

# A Conversation with Jim Botkin, President of InterClass

By Jay Chatzkel, North American Editor, Journal of Intellectual Capital

(This excerpted dialogue is part of a series of conversations with key practitioners and thought leaders in the intellectual capital and knowledge management arena. The full "conversation" and series will be offered as a book in the near future.)

Conversations create the wealth of knowledge organizations. This conversation with Jim Botkin explores a variety of issues on how knowledge is changing how organizations create value as knowledge-based enterprises. Jim Botkin argues that the knowledge framework is actually the larger context for organizations and that e-business is actually a subset of its operations. Botkin also shares how knowledge has come to be a new factor of production in organizations. This is become true for both "New Economy" organizations and "Old Economy" legacy organizations. Even so, the acceptance of the knowledge movement is still tentative. The very name "knowledge management" is still often implies information technology "applications" to key organizational visionaries and is not always well received. The controversies over nurturing knowledge communities within the framework of knowledge initiatives are also examined in the dialogue.

Jim Botkin has an excellent perspective for delving into these issues as cofounder and president of InterClass, the International Corporate Learning Association. InterClass is a knowledge community of Fortune 500 companies seeking to improve its members' organizational learning and enhances their knowledge assets. For the last decade Botkin has led InterClass as it has grappled with the future of work, organizational learning, intellectual capital, virtual organizations, managing change, knowledge management, and new leadership styles.

Botkin is the author of *Smart Business: How **Knowledge Communities Can Revolutionize Your Organization***. He is an expert on corporate learning and knowledge and a student of the ideas and practices involved in successful innovations in legacy companies. He is also co-author of ***No Limits to Learning*** and of ***The Monster Under the Bed***.

Botkin is an IC2 Fellow of the University of Texas in Austin and has taught at the Harvard Graduate School of Education. His Doctorate is from the Harvard Business School.

Jay Chatzkel facilitated the conversation. He is North American Editor of the *Journal of Intellectual Capital* and is Principal of Progressive Practices, a U.S. management consulting firm focusing on building knowledge-based enterprises.

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## Interview with Jim Botkin

**JC:** Can you comment on how the knowledge organization or K-organization goes beyond e-business?

**JB:** In a way e-business, e-commerce and the dot.com companies have become such a big deal that it obscures the fact that they are only part of the picture. Some would say e-business is basically a new business and a new business model, but I am skeptical about that. To understand the role of knowledge in business, you have to consider the business, the organization, and the management model – or the knowledge business, knowledge communities, and knowledge networking – which are, respectively, the New Economy companies' basic business, organizational mode, and management models.

The knowledge business can go beyond dot.coms – for example, consulting companies are knowledge businesses. The larger question is "What are knowledge products and smart services?" They are those offerings that embody learning and the capacity to create new knowledge in them. They can be internet based or not. My favorite example is the company in Boulder, Colorado called Outlast Technologies. It has the patent rights to develop materials (cloth, fabric, clothing, car seats). They can weave micro phase-change materials (PCM's) into the fabric. The PCM is genetically engineered to sense cold, which makes it turn hot. When it senses hot, it starts to turn cold. That is a great example of a non-computer based, non-electronic, non-internet knowledge business. Your shirt literally knows better than you do what the temperature is outside and it adjusts itself, unknowing to you, to a more comfortable temperature. Here's a new a bio-chemical process knowledge product that goes far beyond the internet. And there are other examples of those. Some are internet-based and some are not.

**JC:** The main thrust is that there is a larger perspective beyond e-business?

**JB:** Yes. The more a product is interactive, self-customizing, capable of remembering and improving your use of it, the more it is a knowledge product. When it has these characteristics AND is web-based, you've got double-strength

knowledge. But just because it's internet-based does not necessarily mean it's a knowledge product.

Take Nike sneakers: "The new Nike sneaker that has special material in the sole that when it feels I am running it starts to stiffen up and when I slow down it gets softer. It is interacting with me in real time." I could imagine the step further being that as soon as they get a little microprocessor in there and I could communicate to it, I could control the stiffness or looseness of the shoe as I am running. This is the basis of a knowledge business when you are talking about products that have the ability to learn and the capacity to create new knowledge built into them.

So as big as the whole dot.com economy movement is, it is just the tip of the iceberg. Eventually we will realize the scope of the whole knowledge business and see that the internet part is just a subset.

