

This "Selection" version is "Read Only" and not for distribution. For broader distribution and the complete interview contact Jay Chatzkel, Principal at: jchatzkel@progressivepractices.com.

Selections from: A Conversation with Hubert Saint-Onge, Senior Vice President for Strategic Capabilities, Clarica Life Insurance Company

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

This interaction is part of a series of conversations with key practitioners and thought leaders in the field of intellectual capital. This full series will be offered as a book in the near future. An expanded version is available in the May 2000 edition of the Journal of Intellectual Capital.

It has been said that conversation is the real work of the knowledge organization. These conversations delve into the perspectives, experience, policies and practices of these shapers of emerging knowledge-based enterprises.

For over a decade, Hubert Saint-Onge has been refining a model known as the Knowledge Assets Framework for the strategic integration of business plans with people management systems, using technology architecture and organizational infrastructure.

Clarica is a Canadian-based financial services firm offering a wide range of life and health insurance, saving and retirement products and other financial services. One of the key elements of Saint-Onge's mandate at Clarica is to facilitate the leveraging of the firm's business through the systematic application of knowledge management and learning organization principles.

Saint-Onge was previously Vice-President, Learning Organization and Leadership Development for the Canadian Imperial Bank of Commerce (CIBC). He is a member of the editorial advisory board of the Journal of Intellectual Capital.

Jay Chatzkel facilitated the conversation. He is North American Editor of the Journal of Intellectual Capital and Principal of Progressive Practices, a U.S.

management consulting firm focusing on building knowledge-based organizations.

JC: What do you see as similarities and differences between intellectual capital and knowledge management?

HS-O: Intellectual Capital, to me, is about the management of intangible assets. We know that these assets now represent the largest share of the value of most firms and that we need to manage those assets actively in order to optimize the performance of organizations in their respective market place. The stocks that comprise these assets are made up of the individual capabilities of the members of the firm - we call that Human Capital, the organizational capabilities - we call that Structural Capital, and customer relationships or Customer Capital. These three stocks are connected and grow based on the exchange of knowledge between the individuals, the organization and the customer. The knowledge strategy of an organization is geared to build the capabilities and the relationships that form the intangible assets of the firm. The growth of the intangible assets in turn determines the economic performance of the firm. As such, the intellectual capital framework is a representation of the "stocks" of intangible assets, while knowledge is the electrical current that runs between these assets to grow the human, structural and customer capital. So there is a clear distinction in my mind between intellectual capital and what we mean by knowledge, or knowledge strategy.

JC: Do you see any overlaps in different roles of both in your knowledge organization?

HS-O: As we evolve towards knowledge-driven organizations, I foresee very different roles emerging. For one thing, I question the typical configuration where we have separate mandates for IT, Human Resources, Marketing, and Strategic Planning. I believe that this traditional organizational structure no longer works.

For instance, segregating the customer and the member of the organization into Marketing and Human Resources is a rather ineffective way of defining accountability. In the Knowledge Era, we have found there is increasing evidence of a very high correlation between the quality of customer relationships and the extent to which members of the organization have a sense of ownership for the value created as a result of interacting with that customer. So, these are two groups of people, the customer and the member, who exchange knowledge and transact together with the commitment to create value for one another. There

should be convergence in the way we understand and manage people, both members and customers. And yet, we ask two different organizational structures to ensure that their needs are met. These separate organizational pockets, with different mandates and preoccupations, cause the organization to lose the level of coherence required to optimize both the human and customer capital involved. In the industrial era, when the value created by intangible assets counted for a lot less, this lack of coherence was not as costly. As we entered the knowledge era, with the key competitive advantage coming in large part from intangible assets, we can no longer afford these organizational disconnects.

Now that 80 percent of the value of most firms is in their intangible assets, this “balkanized” configuration also makes it much more difficult to strategically plan for the development of the capabilities and relationship that form these assets. This is why I believe that we will continue to see the emergence of new structures and roles to shape organizational configuration that will bring greater convergence of between individual and organizational capabilities and the need to build customer relationships.

JC: A lot of people are asking whether knowledge just a superficial fad consisting of “placing old wine in new bottles” or whether it is a genuinely new way of looking at how the organization creates value?

HS-O: I believe that the Knowledge approach offers a new window on the organization, a new perspective from which to look at the organization. It is a perspective that is made that much more relevant by the knowledge intensive business environment that transforms the rules of the game. Intangible assets are quite different in nature from tangible assets and need to be managed quite differently. The real big difference is that tangible assets are by definition scarce, whereas intangible assets are by definition abundant.

Accordingly, when it comes to the management of intangible assets, we will need to adopt an approach that is less controlling in nature and takes more of a systems view of the organization. This is also why the Knowledge Capital framework places such importance on the interdependence between individual, structural and customer capital.

