Chapter IX
The Value of Virtual Networks for Knowledge Management: A Tool for Practical Development

Cesar Camison
Universitat Jaume I, Spain

Carlos Devece
Universitat Jaume I, Spain

Daniel Palacios
Universitat Jaume I, Spain

Carles Camisón-Haba
Universidad Politécnica de Valencia, Spain

ABSTRACT

In this chapter we describe a practical tool useful to managing knowledge in the firm. It has already been introduced and tested in several firms and we have obtained good conclusions about its performance. In this chapter, we combine the modules of the software application with the theoretical functions of Knowledge Management principles. We also develop a list of indicators to measure the effect of implementing SoftKnow in a firm. This is useful to have an economic impact of the introduction of a practical tool based on Knowledge Management. After reading this chapter we think the managers' perceptions of this type of tool will change, since they will able to assimilate all the impacts and applications of the tool.

KNOWLEDGE ECONOMY: CHALLENGES FOR COMPANY COMPETITIVENESS

In the era of business transition, the effective management of knowledge is proposed as a strategy that exploits organizational intangible assets. Knowledge management (KM) with no doubt could be considered as one of the hottest research topics of the past decade (Kalpic and Bernues, 2006: 40), the birth of KM, which occurred in the early 1990s, grew from recognition of how difficult is to deal with complexity in an environment of ever increasing competition spurred by technology and the demands of sophisticated customers.

"Advance towards the knowledge society is unstoppable, verified by the emergence of knowledge workers. As just one example, during the XX century in USA, knowledge workers, defined as employees working mainly with information - managers, salesmen, clerks, professionals, technicians - have increased from 17% to 59%, while, at the same time, blue-collar workers have dropped from 83% to 31%. Thomas Stewart (1997), editor of Fortune, places the historic point of inflection in 1991, when, for the first time, investment by US firms in information technologies exceeded investment in production plants and equipment." (Camisón, 2000: 1)

It is not surprising that knowledge has become the main factor in value creation modern society. However, knowledge is by no means an unknown variable, as it has always been present in firms and in economic activities. Intelligence, understanding, talent, skills and learning have always been essential components in innovation and success. Just as an anecdote, Aristotle Onassis rightly said that "the secret of any business is to know something that nobody else knows".

While knowledge has been identified as the competitive advantage of the future, its widespread bad management is worrying. McKinsey's recent study among 6000 executives in 77 firms shows that knowledge and skills are the worst managed assets in organizations. Only 23% of the executives stated that their firms got to attract talented managers, and only 10% got to retain the best professionals. The waste of the knowledge owned by organizations has a direct affect on costs, as it can lead to duplicating tasks or repeating past failures (which could be avoided by simply using experience learned in the past), wasting the time and money invested. The expression "reinvent the wheel" perfectly illustrates the absurdity of this behaviour. Concerning this poor use of knowledge, we might mention studies demonstrating that between 20% and 30% of firms' resources of are squandered on "reinventing the wheel"; or as Lew Platt, executive of Hewlett Packard, said: "If we knew what we know, we would be three times more profitable," (Boshyk, 1999: 7). This perception leads to the statement that only the tip of the iceberg (one eleventh) of human talent is managed. The rest of the knowledge, still "under water", is the great challenge, the copious source of value creation.

David Skyrme, co-author of the study *Creation of the firm based on knowledge*, considers that no big firm has effective information management or widespread Knowledge Management practices. There is a poor capitalization of ideas and creativity, and knowledge is lost in staff turnover, as well as unexploited knowledge assets. Some firms even buy expert services they already possess simply because they are not informed about what they know. In fact, *CIO Magazine* recently said that the participants in the knowledge economy presently are probably a minority of companies rich in knowledge and in knowledge experts, as opposed to a large majority of companies whose Knowledge Management is so awkward that they need help to enter this battle.

The effective introduction of Knowledge Management in organizations raises a series of diverse problems (Rastogi, 2000; Dibella and

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