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A CASE STUDY OF THE STRATEGY–KNOWLEDGE MANAGEMENT–PERFORMANCE LINK IN A PROFESSIONAL SERVICES FIRM

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Abstract

An exploratory, theory building case study of the strategy–knowledge management–performance relationship was conducted in the Canadian head office of a global public relations firm (PRFirm). The research question was “If, how and to what extent does the introduction of a knowledge management function affect a firm’s competitive strategy and its selection of performance measures?” Some support was found for six propositions concerning how firm strategy linked to the introduction of a knowledge management function and the development of firm performance measures.

Introduction

The IS strategy literature distinguishes three potential contributions that IS can make to the achievement of organizational objectives. IS can support efficiency, effectiveness or competitive advantage objectives (Callon, 1999). Furthermore, the literature strongly suggests that organizations align the objectives for their systems with the business objectives of the overall enterprise (Chan, Huff, Barclay and Copeland, 1997; Henderson and Venkatraman, 1993). In contrast, the resource-based approach suggests that firms implement systems to manage environmental uncertainty and complexity through mechanisms of innovation, coordination, information processing and information exploitation (Garrod, 1999). The difficulty with both these approaches is that they assume that firms have a clear picture of the role and can articulate the likely contribution to be gained from the implementation of a new system. The question becomes – does either of these approaches truly describe how firms decide to implement a new system, especially if the system falls within a relatively new category such as knowledge management systems?

The purpose of this case study was to look at the ramifications of one firm’s decision to implement a computer–supported knowledge management function into its operations. What was the effect of this single decision on how the firm’s managers described their strategy and they way they defined success? Did they perceive a change in strategy? Was there a shift in how they did business? Were they concerned with additional “bottom-lines” as a consequence? In other words, to what extent did the management of the firm have a clear picture of the benefits that implementing a knowledge management function could deliver?

PRFirm is the Canadian head office of a global public relations firm. The firm’s key practice areas include marketing communications and public relations, investor relations, corporate communications, public affairs, crisis communications, event management and media relations. The company had recently hired a Director of Knowledge Management and implemented a computer-based knowledge management system (KMS). The KMS linked the parent firm’s international intranet with the Canadian-based intranet tied to a series of databases covering media research and analysis, customer profiles, employee skills and expertise, supplier information, case studies and success stories, and proposal and presentation templates. The site provided the opportunity to examine some of the key issues involved with a professional service firm’s decision to implement a knowledge management function. The key decision-makers were still with the firm and the decision was recent enough for senior managers to easily discuss pre- and post decision issues.

This paper is divided into five sections. First, key definitions will be discussed. Second, a brief literature review is provided along with six propositions that formed the basis for this case study. A research model is also introduced. Third, the approach to data collection and analysis is described. The fourth section reports the findings from the study at PRFirm. Last, some key questions emanating from this study are discussed in terms of future research opportunities.
Definitions

**Strategy** is defined as the collection of identifiable and articulated choices that a firm makes that guide decision-making about key activities, resource allocation and performance measurement. This definition is based upon Rumelt, Schendel and Teece (1994:9) in which strategy is conceived as a series of choices that firms make in order to be successful in the “competition for factor inputs, … customers and, ultimately … revenues that cover their chosen manner of surviving.”

**Knowledge management function** is defined as the collection of specific information technology systems that facilitate knowledge capture, storage and transfer as well as the organizational personnel, priorities, and practices that firms employ to embed knowledge management into their routines (Davenport and Prusak, 1998.)

**Performance measures** are defined as the expression of the firm’s success in implementing its strategy. They provide the firm with a basis for comparing previous with present performance, conjecturing future outcomes, and establishing causality between people, processes and outcomes. For the purposes of this research, performance measures were considered to be the tangible and recorded outcomes of a firm’s activities. This definition is based primarily on the “Balanced Scorecard” approach to defining success across a number of implementation avenues and not solely on financial returns (Kaplan and Norton, 1996.)

Literature Review and Propositions

An initial research model was developed to explore the relationships among firm strategy, knowledge management function and performance measures. The research model is shown in Figure 1. The model illustrates the six propositions that informed the research. The essence of the model is that the knowledge management function introduced into the firm both affected and was affected by firm strategy and firm performance measures. The strength of these relationships varies as indicated by the thickness of the arrow (a thick line indicates a strong “dictated” relationship; a thin line indicates a weaker “influenced” relationship).

