

The Future of Management - Knowledge Intensive Firms

*This white paper addresses the industrywide **challenges of Knowledge Intensive Firms** and how these businesses **develop their people** using the well-tested, hands-on business simulation **Celemi Tango™** – Success through people.*

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Knowledge Intensive Services

*This white paper covers today's reality for **Knowledge Intensive Services** companies. What characterizes Knowledge-Intensive Firms and why is there such as growth in this segment? What are the challenges for these types of companies, and are they also applicable to other industries? How can companies increase preparedness and address industrywide issues by using the business simulation *Celemi Tango™*?*

Globalization, new technologies, new business models, increasing demand for innovation, shorter time to market, shorter product life cycles, demand for shorter lead-teams, greater complexity, etc. are forces that drive change in all companies and public sector organizations. This change can result in restructuring, re-organizing, outsourcing, or moving of production. One effect of this is the emergence of the new industry sector – **Knowledge Intensive Services**. For decades, it has been the fastest growing industry segment in western industrialized economies, and its share of GDP and employment has grown from less than 10% in 1980, to more than 40% today in trendsetting countries like the Nordic countries and the UK^[1]. More than half the sector's growth originates from other industries, and there is no sign of an abating trend.

The trend has put the spotlight on the **Knowledge Intensive Firms (KIFs)**. They are people-intensive, knowledge-based, project-driven companies in intense competition for both customers and key employees. KIFs are high on expertise and R&D, and their production is often intangible. IT firms, professional services firms (consulting, law, advertising, etc.), financial service firms, R&D institutes, Hi-Tech consulting, etc. have these features in common. The features - and challenges - are beginning to influence policies and practices of all organizations – not just the KIFs. Let's have a closer look.

Common strategic challenges for Knowledge Intensive Firms



Challenges of Knowledge Intensive Firms

People intensive

“Our People are our most valuable asset.” This statement is one of the most common phrases in CEO presentations. For KIFs, the phrase is a truism. People are the most important resource, because they often personally produce advice, solutions, ads, software, etc. that the customers buy. Financial capital plays a subordinate role in the production – one might say that people, (knowledge workers, professionals, etc.) are also the most important “capital”, albeit not owned by the company. The fact that their most valuable capital may literally walk out the door one day, in the worst case they might even join the competition, is a nightmare for CEOs of knowledge intensive firms. The fact that “downsized” people possess very valuable knowledge has come as a nasty and expensive surprise when firms have been forced to rehire them to sort out problems. Defections and staff poaching are everyday occurrences in KIFs. Reducing the risk in being dependent on a resource they do not legally own, becomes one of the main challenges.

Knowledge-based

The most important knowledge is the competencies of the people – in particular the expertise of the professionals responsible for customer relations. These key people are crucial; recruiting them is an investment with long-term and widespread consequences for the firm. In the short run, their capacity utilization determines profitability.

Closely involve their customers

Customers are closely involved in the projects and their relations with the KIF’s professionals become personal, in particular with a projects’ team leaders. This means that the quality of their relationship – the “chemistry” – becomes an issue in determining how the success of a project is perceived by the customer, and something that the team leader has to consider when putting together his/her team.

Project-driven

Production is usually done in the form of projects, and often in teams where a combination of different kinds of professional expertise are required to produce the result. The challenge for the team leader – generally a professional him/herself – is to decide which combination of available competencies and personalities is the best possible mix for the customer.

Customers bring more than money

Customers bring more revenues than money; some – not all – bring ideas, feedback and learning to the people involved in the projects. How to select customers becomes a challenge; a big customer with a big project in terms of money is not always better. The customer with a small project in volume terms, but big on learning, might be more valuable.

Intense competition

Unlike other industries, KIFs meet their competitors on two markets: the markets for people and for customers. In 1998, a McKinsey Quarterly article alerted their readers to the coming “war for technical talent”^[2]. Talent is becoming increasingly scarce and thus it is being priced accordingly. This makes the market situation intensely competitive for all industries, and knowledge intensive firms in particular.

Production and value is mostly intangible

What is the commercial value of an idea that arrived at the spur of the moment, but required a lifetime of experience to crack? How do you know whether a solution is any good until it has been tried? KIF “products” are intangible and often not even testable before they are used. This is why a good reputation, or a well-known brand name, “image”, is literally worth gold in the KIS business; it reduces the KIF customers’ buying risk. This is why the international management consulting firm McKinsey gets away with charging ten times more per hour than the local consultant. This is also why customers are reluctant to try new and untested service providers.

Knowledge worker productivity is crucial

Peter Drucker identified the main issue for future managers already in 1959^[3]: how to increase the productivity of the production resource, the knowledge workers (a term also coined then by Mr. Drucker).