**JC:** What will the new business model(s) look like?

**JB:** There are two aspects implicit in your question. One concerns KM – knowledge management, or what I prefer to call knowledge networking. Another is community. I was amazed at a recent knowledge management summit that it was not just me talking about community. A lot of people were into that field.

There is a whole new movement around the word community, which generates a lot of emotions. Different people feel very differently about it. We are in a situation just like ten or twenty years ago when teams were seen as the next big thing or when quality was accepted as necessary to all companies. The next big organizational thing is going to be the community. Community allows a company to be both centralized and decentralized at the same time. Using community as your basic building block can be thought of as the new network model of organization where the nodes are communities and numbers of communities together form a network. You do not see this very many places yet. But once you tune into the concept, you will be amazed at the number of companies that describe themselves this way.

So there is a new business emerging – the knowledge business. And there is a new organization emerging – the knowledge community. These two require a new communications or management model that we call knowledge management. So I do not see KM as the be all and end all, in the sense that if you do not have the other two things, you are missing part of the bigger picture.

**JC:** When you say knowledge business, do you differentiate between knowledge management and intellectual capital?

**JB:** I'm not convinced that KM and IC are closely related, but my doubts may come from my own experience. We are all captives of our own experience. I learned about intellectual capital at one of our Interclass business meetings, back in the early 90's where Leif Edvinsson and Hubert Saint-Onge were just starting to flesh out the theory of intellectual capital. At that same meeting we had Brian Hall, who developed a 130 item questionnaire we can use to discern our own values, how they match with the organization's values that we are working with and where on the developmental scale does it put us. I found that experience terribly informative.

Thus, I associate intellectual capital with the values question. I also find the IC model of structural, human, financial capital and customer capital to be a very useful device to think about our future directions and what our organizational strategy will be. For example, in which of those four areas does my company, Interclass, need more work? We have great customer capital. We have relatively normal, perhaps somewhat weak structural capital. Our financial capital is always shaky, but then again, everybody's is. Our human capital is quite strong. The question is, which of these areas needs to be strengthened? What is the proper balance?

KM, however, I do not associate with values or strategy but with communications, capturing of best-yet practices, and sharing for reuse what's worked before. Therefore, I do not even associate IC and KM in the same ballpark. I do know however, in speaking with some of the intellectual capital proponents, that they have felt somewhat assaulted by the knowledge management movement. There is an intellectual competition going on for "a share of mind space." Any of us can hold in our heads only one, two or three of these things at once. If you are holding in your head the intellectual capital model it's difficult to get your arms around the knowledge management one. And vice-versa.

**JC:** Are you saying that they seem to be presented as mutually exclusive?

**JB:** Each seems to appeal to a different set of the population. I was very influenced by Jeffrey Moore's books, *Inside the Tornado* and *Crossing the Chasm*. He does a wonderful job at differentiating the population, any population, into visionaries and early adopters, who are on one side of the chasm, and then market mainstream and later adopters who are more pragmatic. Jeffrey's point is you need both visionaries and pragmatists but you need them at different times in the lifecycle of a product or a company. So,

don't be stupid and fire all of your visionaries just when things are going great because that is when the pragmatists have their say. When you are in need of reinvention, you better be sure you have your visionaries around or you are in trouble. My experience is that there is not one but TWO chasms. The first is the one that Moore describes and comes at the beginning of an innovation curve. The second, which is known to those who practice "built to last", comes at the end of the curve when it's time for renewal. That's when the visionaries come back into the picture to add value.

This view gives me a lens with which I view my own role in InterClass – which is a bridge across the two chasms. Interclass is one of the few organizations that have both visionaries and pragmatists talking to each other and learning from one another.

**JC:** That is one of the themes of your book, *Smart Business*. You say we need both capabilities to carry this off.

**JB:** Yes, I consciously wrote with language that is acceptable to both visionaries and pragmatists. My quick take is that the knowledge management movement has been hijacked by pragmatists prematurely. When I went to a recent meeting attended mostly by visionaries and we brought up the issue of knowledge management, it was almost shouted down, "How can you even associate those two words with each other?" Then, they would look at people like me, and say: "Worse yet, Botkin you come up with the 'community' word, and want to BUILD community. Don't you know they can only be nurtured?"

There are three options for management for communities: build them, nurture them, or just leave them alone. I could feel the emotions rising in the room. "Just leave them alone. You can't manage a community. Managing knowledge is one of the most absurd things we've ever heard of."

In my mind a movie comes on: "Oh, this is the visionaries speaking. They're fed up with pragmatic IT people thinking they can manage knowledge. The visionary response is to withdraw from or re-frame the KM debate." This is how KM comes to be mostly pragmatists in contrast to IC, which is still mostly visionaries.