![Figure 1. Research Model](image)

Given that knowledge management is the subject of investigation within both the MIS and strategic management domains, it was seen to be important to consider the strategy-knowledge management link from both perspectives. Strategic management researchers argue that a firm should specifically define its knowledge strategy in order to ensure the appropriate allocation of resources to support implementation (Bierly and Chakabarti, 1996). The knowledge management strategy should reflect the firm’s competitive strategy (Drew, 1999; Hansen, Nohria and Tierney, 1999). This is echoed by Zack’s (1999) assertion that firms should align their knowledge management strategies with their business strategies. MIS research has demonstrated the importance of aligning Information Systems with firm strategy to maximize returns on IS investment (Henderson and Venkatraman, 1993) and improve business performance (Chan, Huff, Barclay and Copeland, 1997). This leads to:

**Proposition One**: Firm business strategy will dictate that extent and nature of the firm’s knowledge management activities.

**Proposition Two**: Firm knowledge management function will influence the firm’s business strategy.
Approaches to performance measurement have been changing over the past decade. Performance has traditionally focused on financial and productivity measures. As a result, performance measures can be seen as part of a feedback loop to firm management that provides some limited information on the success of strategy implementation (Kaplan and Norton, 1996; Austin, Larkey, and Royo, 1998). This leads to:

**Proposition Three:** Firm business strategy will dictate choice of performance measures.

**Proposition Four:** Performance outcomes will influence firm business strategy decisions.

Increasingly, efforts are being turned to developing new measures to better capture the true value of firms operating in the knowledge economy. This value is increasingly generated by “intellectual assets” occupied with knowledge tasks (Aisthorpe, Hudson, Keasey and Little, 1998; Kaplan and Norton, 1992,1996; Stewart, 1997). This is expanding our understanding of the role of performance measures. Performance measures are becoming to be looked on as a means to provide “measurement-facilitated discovery” in which knowledge workers use the information to assess and reconsider their performance tasks (Aisthorpe, Hudson, Keasey and Little, 1998). In effect, performance measures are one way to increase the collective level of knowledge in a firm, which leads to:

**Proposition Five:** Performance outcomes will influence decisions about the knowledge management function.

However, given the types of work performed by knowledge workers, their backgrounds and their high value to organizations, traditional management approaches that emphasize “command and control” are doomed to failure (Bartlett and Goshal, 1997). Knowledge workers seek autonomy in their work (Resnick-West and Von Glinow, 1990) and resist standardization, structure and routine (Davenport, Jarvenpaa and Beers, 1996). They are determined to protect their autonomy and expand it wherever possible. (Sviokla, 1996). Knowledge workers “experience ownership of their work” which can undermine their commitment to their employing organizations (Resnick-West and Von Glinow,1990). The challenges of managing knowledge workers, therefore, leads us to suggest that workers will demand some say in how their performance is measured:

**Proposition Six:** Knowledge management activities will influence the selection of performance measures.

**Data Collection and Analysis**

The study was conducted using several different data collection methods. Documents explaining the PRFirm's vision and mission, strategic plan, historical financial performance, compensation system, and knowledge management function were examined. Twelve semi-structured interviews (comprising approximately 20 hours of conversations) were conducted with the firm's senior managers. These interviews were augmented by additional telephone and email conversations pursuing inquiries that arose from the interviews, document review and questionnaire sources. A questionnaire was completed by nine of the most senior staff members. The questionnaire covered four sets of issues. First, the Miles and Snow typology was used to determine the firm’s strategic orientation (Snow & Hrebiniak, 1980). Second, the perceptions of the strategic importance of knowledge management to the success of the firm were assessed using a modified version of the Information Technology Strategic Alignment questionnaire (Henderson & Venkatraman, 1993). Third, the IS Strategic Relevance Questionnaire was used to examine how the firm characterizes and measures the impact of knowledge management on a variety of outcomes (Neumann, Ahituv and Zviran, 1992). Fourth, a series of open-ended questions asked for the respondents’ perspectives on the impact knowledge management had on their own job performance and that of their staff. Pattern-matching was used to analyze the data.

Yin's (1994) criteria for establishing analytical rigor in a case study was followed. Construct validity was addressed by using a multiple methods approach to data collection, establishing a chain of evidence, and having key staff at PRFirm review the draft manuscript. Internal validity was addressed through pattern matching and explanation building in analyzing the qualitative data. Reliability was established through the case study database. The purpose of this case study was to begin the theory building process, so the focus was on internal (vs. external) validity. A key concern was to obtain the “thick description” that brings into relief the issues of importance and illuminates the opportunities for further exploration.

**Findings**

There was some evidence to support the six propositions as described below. (Italicized phrases are direct quotes from firm managers).
The Strategy - Knowledge Management link: The data revealed that the introduction of KM at PRFirm coincided with the implementation of a new vision and a refreshed strategy. The decision to implement a KM function was characterized by several respondents as the “implicit recognition of support for firm strategy.” The KM initiative was perceived to be helping PRFirm to move the balance of its operations “up the strategic food chain.” However, depending on what service/practice area they operated in, senior managers characterized firm strategy as either “prospector” or “analyzer.” Those who identified the firm’s strategy as “prospector” were more likely to characterize KM in strategic terms both currently and for the future. Those who identified the firm’s strategy as “analyzer” were more likely to assign a more limited, operational role to KM. Responses to questions concerning the link between the firm’s KM activities and critical success factors (including fostering cultural aspects like continuous improvement and team culture and expanding staff perspectives on managing client relations) indicated an expectation of a strengthening link over time. Therefore, there is some evidence to support Propositions 1 & 2 - that there was a relationship between firm strategy and the introduction of a knowledge management function. It would appear that in this firm, the relationship is an emergent one that is strongly anchored in the use of information technology.