- How to leverage the competence of the professionals – more capacity for their time
- How to increase the professionals capacity utilization – more time to sell

Meeting the challenges of Knowledge Intensive Firms

Fast changing conditions

KIFs world is uncertain, tough, and fast changing:

- They cannot build their success on tangible, fixed assets such as products alone
- Their most important asset, their people, could walk out the door at any given day
- Well educated, ambitious people working in KIFs often demand more than just a high salary
- With internet based new communication- and business solutions, a competitor may emerge from a completely different industry and/or even continent

For KIFs, the world is a very fast changing place. Consequently, KIFs' need adaptable strategies and plans in order to survive. Fortunately, there is usually not a large burden of infrastructure or production assets to hinder the much needed flexibility. What needs to be planned, monitored, changed and then planned again is rather tactics, knowledge, marketing strategies, processes, competence planning, business logics and similar intangible issues.

How do you prepare your people for a world where the only constant is perpetual change? The answer for many KIFs has been Celemi Tango.

Celemi Tango™ - designed for KIFs

The board based business simulation *Celemi Tango*™ simulates the business logic of Knowledge Intensive Firms. Therefore, many KIFs have used Celemi Tango in the past, and many clients are found in the fields of accounting and financial services, advertising, PR, law, management consultants, technology services, research organization, and IT.

In the seminar, the facilitator does not lecture on how to run a KIF. Instead, participants actively “*learn by doing*” as they in small teams of 3-5 people, take on the roles of the management team, and run a simulated company. Initially, they have a few employees and a small number of clients. Their task is to grow the value of their KIF by attracting and retaining the right employees, attracting and satisfying the right clients, building processes, R&D and image, all while beating competition and maintaining healthy finances.

The simulation runs over a number of fictitious years, which all include planning, executing, monitoring, and adjusting strategies. On the journey, the participants learn to address the most common challenges typical for a KIF. The decisions they make impact how successful they are relative to their competitors in the room. Practicing making the right decisions, vital in their daily working life, is the essence of Celemi Tango. The outcome of their decisions is instant, and are analyzed and debriefed together with a certified facilitator. The debriefs, discussions, and

links and learnings, which are applicable to the participants' real life challenges, are tailored to fit the needs of the organization where the participants work.

Some of the teams in the room will be very successful; Others will go bankrupt. Some will form strategic alliances, or even merge. Just like in the real life of a KIF, nothing is fixed and conditions change fast. Through first hand experience making strategic, tactical and operational decisions, the participants gain invaluable knowledge of what is needed in order to be successful. Thus, they have a higher level of preparedness and can bring their organization where it needs to be.

As Celemi Tango simulates the entire KIF firm and its markets place, it can address all of the challenges listed on the previous page. Because of this, identification of the client's current issue(s) is the best start when answering the question: **Why should we use the business simulation Celemi Tango?**

The Knowledge Intensive Firm - Celemi Tango “simulates us”

All the challenges mentioned above are covered by the simulation, and participants coming from KIFs immediately recognize the issues. However, there is rarely time to address all challenges in depth. Instead, debriefs and mini lectures should be centered around the client's most critical issues.

Common issues addressed in Celemi Tango workshops for Knowledge Intensive Firms:

- How to **speed up the induction of new recruits and get them productive**. Celemi Tango shows what drives the business they have recently joined. It gives them the Big Picture and shows how they convert their only resource – people – to bottom line results.
- How to **reduce the dependence on key people**. Celemi Tango shows what is required to keep the best people, and that the value of clients is much more than just money. The simulation shows how to develop a strategy based on a combination of investment in technology and people.
- How to **make consultants more business-oriented**, to make them understand the business they are in. See both issues above.
- **Train team leaders in strategic thinking and business**. See both issues above.

Client examples: Burson Marsteller, Cap Gemini, CSC, CSIRO, Deloitte, Ernst & Young, Johnson Controls, JP Morgan, KPMG, Logica, Microsoft, Oracle, Perot Systems, Philips Fox, Pink Elephant, PwC, Robeco, Schlumberger, Swedbank, Tieto, and Young & Rubicam.

Other industries

- Celemi Tango “simulates our future”

KIF business logic is increasingly applied by traditional manufacturing companies, construction firms and public utilities in order to deal with global competition. When they re-structure, re-organize and outsource they have to deal with issues simulated by Celemi Tango, such as: knowledge-worker effectiveness, people dependence, competition in two markets, image management, client relationship building, and assets that are intangible. For them Celemi Tango represents the desired future, or what is different compared to the rest of the organization.