We can see possible futures of IC and KM by looking back at the Quality movement and Reengineering. KM is more like reengineering than it is like quality – that is, it may die a premature death unless it gets on a quality trajectory. Everybody has to have quality today. It's basic to doing business. This should be where KM (or K networking) needs to move -- it just becomes part of everyone's business system.

Reengineering, on the other hand, was a movement doomed to failure by its name and the deadening images associated with its implementation. Some of my friends who were very active in the reengineering movement in the early days are now embarrassed to be associated with it. It was a great idea whose implementation somehow went astray. In the name of reengineering, many companies went through downsizing only to rehire all the same people as consultants at a higher prices. It was shortsighted vision for something that wanted a long-term vision.

The visionaries got squeezed out of the reengineering movement, often as victims. This was partly due to the name. Imagine if it would have been called "re-dancing" instead of reengineering. Visionaries would have cheered and gotten into it, and figured out a way to have companies grow rather than downsize.

**JC:** What are the key characteristics of the new economy and organizations that fit the new economy? What would it take for businesses to be better prepared for the explosion of knowledge?

**JB:** Wherever possible you need to think in terms of network organizations built on communities. You need to think about your culture as being a knowledge sharing culture. The only way to deal with the explosion of knowledge is to have lots of scouts out there in all the different domains of your business where knowledge makes a difference. And you have to figure out a way to get the knowledge widely shared, widely understood, and widely accepted as the business purpose. A lot of words, usually encapsulated under the term "knowledge sharing culture."

**JC:** So those would be the kinds of things that people need to consider for the explosion of knowledge?

**JB:** Yes. I think it has a lot to do with whether your corporate culture is knowledge-friendly or not.

**JC:** How can we make an old style firm, designed for the industrial world, ready for a different world and transform it into a "Smart Business"? Most firms are in that category, so how do you morph?

**JB:** There are only two ways to morph: either choose "re-start" or "shut-down." Saturn is an example of re-start. They could not morph at home in Detroit, so they moved to a greenfield situation in Spring Hill, Tennessee. Some

old industrial cultures are so strong that the only way I would know to get them to change would be to simply by pass them. You set up and finance a new operation outside the corporation - which is what IBM had to do to start up the PC - the famous case of the IBM skunkworks. This is what General Motors had to do to start Saturn.

The other option is "shut-down." In other words, it takes a "shock" or usually two shocks in case the troops didn't get it the first time. We ought to look at shocks, such as near bankruptcies, as blessings. Los Alamos National Laboratory had such a shock at the end of the Cold War that totally threatened its existence as a nuclear weapons laboratory. Faced with those kinds of situations, everybody said, "My God! We really have to change!"

There are a few historical cases of companies that seemed to find a "third way" between the choices of re-start or shut-down. IBM's successful makeover from typewriters to word processors; Motorola's successful morphing from TV sets to cell phones. These are great stories; they are miracles. A problem is they are seldom replicable. They depended on historical circumstance, right leadership, and spectacularly flexible work forces able to learn new ways of working.

There's a possible trap here – the best and the brightest trap. Hire the cream of the crop, and they will be able to work miracles. Wrong. Best and brightest have no monopoly on miracles. Cases in point are Polaroid and Digital Equipment. Both always hired the best and the brightest. They had huge successes in their early days. But they were not able to parley their early successes into a new economy business.

**JC:** What do you mean that companies must leverage knowledge as a new factor of production?

**JB:** Key to the Old Economy were the classical factors of production: land, labor and capital. And the operating model is one of scarcity. When we talk about the classical factors, we are talking about wanting to accumulate more of them. We want to have as much control over them as we can, in the sense of managerial control. And essentially, there is a fixed amount of land, labor and capital at any one time. Until recently, we had thought that capital was scarce and the challenge was to allocate it well.

The New Economy adds knowledge as the chief factor of production and the model changes from one of scarcity to one of abundance. Knowledge does not behave the same as the classical factors. The more you use it the more it grows. It's sort of like the ultimate fax machine. You get this packet of knowledge and your send it out over the fax machine. But you still have the

original knowledge, even if the more you send it out, the more people know it. The more people know it, the better it becomes. The better it becomes, the more valuable it becomes.

Knowledge is a factor of production that is fundamentally different from the classical factors. This is our New Economy business challenge: How do we capitalize on that? We have to learn the new rules of knowledge sharing – when to share and when not.

