

# Chapter 4.54

## Why Knowledge Management Fails: Lessons from a Case Study

**Ivy Chan**

*The Chinese University of Hong Kong, Hong Kong*

**Patrick Y. K. Chau**

*The Chinese University of Hong Kong, Hong Kong*

### EXECUTIVE SUMMARY

*Knowledge is increasingly recognized as providing a foundation for creating core competencies and competitive advantages for organizations, thus effective knowledge management (KM) has become crucial and significant. Despite evolving perspectives and rigorous endeavors to embrace KM intentions in business agendas, it is found that organizations cannot capitalize on the expected benefits and leverage their performances. This is a case study of an organization in Hong Kong. It is a typical organization with a strong awareness and expectation of KM, yet its program failed within two years. Our findings show that KM activities carried out in the organization were fragmented and not supported by its members. Based on this failure case, four lessons learned are identified for use by management in future KM initiatives.*

### BACKGROUND

Founded in 1983, HS (the actual name of the company is disguised for confidentiality) is a Hong Kong-based enterprise with a production plant in mainland China. HS is primarily engaged in the production and export of handbags and leather premium products to the United States and European markets. The current CEO is the second generation of the founder. Like many companies in Hong Kong, HS centralizes all its strategic planning and decisions, as well as sales and marketing functions at its head office in Hong Kong while doing the production and assembly work across the border for low production cost. Appendix 1 is the organizational chart of HS. It is found that the head office has 10 staff including a CEO, a general manager, a sales manager, an operation manager, and six other administra-

tive staff. The production plant in China has 450 staff including 40 managerial, supervisory, or administrative staff and 410 skilled workers. Over the years, HS has expanded its range of products and production capacities and resources in order to seize market opportunities and has enjoyed quite healthy growth in terms of sales turnover and profits.

## **SETTING THE STAGE**

Business began declining with double-digit revenue losses in 1998. This was primarily attributed to the fierce competition in the markets and soaring production cost. For example, some competitors were offering drastic price cuts in order to obtain business contracts. Also, new product designs did not last long before being imitated by the competition. The CEO and the senior management team began planning the future of the company and to look for ways to improve the efficiency and productivity of its employees. Business continued to deteriorate, so that by 2001, in order to find out what had gone wrong, the CEO formed a strategic task force consisting of all managers in Hong Kong, several key managers responsible for the production plant in China, and himself to look into the matter. After two weeks of exploration (including observation and communicating with other staff in the company), the strategic task force concluded that knowledge within the organization was ineffectively managed; specifically, there was low knowledge diffusion from experienced staff to new staff, and high knowledge loss due to turnover. Driven by traditional management philosophy, the CEO and the strategic task force believed that they understood the organizational context better, and thus decided to undertake an in-depth investigation through internal effort instead of hiring an external consultant.

## **CASE DESCRIPTION**

In June 2001, the strategic task force carried out investigation, observation, and interviews of employees in various departments. After three months, they identified the knowledge management (KM) issues summarized in Table 1.

From these findings, the strategic task force determined that open communication and discussion was necessary and effective to further examine the KM problems, and therefore called for a couple of meetings with managers and supervisors. In order to encourage open discussion, the meeting was conducted in an informal manner instead of the frequently used formal discussion (such as predefined order for reporting departmental issues). Furthermore, the room setting was changed with seats arranged in a circle to allow everyone to see each other and a flip chart was made available to jot down immediate thoughts. More importantly, everyone was encouraged to express his/her thoughts, opinions, and feedback from a personal perspective or collective stance (e.g., comments from subordinates).

The results of the meeting were encouraging as many participants expressed their opinions and comments eagerly. In particular, staff in the meeting agreed that KM was neither an extension of information management nor solely a technology application to capture, organize, and retrieve information or to evoke databases and data mining (Earl & Scott, 1999; Thomas, Kellogg, & Erickson, 2001). Instead, knowledge was embedded in people (e.g., skills and actions), tasks (e.g., production process), and the associated social context (e.g., organizational culture) that involved communication and learning among loosely structured networks and communities of people. Therefore, individuals/employees were crucial to the implementation of KM initiatives by utilizing their knowledge and skills to learn, share, combine, and internalize with other sources

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