• The manufacturing firm

Common issues addressed in Celemi Tango workshops for manufacturing firms:

- How to **shift strategy from selling products to delivering solutions**. In the Celemi Tango simulation, participants get the “Big Picture” of a business logic quite different from manufacturing, and they discover how they convert their only resource – people – to bottom line results. Celemi Tango speeds up the change process and facilitates the internalization of the new perspective to make this happen.
- How to **improve the performance of the KIS business unit** of the manufacturing firm. Celemi Tango gives the Big Picture and shows how performance in the clients’ eyes depends on the crucial link between client expectations and peoples’ competencies. In Celemi Tango, participants learn to build, execute and follow up strategy.

Client examples: ABB Services, Boeing, Hewlett Packard, and Siemens Business Services.

• The internal service department (HR, ICT, Accounting, internal services, government departments).

Common issue addressed in Celemi Tango workshops for internal service departments:

- **How to get a department client oriented when clients are internal**. Celemi Tango highlights the department’s hidden bottom line. Participants see how their performance depends on the crucial match between the needs of the internal clients and the competencies of the internal consultants. Celemi Tango gives the consultants experience in how to achieve it.

Client examples: Local Council HR department (Sweden) and the government-owned utility (telecom, post, rail, construction).

Common issues addressed in Celemi Tango workshops for government-owned utility:

- How to make managers facing new competition **to become more entrepreneurial**. Celemi Tango facilitates the change from a one-sided focus on cost reduction to one where revenue creation and client relationships form the core of a new strategy. In the simulation, managers practise running a KIF in high competition.
- How to **shift strategy from selling capacity of infrastructure to delivering solutions**. In the Celemi Tango simulation, participants get a good understanding of a business logic quite different from their own, and they learn how they convert their only resource – people – to bottom line results. Celemi Tango speeds up the change process and facilitates the internalization of the new perspective to make this happen.

Client examples: Gippsland Water, Queensland Rail, Singapore Civil Service College, Telia Sonera, and The Swedish Post.

All industries mentioned above

- How to **speed up and ensure success of a corporate-wide new initiative** such as new HR- or IT-system, Quality Management, Knowledge Management and Talent Management. Celemi Tango can be customized to simulate the effects of the introduction. The investment and the effects of the new initiative are handled by redesigning the simulation’s new R&D cards.
- **To support a merger**. Celemi Tango is set up to simulate the merger and to allow key staff from both parties to interact playfully on “neutral” ground.

Client examples: DTT, PwC, and Swedbank.

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What do Celemi Tango clients say?

"It was great to see so many of our managers engaged in Celemi Tango. The key issues that Celemi Tango focuses on are so real in our business."

Cap Gemini

"We found that we could identify and manage the highly critical success factors in a knowledge company and actually quantify the results of our decisions. Celemi Tango is a great learning laboratory that had a very positive impact on our business management."

HP

"It's tactile and visual. You literally move the cash around the game board. Seeing how the cash flows through the organization and the impact of participants' decisions on the business as a whole is a powerful learning experience. With these simulations, we're getting a bargain for our training dollars. We have documented significant impact on critical business issues through simulations that run for less than two days."

Motorola

About

Karl-Erik Sveiby

As one of the founders of Knowledge Management, Dr. Karl-Erik Sveiby has studied knowledge-intensive firms since the 1980's. In 1989, he co-developed a concept and an approach for measuring and reporting intangible assets, The Invisible Balance Sheet, which became one of the sources of inspiration for Intellectual Capital.

In his research at Hanken School of Economics in Helsinki, Finland, Professor Sveiby applies a knowledge perspective on issues such as leadership, sustainability, and innovation. His current research interests are collective leadership in knowledge intensive firms and unintended consequences of innovation. He is on the editorial board of five scientific journals, and has published 14 books and some 50 articles. Dr. Sveiby's latest co-edited book, *Challenging the Innovation Paradigm*, was published in 2012.

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Celemi

With more than 25 years of experience in the field of experiential learning, Celemi helps organizations to quickly and efficiently build competence around business and management concepts, communicate key messages, and mobilize people to act in line with corporate strategies and goals, in order to boost performance. Hands-on business simulations and custom-made learning solutions help people understand the big picture and see how they as individuals and teams can make a difference – a prerequisite for changed behaviors and visible results on the bottom line.

With millions of participants in over 70 countries, Celemi is a market leader for board-based business simulations. The wide portfolio includes bestsellers like *Celemi Apples & Oranges™*, *Celemi Decision Base™* and *Celemi Tango™* - the latter updated in 2013.

www.celemi.com

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2. Chambers Elizabeth, et al. (1998): *The war for talent*. McKinsey Quarterly n:o 3.
3. Drucker PF (1959): *Landmarks of tomorrow - A Report on the New "Post-Modern" World*. Harper & Brothers, NY.