

# THE FINNISH TOP 50'S OUTLOOKS AND USE OF KNOWLEDGE MANAGEMENT IN HUMAN RESOURCES CONTEXT

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## **Abstract**

In order to survive, companies, and other organisations too, are in need of the competitive advantage of more efficient exploitation of human resources and intellectual capital. As the nature of organisations has become more knowledge-intensive, the importance of competencies, i.e. knowledge and skills, is emphasised. Intellectual capital management is one of rising functions in Finnish companies. Most important part of it is knowledge management.

This study is based on a survey conducted in autumn 2002. The sample was the TOP 50 Finnish companies and the informants were from HR. The aim of the study is to enlighten the use of knowledge management in Finnish companies in HR context. It was assumed that every Finnish TOP 50 company uses knowledge management in some extent. Earlier there has been only case studies, thus need for this study. The survey considers the background history and the content of knowledge management, how knowledge management function is organised in Finnish TOP 50 companies, and what are the near future aspects for knowledge management.

Contributions of this study are firstly to describe the history and the current state of knowledge management. Secondly, to describe where knowledge management is placed in the organisations and how the functions are organised. Thirdly, to see what are the rationales

of using knowledge management. And fourthly, to analyse the current state contra future state of the function and outline the future state of Finnish knowledge management.

### **Keywords**

knowledge management, human resources management

## **INTRODUCTION**

The importance of assets has changed along the economic revolutions. In feudal age most important asset was land, thus nations based their competitive advantage on ruling it. Modernisation changed the picture as financial capital become most important. With financial assets it was possible to acquire physical assets for production. Labour was considered replaceable. As the nature of organisations has become more knowledge-intensive, the importance of competencies, i.e. knowledge and skills, is emphasised. In post-industrial society capital is available from global markets. Because it is difficult to get right knowledge in right time, knowledge based assets are the essence of contemporary business.

As the nature of organisations has become more knowledge-intensive, the importance of competencies, i.e. knowledge and skills, is emphasised. The importance of intangible assets has increased rapidly in knowledge society. In order to survive, companies, and other organisations too, are in need of the competitive advantage of more efficient exploitation of human resources and intellectual capital. Intellectual capital management is one of rising functions in Finnish companies. An important part of it is knowledge management

Knowledge management is a managerial philosophy, which is perceivable in the practices of different organisations. Knowledge management is not an ultimate tool that solves all information and knowledge creation and transfer problems. However, utilising knowledge management, better performance can be achieved by interaction between individuals or groups. Moreover, to be efficient, knowledge management requires storage for information and knowledge, which is open to organisation members for searching critical information, knowledge, or the best practices. Thus knowledge management is the learned methods for knowledge sharing and interaction and, furthermore, knowledge management clarifies which way to operate. Knowledge management should be considered an organisational process, which is used to achieve better performance due to effective knowledge sharing and organisational learning, recognizing and developing competencies, and gaining from individually different skills and knowledge. The greatest benefit gained through knowledge management is that it aims to save the most important asset in contemporary organisations, the time people have, by emitting knowledge within organisation and fostering new knowledge.

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## **KNOWLEDGE MANAGEMENT**

As the academics and business consultants have adopted the concept of knowledge management, there are several ways to define and understand knowledge management. To its widest extent, it is the management of the intellectual capital and information flows of an organisation. To its narrowest extent, it is only a system or a tool for managing information and knowledge inside an organisation. Definitions vary according to the perspective from which knowledge management is viewed.

Nonaka and Takeuchi consider knowledge management the management of the dynamic processes of knowledge transformation (1995). They state that any form of knowledge in an organisation is manageable, and that the highest form of knowledge is tacit knowledge. Tacit knowledge can be achieved by the internalisation of explicit knowledge, i.e. learning. The context for Nonaka and Takeuchi is the innovation process in Japanese companies. Thus, taking this perspective, knowledge management is the art of management in a dynamic environment.

Kiiänmaa (1996) takes the same approach as he describes the importance of gate-keepers in knowledge-intensive creative organisations. Hence, it could be stated that gate-keepers are mediators of knowledge between persons, and, especially, they are persons who know the right sources of particular competences. The same notion is used by Harryson (2000, 194-196), who states that the essence of effective knowledge management is to break free from rigid organisational restraints to ensure the free flow of information, ideas and knowledge; hence the idiom, “know-who based company”.