We talk, for example, of the value of sharing knowledge. A lot of people will say that, but we have to take another step. In the real world, you better know when to share knowledge and when not to share knowledge. There are some things that are prohibited by law from sharing. Such cases are patents, or doctor/patient confidentiality, or lawyer/client confidentiality. The rules of the New Economy are going to challenge the Old Economy's patent system.

**JC:** Why do you find it surprising that internet era companies seem to be maturing with all the "ugly warts and whiskers" of the industrial heroes of yesterday?

**JB:** The Microsoft case bugs me. A big inventor, Bill Gates, is on top of a pyramid and, God forbid, you should do anything against his wishes. It's almost like Ken Olson of Digital, with the whole company reading the Ken Olson tea leaves to see what to do next. This goes back to Standard Oil, John Rockefeller and Andrew Carnegie and the financial world. I don't see a new organizational model in Microsoft.

I have a feeling the new networked model of organizing may be as likely to come from some of the old industrial companies or industries, of which Saturn is the most exemplary, as it will be from the new software companies, computer hardware companies, and the new dot.coms. Sun Microsystems and Cisco are two possible leaders in this regard.

**JC:** Is this because the new information age companies that you are referring to do not know any better? What do you think is prompting them to have those characteristics?

**JB:** I think it's partly generational. I think the Gen X generation (the one younger than the aging baby boomer generation) wants to do things differently and are just getting their feet wet on "how would you actually do it." Bill Gates and Steve Jobs are still part of the baby boom generation, but there are a lot of new people coming up in some of the dot.com companies that are not. I do

think that the view of some of the new younger dot.com companies is obscured by some of the recent, apparently easy money. You don't have to be in Silicon Valley for many minutes or days without noticing that everybody is getting venture capital money. In my mind that is saying, "Is the old factor of production - financial capital - undergoing a revolution?" Are people willing to forego all of the old measures of profitability and instead say, "Hey, don't count profits, count accumulation - whether it is wealth or customers." I think if venture capital were not so abundant there would be a lot more serious realism about, "We really do have to organize differently in order to make a profit and capitalize on knowledge-based businesses."

**JC:** What is a knowledge business? How can knowledge businesses transform themselves and their industries?

**JB:** Knowledge businesses have products and services that have the ability to create new knowledge and to learn embedded in them as a natural part of their process. To use the car case: What will we call the thing on four wheels that drives itself where your choice is to be an expert driver or a passive passenger? When I first came across that type of example, I thought, "Oh, they will have to change all the roads. There's huge infrastructure change." Someone from Sun Microsystems said, "Give me a break, I just drove for the last half an hour in a car that had no driver. It was powered off of the global satellite system. It can see perfectly well where you are, whether there is an obstruction in front of you or not."

This is another case of building more and more knowledge into an old product. It's going to transform the industry. You have to reframe the whole way you conceive the business you are in.

**JC:** Where does the knowledge reside in different businesses and how do you manage that knowledge?

**JB:** In the old days knowledge came out of the R&D function - people inventing new knowledge - the old scientific model. Today, it is as if the whole company has become the R&D function. Everybody is responsible for contributing to the new knowledge base. We don't rely just on R&D anymore. The new model follows Nanaka's<sup>1</sup> tacit to explicit and from individual to the entire organization. These are two other ways to create new knowledge. Rather than residing in just a single part of the organization, the R&D part, now it's everybody.

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<sup>1</sup>Nanaka, Ikujiro, Hirotsugu Takeuchi and Hiro Takeuchi. *The Knowledge Creating Company: How Japanese Companies Create the Dynamics of Innovation*, (Oxford Univ. Pr., 1995)

Somehow, companies have to capture that knowledge. If they don't capture it, it will retire and go away. High-energy nuclear physicists are on the endangered list. The people who know how to build and, even more importantly, how to defuse atomic weapons are retiring and they are not being replaced by a younger generation, because no younger person in his or her right mind would want to be in a field known as creating nuclear weapons. If you happen to be responsible for the nuclear stockpile in the US post cold war, this is a big problem - your knowledge workers are retiring and going away. You would like to capture and get down in your secure computer what it is they knew when they built them. A lot of companies have this problem. Your best workers or some of your older workforce, plenty of them are taking early retirement. That is an important reason for wanting to capture knowledge before it goes away.

**JC:** What are the key dimensions of building a knowledge business? What are the roles of knowledge communities in a "smart business"?