JC: Why did you move away from the term Intellectual Capital and move towards the term Knowledge Capital?

HS-O: I am first and foremost an internal practitioner. I'm entrenched in the day-to-day work of my organization. Once you have understood the perspective offered by the Knowledge Capital model, it offers a wonderful way of explaining

how we are trying to create value in the organization. So, I tend to refer to the model quite often. What I found quite fast was that many people in my organization had a negative reaction the term "intellectual capital". They tend to reject the term "intellectual" in my view because they see it as either "elitist" or "beyond their understanding". I have found that people naturally value "knowledge" and are more receptive to the term "knowledge capital" to represent intangible assets.

JC: Is that how you see Clarica evolving?

H-SO: A lot of my work has been around questioning things that are taken for granted, assumptions that the management team too often sees as proven facts as opposed to perceptions that were true at one point but no longer fit the reality of the business environment. We need to renew and develop capabilities much faster than in the past.

Our focus has to be not on preserving the means that are more familiar to us but on the ultimate goal of building customer relationships. We achieve this only if we strive at every step to provide superior customer perceived value in the marketplace. This is only possible if we have to look at the marketplace, not from the manufacturer's perspective, but from the perspective of the customer. We need to bring the customer perspective to every activity in order to demonstrate our brand promise and to respond effectively as new trends emerge.

At Clarica, part of my work as a coach to the organization is to point out where we might be taking for granted an obsolete set of beliefs and to question them with a combination of respect and courage. This role does not always lead to winning popularity contests but it's now accepted by many of my colleagues as making a worthwhile contribution.

JC: Why is a traditional Human Resource approach no longer satisfactory?

HO-S: The problem is that by and large HR functions are not configured to deliver on the requirements of the knowledge drive organization. These expectations are very different from what the organization needed when HR adopted its current configuration. I firmly believe that the new configuration has to be focused on the development of the capabilities that will ensure that the organization meets its strategic goals. "Capability" is the link between strategy and performance. This is why at Clarica we have moved away from the Human Resources configuration and developed what we call Strategic Capabilities to

embody this new configuration. This new mandate takes into account the need to bring greater convergence to the management of intangible assets. It focuses on leveraging organizational learning and knowledge.

JC: What gains will be made by transforming HR into Strategic Capabilities?

HS-O: The key contribution is to equip the organization to perform at its best in a fast moving, knowledge-intensive business environment. The new function takes on the role of ensuring that knowledge and learning become an inherent part of effective business leadership throughout the enterprise. It ensures the development of an organizational context geared to self-initiative and interdependence. It provides the platform for accelerating learning at the individual, team and organizational levels. It ensures that the organization has the capabilities that allow us to develop the customer relationships we target at a strategic level. The main benefit of this new contribution is to catalyze the organization to move faster with coherence and clear purpose.

The reality is always more accurately described in shades of gray but I unabashedly put forward the case for changing human resources in black and white terms in order to jolt my colleagues into considering a different approach. Even then, it has to be done with respect because there is always a sense of betrayal involved in asking people to change an approach they have identified with for so long.

JC: What is the role of Knowledge Strategy within Strategic Capabilities?

HS-O: The Knowledge Strategy provides the framework within which we place new initiatives aimed at leveraging our intangible assets. It gives a context for growing those intangible assets through the exchange of knowledge, both within the organization as well as outside the organization with our business partners, and with our customers. It points to what we are trying to achieve and how we will get there. It outlines the processes, the tools and the infrastructure required for knowledge to flow effectively in a way that accelerates the development of capability. It delineates a phased approach, which takes into account the absorption capacity of the organization.

As the first phase of our strategy, a great deal of emphasis was placed on putting in place the technological infrastructure. There's no point talking about the exchange of knowledge unless the technological infrastructure is in place. Parallel to this work, we undertook an in-depth review of the values that shape

our organizational culture in order to align and renew the tacit knowledge of the organization. Our next phase was to develop the management processes that support the exchange explicit knowledge within the organization. Our focus in this regard was to develop an approach for teams to self-organize around complex and highly purposed tasks that required the participation of members from different units. We also at that time facilitated the development of several communities of practice. We have a very active and highly developed intranet, which integrates knowledge and learning and becomes an inherent part of how work gets done on a day to day basis. These are the key elements of our Knowledge Strategy.

JC: Who is involved in the Knowledge Strategy and in what kinds of ways?

HS-O: Clarica has 7500 members. 4500 are staff members, and 3000 exclusive agents. I can't think of anyone in the company who is not involved in the knowledge strategy in one way or another. The members of the Knowledge Team within the Strategic Capabilities Unit are probably most intensely involved. This Strategic Capabilities Unit is made up of the head of our Organizational Capabilities practice, the head of the Individual Capabilities practice and the head of the Knowledge Team. This team is responsible for the implementation of the knowledge strategy, including giving shape to the intranet, facilitating the formation of communities of practice, and supporting different business groups in the implementation of knowledge initiatives.