A contemporary Finnish classic in the field of knowledge management, *Dynamic Intellectual Capital*, by Ståhle and Grönroos (2000), defines knowledge management as a set of tools used in the process of managing knowledge in organisations. Another definition by Ståhle and Grönroos (1999, 209) gives knowledge management a broader content, which means the methods for managing the human capital and intangible assets of an organisation. The use of these tools is governed by the Intellectual Capital Management; thus knowledge management is a sub-concept of intellectual capital management. Ståhle and Grönroos are committed to tool outlook, but they do not define the nature of the actual tools; which could be for example a mechanical system or the actions taken by the management.

Leonard-Barton (1995) conceptualises knowledge management as knowledge creating and diffusing activities. These activities are contained in operating environment levels, importing knowledge, and implementing and integrating knowledge in an organisation. In time, the

present – future time division, the activities involve problem-solving and experimenting. This notion originated from the same concepts worked out by Nonaka and Takeuchi or Kiianmaa.

In the glossary of *Mastering Information Management* (Marchand et al. 2000), knowledge management is defined as a concept which includes the efforts to maximise organisational performance by creating, sharing and leveraging knowledge and experience from internal and external sources. Boshyk (2000) lists seven attributes of knowledge management. Firstly, the basic resource is absolute knowledge in finite scope. Secondly, it is targeted to accumulate knowledge. Thirdly, it deals with present knowledge. Fourthly, it aims to manage, administer and maintain the knowledge. Fifthly, it considers knowledge to be an asset. Sixthly, it is easiest implemented into knowledge-intensive organisations, e.g. in R&D. Seventhly, it includes the aggregation and dissemination of existing knowledge, education, copying and learning by doing. Actions in the knowledge management process, therefore, entail the management of explicit knowledge.

Davenport and Marchand (2000) suggest that knowledge management is the management of information as companies manage a mixture of information, knowledge and data. The essence is to see the difference between information and knowledge. It depends on the nature of the work whether the information management system is applicable to knowledge management too; hence, if information is processed in an organisation, then the information management system is applicable to the knowledge management. If the work has a different nature, such as that of R&D, the information management system is lacking in effectiveness as a knowledge management tool. As knowledge is a human attribute and it is also dependent on the people who create, use and share it, knowledge management is the management of people at least as much as that of information and IT.

According to Wah (2000), the essence of knowledge management in organisations is to prevent the waste of resources by seeking the best practices and by not reinventing the wheel. Knowledge management objectives then, try first to capture, store, retrieve and distribute tangible knowledge assets, e.g. copyrights, patents and licences. Secondly, to gather, organise and disseminate intangible knowledge, e.g. tacit and explicit knowledge and information. And thirdly, they are used to create an interactive learning environment where people transfer, and share, their knowledge, and apply it in order to accumulate new knowledge.

Thierauf (2001) states that the essence of knowledge management is knowledge discovery, knowledge organisation and knowledge sharing. Knowledge management is a process ruled by a knowledge management system, which is designed to improve corporate efficiency by providing a framework, tools, and techniques for re-using captured intellectual assets. For performance enhancement by applying knowledge, a knowledge management system needs capturing, integrating and disseminating functions (ibid.).

These definitions imply that knowledge management is more than a system or a tool. Knowledge management is a managerial philosophy, which is perceivable in the practices of different organisations. Knowledge management is not an ultimate tool that solves all information and knowledge transfer problems. However, utilising knowledge management, better performance can be achieved by interaction between individuals or groups. Moreover, to be efficient, knowledge management requires storage for its information, which is open to organisation members for searching critical information or the best practices. Thus knowledge

management is the learned methods for knowledge sharing and interaction and, furthermore, knowledge management clarifies which way to operate. The greatest benefit gained through knowledge management is that it aims to save the most important asset to contemporary organisations, the time people have. In this paper knowledge management is considered an organisational process, which is used to achieve better performance due to effective knowledge sharing and organisational learning.

## **KNOWLEDGE MANAGEMENT IN FINNISH TOP 50 COMPANIES**

The survey was conducted by telephone and questionnaire was e-mailed to respondents beforehand. The respondents represented HRM, usually they were human resources managers or equivalent. The target group was selected by year 2001 ranking of Finnish companies by Finnish business magazine *Talouselämä*, and it still represents the rankings on the list. Collecting answers by telephone inquiry, the hit rate increased to 88 %, which is relatively high. The data collected should therefore be considered extensive. Furthermore 81 % of respondents use knowledge management, hence data is sufficient to analyse the use of knowledge management. The companies which did not answer, replied that the reason was lack of time or the extent of the survey and obscurity of the topic.

The explanation model is somewhat straightforward, i.e. most of the data is approached as it is. In some cases it is possible to cross-tabulate, test, and do more deep analysis of data. However, as an exploratory study the aim is to examine the content of knowledge management. Moreover, in this phase the background data collected is not comprehensive as there was need to abridge the questionnaire and there are other sources for such data.