**JB:** One of the key tasks of building a knowledge community is to be able to do it both face-to-face and on-line. Communities mean ten to a hundred people. I know a couple of cases where they are larger. What do you do when you work with a great big company that has 100,000 to 300,000 employees? How do you give a community feeling to a company that large. The companies that figure that out are going to be triumphant and the ones that do not figure that out will go by the wayside at some point.

**JC:** Can you comment on your approach to finding knowledge in an organization and how you accomplish knowledge capture?

**JB:** It applies to the three big "K" areas: the knowledge business, the knowledge communities and knowledge management. The three "M"'s apply to: How do make them, how do you manage them and how do you measure them? Interestingly in the community area, you do get a lot of push back. With communities, you can either build them, nurture them, or leave them alone. One of the questions was: "How do you make, measure and manage knowledge communities?" The people who were on the side of "just leave them alone" get really upset.

I am generally not a measurement guy, but I think we need to move the concept of community out of the sky and bring it down to earth. If it is going to benefit large numbers of people, it is going to have to be built, measured and managed.

**JC:** What is the difference between knowledge communities and communities of practice.

**JB:** In actuality, I think there is very little difference. Knowledge community, learning community and community of practice are essentially the same thing. The only difference would be that, if you look at Etienne Wenger and Bill Snyder, they tend to be more with the communities of practice, "Just leave them alone, don't screw them up." And knowledge community and myself tend to go more towards, "You can make them manageable - there is nothing wrong with that."

Suppose you have a great community of practice in your business but it is practicing the exact opposite of what you are trying to achieve. What are you going to do? Just leave it alone? That does not make sense to me. There are lots of communities that I have been involved with that are doing the exact wrong things in life, and just because they are a community of practice does not mean that you should not take a hand in trying to modifying their behaviors.

The notion that no community of practice is subject to management influence or change is wrong. I do think it is valuable to understand the three things you can do with community - you can nurture it, build it, or leave it alone. That is a good metric to look at any community and ask which of the three does it fall into. By build it, I mean active management. You have a group of managers that get together and say we really need a community in this area. We do not have one right now. What do we need to do to get a group of people to start acting like a community? What are the environment things, the risks, the rewards that we need to put into place that says we would really value a community? Nurturing is, "Here's a community of practice that already exists. It's really great; it's doing all the right things. What can we do to support it further than its already doing?" The leave it alone is. "We have a community that is doing all the right things. This is great. Our best action is just not to do anything."

I resist saying that organic, homegrown, sprung up naturally are the only communities worth their salt.

**JC:** What type of learning is essential to the knowledge business?

**JB:** Not enough people see the difference between maintenance and innovative learning. Most of the learning we do is just to maintain who we are in our present jobs. Very little learning is devoted to "how should we do things differently", which is innovative learning or generative learning as Peter Senge would call it, or double loop learning as Chris Argyris would call it. Too many people associate the way we learned in third grade as what learning is all about.

It isn't. Schooling is not a good model for innovative organizational learning that business needs.

There are bunches of companies that do this now, all the way from Saturn to any of the Big Five (Andersen Consulting, Price Waterhouse Coopers, KPMG, E&Y, Deloitte & Touche). They have to. That is their business. It's not their accounting and tax advice, as nice a base as that is. It is essentially the consulting part; the more creative it is the more successful they are.

**JC:** What is the nature of leadership in the knowledge organization?

**JB:** It's "learning leadership" rather than the old style of "knowing leadership". The old style "leaders" know "the answer". The new type of leadership learns the answer faster than competitors. This is a fundamentally different orientation and reflects how the leader presents him or herself. The new CEO of HP is a real learning leader. Another learning leader was Skip LeFauve, former CEO of Saturn.

**JC:** How do you see the manager's job in this new environment? Is it different than the Chief Learning Officer, or CEO? How do they operate? What kind of behaviors and values do they need?

**JB:** Everybody in his or her managerial role is like a CEO. It devolves. It is the same pattern that holds in your own community as it does for the entire company. We may not all have the responsibilities of a chief learning officer, but we all are chief learning officers. We have to be because the chief learning officer cannot do your learning for you. You are going to have to do it for yourself. A chief learning officer can help set up the environments and give the encouragement and set up the situations for making learning more valued and materials more accessible, making the learning function prominent within the culture of the organization. But ultimately, each person is like a leader in that if you want to move a group forward, you better do your own learning.

From another context, a good "learning leader" does not have to wait for instructions. You have self-initiating learning all the time. You don't have to wait for instructions. You just start doing it.

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