Externally, we been able to form partnerships with a number of excellent organizations. Because we have been identified as pioneers in this area, a number of people have taken an interest in partnering with us on various aspects of our knowledge strategy. For instance, we are proud to have joined forces with Buckman Labs on key technology projects. We have also worked to develop aspects of our knowledge strategy with Motorola. We have greatly benefited from these and a number of other business partnerships. It is clear to us that the knowledge strategy requires a level of expertise and resources that our company alone cannot access. These business partnerships have allowed us to achieve what would otherwise have not been possible.

JC: How does knowledge relate to learning in your organization?

HS-O: We have completely integrated knowledge and learning. As a result, we are well on our way to eliminating in-class training. All learning support from across the firm is now integrated and delivered through our intranet, Clarica Connects. So when I speak of "knowledge", I really include

knowledge and learning. When anyone of our members puts in an inquiry on the search string in Clarica Connects, they have access to everything in the organization that deals with this issue. It is available either in the form of documents, process and procedures that have been documented, any book or report, all communities of practice and all learning program either interactively on the web or on paper. Our knowledge strategy represents the foundation of our approach to learning.

JC: You say that stories and anecdotes are currently the best measures for success and effectiveness of the Knowledge Strategy. What are some examples of stories and how can you tell if they are effective?

HO-S: Yes, we have found that this is the best way to describe specific instances where the knowledge approach has contributed to the achievement of business objectives. The story, which describes most vividly the power of knowledge, describes how we approached the acquisition of MetLife's operations in Canada. When we considered the prospect of making this acquisition, we were aware that a number of other bidders would be keenly interested as well. This was just at the time when significant resources were dedicated to transforming the company from a "mutual" ownership to a stock company.

It was clear that, in order to be successful, we needed to involve as few resources as possible for the shortest period of time possible. Speed was of the essence. The first bidder to complete the due diligence process and to indicate a possible price range would likely get to the negotiating table. Within a 2 or 3 days, as many as 150 people were formed in 16 teams each covering a component of the deal. From the start, they were linked by a common knowledge database where they filed their findings, identified issues and asked questions.

At any given point in time, every individual on one of these teams knew what was going on with all those who were participating in the exercise. Things were moving fast. In fact, there was very little time for managerial intervention. People were identifying the issues, finding solutions by building on one another's ideas and moving onto the next thing. There was no need for managerial coordination because everybody was aware of what everybody else was working on. We completed the due diligence process and the business planning process for the "integration" in record time. This demonstrated the strength of this approach single-handedly.

JC: Can these stories replace solid measurement in providing a solid rationale?

HS-O: It would be a lot easier for all of us if we could in fact measure the impact of the knowledge strategy on the bottom line. We have yet to be able to be this definitive. I am aware of research that has been done on specific, more peripheral knowledge projects but I have not seen any research that quantifies the impact of a comprehensive strategy such as ours. In the case of the MetLife acquisition, we said let's assume that the acquisition of MetLife will generate an average of \$40 million in net income over the next ten years. Let's then assume that the advantage that was provided by the knowledge approach in the due diligence, negotiation and integration process accounted for 10% of the business results associated with this acquisition. This would mean that the \$4 million a year in net income potentially generated by this approach would more than warrant an investment of \$500,000 per year over the next ten years. This would represent a ROE of 800% from this transaction alone.

The problem is that nobody is ever going to truly believe this logic if they think that a knowledge strategy is useless in the first place. These people will probably say, "Well, we could have probably done just as well in the good old fashioned way". I am convinced this is not the case but, in the end, it is my view against theirs.

We are all aware all sorts of so-called "proxy" measurements being cobbled together to make up a business case. To tell you the truth, I have yet to see solid impact assessments in this field. In the meantime, the more I measure, the more I find that managers will only believe their own perceptions of the impact. Often, business leaders only insist on measurement to ensure accountability. This is the bottom line. What's fascinating to me is that whenever I present a new initiative, I am asked unmistakably how we will measure the impact. Meanwhile, old, pointless processes can stay in place forever and no one will ever be asked to measure those. It has to do with resistance to change, I believe.

JC: What are the value shifts you see as necessary at Clarica (or any other organization)? How do you accomplish the necessary value realignments, and what indicators do you look for in that transition?

HS-O: The main shift is to move from an entitlement culture characterized by dependence to a culture based on self-initiative and interdependence. In an organization where entitlement prevails, people use the organization as a shelter for the big bad world out there. At a fundamental level, they are seeing the world around them from a perspective of dependence. They see their

employment contract as one where they suppress themselves in exchange for a promised future. The problem is that this is no longer a realistic view of the employment relationship.