The survey was in Finnish, yet there was an additional difficulty on the name of KM function. Most common names for such function were competence management and competence development. Also knowledge management and information management were mentioned. The reasons for discrepancies are due the nature of function and because knowledge management is in evolving stage. Moreover, as the questionnaire was addressed to HRM, it is obvious, that competence perspective was emphasised.

### **History**

The use of KM is relatively young phenomenon in Finland. In Finland discussion on KM started after Nonaka and Takeuchi 1995 and most companies have started their KM activities after year 1995. However, in there are seven companies, which have pioneered over ten years. As most companies have been dealing with these issues less than five year, the field KM is also segmented among the respondents. There is no pioneer industry, yet in service sector KM is younger phenomena than in traditional manufacturing. It could be assumed that in manufacturing e.g. R&D has used KM efficiently, as in services the nature of work has evolved and competencies have been emphasised in last decade.

The most important reasons for beginning knowledge management were: need for operative knowledge on personnel competencies (67 %), need for knowledge on core competencies (48 %) and support for strategic planning (53 %). Also need for more efficient knowledge sharing (40 %) was one important reason, however is assumed that this aspect is rather emphasized on

operational level than corporate level. Only 25 % of respondents mentioned that reason for beginning was interest of a certain person on such issues. So it could be interpreted that there are several company bound motives for KM and not one general one.

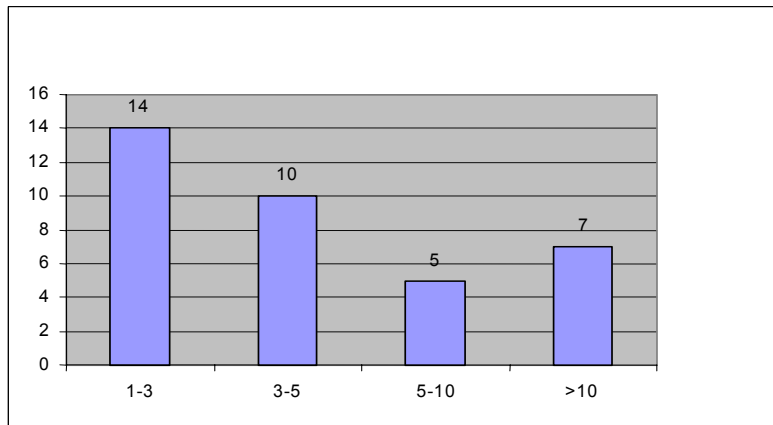


Figure1. For how long there has been systematic KM activities

Taking the perspective of human resources management, it is obvious that knowledge management is organised to HRM-function. Yet, there are several companies which organise KM differently. KM was located also in corporate or business unit strategic planning, corporate or business unit business development unit. Moreover, KM is dispersed to different units by their function, i.e. in many cases there would be also need for knowledge management in KM issues. In 78 % of the companies there were certain person in charge for KM, i.e. knowledge manager, but only 47 % of those have budget for KM.

### The use of KM

The range of KM is wide thus the number of different elements in it is large. Most important elements from HR perspective were personnel education (92 %), personnel competencies (92 %), personnel experience (86 %), and plans for competency development (78 %) or educational plans (81 %). Other elements covered by KM were different financial etc. reports (58 %), strategy (67 %), and customer data (61 %). From the perspective of HR the elements of KM are distinct, yet taking other perspective the elements might be totally different.

Most important aspects of knowledge management are related to managing intangible assets. 100 % of respondents emphasised the importance of the role of KM in gaining knowledge on personnel competencies. Moreover 72 % mentioned that KM has very significant role in personnel development. There is also significant interconnection on saving time (69 %) and saving money (78 %) as the role of KM is evaluated, thus the notion of using KM in preventing re-innovations is supported. Also one important reason for using KM was increasing availability, sharing and mediating of knowledge in organisation (93 %). The role of KM was considered also important to new ideas (78 %). The role of KM was not so important in increasing the motivation and personnel engagement, maintaining personnel strategy, gaining information to support decision-making, improve internal and external recruiting. However, all issues included the survey were considered to have some significance at least by 60 % of the companies.

In the survey the role of KM was to develop personnel competencies and knowledge (89 %), but also for collecting and disseminating explicit knowledge (42 %) and disseminating tacit knowledge (47 %). Only 30 % of the companies using KM to personnel development have noticed both explicit and tacit dimensions of knowledge, and there were over 50 % of companies ignoring both.

