dressed as waiters, served coffee at café tables. The VIK character (a cartoon personality with wild red hair) was part of this. VIK has recently been killed off; some of us were convinced that he was based on one of our more senior consultants, an assertion that he strongly denies. Did he finally get rid of VIK? Alternatively, and much more worrying in my opinion, someone in senior management doesn't like laid-back attitudes.



**Figure 5. Eat your own dog food**

The need to build communities soon became apparent, and a new version of VIK was launched to support this. Six years on further improvements are still being added (and more are needed).

Once logged in you get your personalised page. This presents you with your chosen communities and applications, news from these communities, corporate news, your chosen tailored news services, discussion groups, event booking, and so on. You also have access to external feeds such as those from Gartner, Ovum, Forrester, etc., and you



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have some integrated applications such as self-service access to the HR system, room booking, polling/voting.

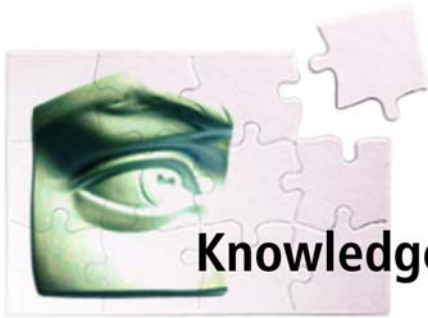
You can visit most communities and see the “public” information. Within the communities are those of which you are a member, and within which you can see information private to that community.

The directory uses the corporate X.500 system, and has some useful features such as “sounds like”, essential if, like me, you have a bad head for names. An increasing number of people - shown in directory listings with a special icon beside their names - are putting their profiles onto the system, creating a (voluntary) corporate ‘Yellow Pages’. Apart from making it easier to find the right kind of person there is a photograph and room for some “personality”, adding to the sense of knowing people that is so essential to building useful communities.

Unfortunately, the use of communities has been far less successful than it might be, with many people forming new ‘communities’ more or less as a place to put some information on the intranet. Not only that, but perhaps in a misguided effort to make it easy for people, anyone is allowed to set up a community without having even a basic understanding of how the system hangs together, let alone the softer skills of managing knowledge. The development of real communities has been ignored except in a limited number of (very successful) cases, showing once again that technology on its own – no matter how excellent – does not make a knowledge management system.

There is a publishing wizard that enforces some standards (though not enough, in my view), including tagging, an essential aid to classification and subsequent retrieval - of which more in a later article. There is also life-cycle management, with an “electronic nagging” system that keeps reminding you to update your content until you do something about it. The search has also been improved, and now includes an ‘active search’ that presents documents with concepts similar to the ones you looked at. This whole area of classification, concept abstraction and searching, is one into which we need to put considerable effort in the future. Improvements are, fortunately, on-going.

Many of the problems are caused, in my opinion, by poor publishing policies, inappropriate use of communities and a lack of understanding of the publishing, tagging and search features. More training wouldn’t go amiss, but a more intuitive categorisation, based on a well-developed taxonomy, would be better. (It has been said that this is probably a contradiction in terms. For example, how can a well developed taxonomy be shared satisfactorily to the extent of giving a common understanding to a culturally diverse group? I believe that we can do a lot better than we have, even if the solution isn’t perfect.) And we need to put a lot more effort into the softer side of things. As I said, it’s not just a technology issue.



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Look in much of the management literature of the late 1990s and you could easily believe that faltering business plans need only embrace knowledge to be saved. While it's often hard to tell what this embracing involves, buying more information technology seems a key indulgence.

Brown & Duguid, 2000

### **Figure 6 It's not a technology issue!**

and contexts in which you might contribute or use information in these communities.

But as well as technology you need to think about the environment, physical and on-line, and how conducive it is to casual conversation. Larry Prusak, talking at a conference in Brussels in November 2000, suggested that conversation was the only way to actually transfer knowledge. His fear was that someone would bring out a new product: "Conversation Management" software! Maybe I should register that. ☺

Before leaving Fujitsu's experiences with VIK let me summarise by saying that it's a journey. We've learned a lot, and continue to add new features to Café VIK. We have also taken what we learned from VIK and elsewhere and defined an

approach, which I shall discuss in a later article, based on networks of communities, and the different roles



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John has worked in the IT industry for over 25 years. Currently marketing director with Fujitsu Services, he has worked as a consultant, in sales, as a project manager and in technical support. Immediately prior to his current appointment he was responsible for business development in ICL's e-Innovation unit.

John was elected chairman of the Irish Internet Association in January 2002. He also chairs the Wexford information society initiative, WINC, which was set up by the local authorities and associated bodies to bring information era skills to the south-east.

He was a member of the Learning Advisory Group of the first Information Society Commission, chairman of the E-Commerce Association of Ireland, a founding member of Irish Computer Aided Design Association, a director of the Irish Unix Users Group, director of the Irish Computer Society and chairman of the OU MBA Alumni Association, as well as non-executive director of Glockenspiel Ltd, which provided software development tools.

Awarded a BSc and MSc by the National University of Ireland, an MBA by the Open University and a Master of IT by AIIM, he is a chartered engineer and a fellow of the Irish Computer Society. His main research interest is managing knowledge.

In his spare time he goes fishing and gets lots of practical experience for his website [www.wrathofgrapes.com](http://www.wrathofgrapes.com).

THE POSSIBILITIES ARE INFINITE



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