We all know that it is no longer possible for any organization to offer a “promised future” to anyone. Instead people have to see themselves as a “business of one”. They have to find their security, not in what their employer has to offer, but in their own capabilities. The new employment contract is then based on individuals bringing forward their commitment to create value in exchange for being given the opportunity to develop their capabilities.

This new employment contract points to the need to ensure that our management approach promotes and facilitates self-initiative. The shift from a narrow self-centered perspective to interdependence and the ability to partner is the other dimension of the cultural change required for knowledge. Someone who is in entitlement and dependence will be unable to actually be in strong partnership. Those who are dependent will believe that when they are collaborative they are making themselves dispensable. People can best partner when they are self-initiated and confident.

JC: How do accomplish the necessary value realignments and what indicators do you look for in that transition?

HS-O: Many organizations have done values work but very few have been able to make it a meaningful exercise. Here again, the approach taken to do this work is key to achieving the objectives. The first and most important step is to define the values of the members of the organization. We identified the values of all organization members through a questionnaire designed for this purpose. Having compiled the results, we went back to our members to report the results. We described the values of all our members and explained how we were thinking of aggregating these values into three major themes to form the core values of the organization.

Through extensive debriefs with members of the organization we refined the definition of three core values, which we have identified as Stewardship, Partnership and Innovation. Innovation is a composite of knowledge, learning and innovation. Stewardship is about utilizing our resources and those of our customers and leveraging those resources to the best extent possible. Partnering is working internally in teams, working with our customers as partners, and working with all of our business partners through mutual respect.

This work on values is at the heart of our knowledge strategy. Knowledge is not possible without relationships. And relationships are only possible if there is a

minimum level of congruence based on values. Healthy, collaborative, partnering relationships will form the basis for the free flow of knowledge within an organization. There is a distinction between knowledge and knowing. Knowledge is the stock, the content. Knowing is the process of turning this content into action, of inserting it into one's practice. By definition, knowing has to be embedded in how we do our work and create value. Knowing is only possible in the context of well functioning relationships where there is trust.

We are using the work we have done on values to move the organizational culture away from dependence and entitlement towards self-initiative. The values instrument we use is also a measurement tool. We know that at Clarica, on the average, our people are just on the cusp between entitlement and self-initiative.

JC: What outcomes, as far as human capital, structural capital and customer capital, do you see resulting from the realignment?

HS-O: I personally believe that we have stronger and more trusting partnerships within the organization. We have a stronger partnership with our agents. Just the fact that we are speaking about them as being members of the organization affirms our collective ownership: each member is responsible for co-creating the future of our firm. We have made very tangible progress in bringing this collective understanding.

JC: What is the difference between knowledge as stock and knowledge as practice in your view?

HS-O: Knowledge as stock is where people put knowledge in a central place for every one to access. This is explicit knowledge as a rule and it resides in technology vessels that can be accessed from anywhere in the firm on demand. One example we have at Clarica of "knowledge as a stock" is a multi-window information system built to support of customer service representatives in our call centre. When a customer calls, the service representative has a list of all the solutions purchased from us by this customer, details on their most recent transactions, the issues were that were encountered and how they were resolved. There is another window that has the answers to any inquiry the customer might have. As customers introduce their question, the customer service rep zeroes in on the corresponding logic trail to be able to provide the best answer that anyone could give in the company. Instead of training customer service representatives for months, we now only need to help them learn how to travel this application as they interact with the customer.

"Knowledge as practice" operates through a network of communities of practice. For instance, we have 90 actuaries who work in different parts of this company. We have brought them to interact together in their own community of practice. Whenever one of the members of the community encounters an issue that they don't know about, they can put forward a productive enquiry: "I have never seen this before. How did you do this?" And then seven or eight others can come in and say "I've done this before and this is how you go about it. You look into such-and-such a category on Clarica Connects, you'll find a helpful document in this regard. When I used the information it contained, this is what happened. If I were you, this is how I would go about it." With this approach, you get the full benefit of both the explicit and the tacit knowledge of the members of that community to resolve actual issues as they emerge.

JC: How do you capture the knowledge of practice? What are your range of ways of capturing that?

HS-O: The communities of practices function from knowledge data bases that need to be constantly cleaned up, kept up to date, and synthesized. Knowledge managers provide this support to communities of practice. They place the accumulated knowledge that has been validated by the community in a virtual library dedicated to this community but accessible to anyone in the firm. The libraries of every community of practice can be accessed through Clarica Connects. It is important to be able to categorize the knowledge and learning that has crystallized in communities of practice in the library to keep the discussion forum from becoming too cluttered. The discussion forum has to be kept for threaded discussions on issues of current relevance to the community.

This "Conversation" has been brought to you by Progressive Practices at: www.progressivepractices.com.