The Strategy - Performance link: The adoption of both a new vision and a refreshed strategy forced PRFirm to confront the issue of what constituted success. Some senior managers were trying to grapple with how to measure outcomes beyond financial metrics for aspects of the new corporate vision, for example wondering aloud “What’s the best way to track teams?” However, most respondents emphasized the continued importance of focusing on financial outcomes because “We’re being pushed [by the parent corporation] to increase returns.” As well, there was evident cynicism expressed by the topmost management about some senior managers’ long term commitment to any new initiatives (vision or KM related) expressed as “They’ll only respond to what they see in their pay checks.” There is support for suggesting a relationship between strategy and performance measures in PRFirm but interestingly, the performance measure seemed more likely to drive the strategy than the other way around. Financial performance seemed more likely to dictate to managers where they should place their energies than firm strategy was to guide their decisions. Therefore, there was some support for Propositions 3 & 4 that there was a link between strategy and performance but not necessarily in the direction or with the strength initially proposed.

The Knowledge Management - Performance link: The majority of the firm’s managers had an operational view of KM: “We’re more efficient in preparing pitches,” and “We know more about our clients than the competition.” KM was seen primarily in terms of the KM system as an efficiency device that emphasized inputs (hours spent on certain activities) more than on outcomes (such as improved collaboration.) Some initial attempts were being made to define expectations for practice leaders in modeling KM behaviors. However, these behaviors were exclusively oriented to increasing training such as requiring senior managers to organize a half day training module for their respective service/practice area, provide monthly E-mail updates on service/practice to all employees, and lead two “lunch and learn” sessions for all interested employees. No senior manager reported that behaviors such as increasing cross-practice collaboration were included in the performance requirements. Consistent with the firm’s culture of financial-based incentives for senior managers, the President set a target of 10% of bonuses tied to performance of knowledge management activities. There was a mixed response by senior managers to this initiative. Some indicated confusion with the goal, “I don’t know what that 10% means,” while others signaled that the incentive was inadequate for them to change their behaviors “Ten percent won’t change my life.” A minority of managers indicated concern for a perceived goal-reward misalignment. Statements like “We can’t suck and whistle at the same time” showed that some managers thought that initiating significant behavioral change at the senior management level was as important to fulfilling the perceived strategic promise of KM for PRFirm. The 10% bonus was not seen to be an effective means to support necessary behavioral change. Therefore, there was some evidence to support Propositions 5 & 6 that the introduction of KM would affect the firm’s performance measures and that these performance measures would affect the kinds of KM activities engaged in by the firm.

Implications and Conclusion

PRFirm’s knowledge management function at the time of the study could best be characterized as playing an operational role that emphasized the efficiency gains to be derived from rapid access and reuse of primarily codified, explicit knowledge. The knowledge management function was IT-centric and viewed as important but not critical in terms of its support for firm strategy. The evolution of the knowledge management function was seen to be critical to the future of the firm. However, this importance continued to hinge on the computer-based system and there was no clear vision to explain just how exactly knowledge management would fulfill the expected critical, future role.

This initial case study suggests important avenues for ongoing research, generally, as well as at PRFirm. First, for professional service firms, “Is KM ‘strategic’ or is it another commodity product to be packaged and sold?” This is of critical importance in determining how organizations like PRFirm might use knowledge management for competitive and not merely efficiency advantages. Second, the focus of KM within these kinds of firms raises interesting issues. PRFirm must address whether to
continue to regard knowledge management as a computer-driven function or to use KM as a means of addressing strategic issues such as recruiting and retaining personnel in an industry with average annual staff turnover of 30% or expanding into new practice areas. The answers to these first two questions will have important ramifications for the selection of performance measures for firms of this type. In addition, Garrod (1999) has suggested that the strategic value of systems lies in the delivered support for organizational capability. Given that services rarely offer ongoing efficiency returns, organizations like PRFirm must consider new ways to extract value from their investment in knowledge management. The issues involved in shifting focus from a computer-centric view of KM to a behavioral emphasis offers a rich opportunity for ongoing research by focusing attention on the specific organizational capabilities that professional services firms can reasonably expect to have supported through the implementation of knowledge management functions. Much more work is required to provide meaningful answers to these important questions.

References

Available on request.