As the survey considered large companies with thousands of employees most of companies were using different databases in KM, e.g. personnel databases (97 %), education databases (86 %), skills databases (72 %), and experience databases (59 %). Intranet was also a common tool in KM (89 %). There were also different company bound tools.

It could be stated, that as knowledge management have been recognized in Finnish companies there will be significant development in the area. As the survey considered HR-function some aspects of KM have been left unexplored. At least those aspects concerning handling documents, vast amounts of internal and external data and information, should be examined from different perspectives. However, as companies are more dependant on competencies and right decisions by employees, the personnel perspective should not be underrated.

There are several problems in KM. Even in large companies there is lack of personnel resources (58 %). Even in those companies, which had knowledge manager and budget for KM, considered lack of personnel resources a problem. Also most of those companies without KM budget mentioned that budget was a problem. Other than resources based problems were defining competencies (58 %), recognising critical knowledge (50 %), measuring usefulness of KM (48 %). None of respondents were seeing outsourcing of KM as a problem or were planning to do so. There were also several minor problems. For example in some cases the engagement of top management was problematic or there were difficulties to define experience, utilising internal information and knowledge or utilising external information and knowledge.

### **Future**

There will be several future targets for development. As mentioned above, the financial and personnel resources are considered as targets in 50 % of companies. Most important contentual targets are defining skills (63 %), utilising internal information and knowledge (61 %), utilising external information and knowledge (53 %), recognising critical knowledge (58 %). Also finding suitable IT solutions and other tools were considered important target of development (48 %). 53 % of companies considered to develop measuring the utility of KM.

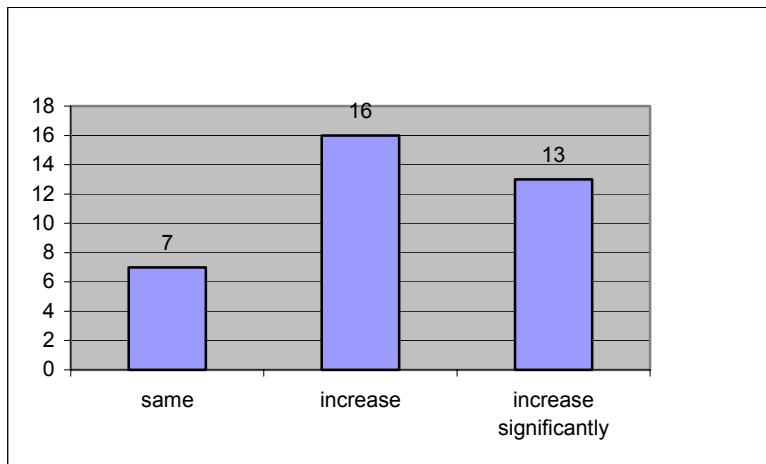


Figure 2. Future spendings on KM

Most of the companies will invest on KM in forthcoming 5 years. Expected spendings on KM will increase in the future. There is no difference between of how long a company has had KM and future spendings, but the industry makes difference, as trade industry will increase spendings significantly and in finance and manufacturing industries companies are more prudent in increasing investments on KM. By cross-tabulating those companies which will increase spendings and the targets of development future interest of companies are defining skills, utilising internal or external information and knowledge or measuring the utility of KM. IT solutions and other tools were also mentioned.

## CONCLUDING REMARKS

Companies have recognized the significance of personnel competencies as an asset in contemporary business. As competencies of personnel are differentiated also knowledge sharing has becoming an issue. The discussion on KM is fragmented, thus there is need for common language. Especially in other languages than English, there are several names for knowledge related issues, e.g. for knowledge management.

There are still several central aspects of KM to be developed and evolved in order to become as common as e.g. performance measurement. The future of KM seems promising as companies are investing on it also in HR function. There are several concrete targets of development, but also several abstract ones. Thus there will be lot to do in the field of knowledge management. For example companies have noticed the need for measuring the utility of knowledge management. As measuring intangible assets is a topic on research agenda, researchers should also pay attention to measuring knowledge management processes and utility of it.

By surveying only the HR personnel the actual state-of-the-practice in KM is hardly revealed, as there are also other perspectives such as IT and handling documents. IT and documents are not out of the interest of this study, but they are approached from the perspective of HR. The delineation of this study was challenging in some extend, as it considers the largest and therefore the most well-resourced companies. Though, one might suggest those are the most interesting ones. As an explorative study there will be further need for deeper case-studies in

order to place the results of this in context. The study will answer the research questions, but it will raise several interesting questions, and therefore hypothesis could be derived from the results for further research.

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