

DRAFT ISSUES PAPER

KNOWLEDGE MANAGEMENT IN THE PUBLIC AND PRIVATE SECTORS: SIMILARITIES AND DIFFERENCES IN THE CHALLENGES CREATED BY THE KNOWLEDGE-INTENSIVE ECONOMY

A paper jointly written by the Centre for Educational Research and Innovation (CERI) and the Public Management service (PUMA) of the Organisation for Economic Co-operation and Development (OECD)

1. The Centre for Educational Research and Innovation (CERI) of the OECD has been conducting research on knowledge management over the last three years. In particular, CERI has attempted to address this issue through an understanding of knowledge and learning processes at the sector level.¹ It has analysed concretely the process of knowledge production, dissemination and use in the sectors of information and communications technology, health and education. One of the main assumptions of this work has been that the economies of the OECD Member countries are facing a transformation of a magnitude comparable to the one of the industrial revolution. Under this assumption, knowledge has become a fundamental source of wealth creation supplementing industrial capital and land. This shift will lead to major organisational changes at the level of society and within organisations. These changes will mean, among other things, that the frontiers between the private and the public sectors in the production, mediation and use of knowledge will be blurred.

2. The Member countries representatives to the Public Management service (PUMA) of the OECD have mandated PUMA to start a project on knowledge management in the public sector. The first goal of the project will be to understand what consequences the “knowledge-intensive economy” will have on the role and functioning of the public sector, and to take stock of initiatives that are being put in place in the knowledge management field to face these new challenges. This will help PUMA define what management challenges lie ahead for the public sector to take advantage of the opportunities created by the knowledge-intensive economy.

¹ The main conclusions of CERI’s work have been published in a book entitled “Knowledge Management in the Learning Society”, OECD/CERI, 2000

3. The goal of this joint paper is to address three questions: i) Do the public and private sectors face the same challenges with the emergence of the knowledge-intensive economy?; ii) Is the public sector lagging behind the private sector in its knowledge management practices?; iii) What should the public sector copy from the new knowledge management practices of large private sector companies, and where does it have to create its own strategy? It will raise the questions, which have to be addressed when comparing similarities and differences in the way the public and private sectors can take advantage of the opportunities created by this “new economy”. If managing knowledge is the art of creating value by leveraging intangible assets², the opportunities created for the public sector by the “knowledge-intensive economy” are of two kinds: i) improvement of organisational effectiveness—by improving individual effectiveness, transferring information and knowledge to the organisational level, and ultimately making it easily accessible so that individuals can take effective and more informed actions; ii) acceleration of societal change—by increasing the knowledge content of its policies.

Two Sectors Embedded in the Same Macro-Economic Landscape

The increasing weight of intangible inputs

4. The public sector delivers tangible services and products such as public utilities, as well as intangible goods such as education, social equity, social order, quality of life, safety, scientific basis, regulations, security, etc. At the same time, the private sector is producing goods and services which are increasingly intensive in intangible capital, resulting in a “weightless economy” as some economists put it, with a dematerialization of products, a dis-connection between production and information.

5. Ideas, information and renewal of skills have relatively much more importance in the knowledge-intensive economy when producing goods and services intensive in intangible capital. This is why many large private firms publicise the heavy investments they are making in managing their knowledge, i.e. generating, acquiring, sharing, and incorporating knowledge.

6. At the same time, the two sectors are also actively establishing more sophisticated information systems to facilitate decision-making processes. Web sites are flourishing, making more data available to clients and citizens, and helping gather data on stakeholders. This push is organised by consultants working both for the private and the public sectors. The five most important consulting firms each have a public sector department and sell the same methodologies to set up databases and improve organisational efficiency in the two sectors.

What are the risks?

7. What is the meaning of this possible convergence? Are the two sectors going to be in increased competition over the production of goods and services intensive in intangible capital? Assuming one of the two sectors heavily invests in improving its knowledge management, does it become a threat to the other sector?

8. For example, even in countries, which have traditionally had a public system of education, private firms have increasing influence on the education and training of citizens through distance learning, coaching, information and on-line courses on the web. At the same time, governments are heavily investing in wiring public schools as fast as possible. An important question is whether the increasing use

² Karl Erik Sveiby, <http://www.sveiby.com>

of non-governmental knowledge services in the education sector opens that sector to the risk of private interests prevailing over the public interest in that sector. The same question can certainly be asked for many intangible capital intensive sectors such as the health and the scientific sectors.

9. Another aspect of competitiveness, which is affected by the knowledge-intensive economy, concerns recruitment. First, it is now clear that potential job seekers increasingly value jobs that continually improve their knowledge, providing them with future career opportunities. Second, both sectors now have to recruit specialised “knowledge workers”, and new staff in general will have to show their ability to share knowledge.

Knowledge Issues in Large Organisations: an Internal Management Challenge

10. A crucial challenge for large private firms is the management of scattered pieces of knowledge: any engineer or small group in an aircraft company such as Boeing does not know how to produce, design and market an aircraft. The whole picture is too fragmented, out of reach of a single expertise or a unique decision-maker. Within large firms, pieces of knowledge have to be co-ordinated through specific organisational vehicles. Public organisations face even greater difficulties in the collection of pieces of knowledge or expertise, because of the complex causality of the impact of public policies on the public good.

11. Traditionally, the two sectors have responded to these difficulties through the same mechanisms: organising through vertical hierarchies and thus bottom up reporting, strengthening horizontal links at the head of the organisation, and top down planning.

12. Recently, however, new and innovative knowledge management strategies have been put in place in large private sector firms to respond to the challenges created by the increasing value of intangible assets in the knowledge-intensive economy. The most complete strategies aim at improving people capital (flattening hierarchies, rewarding knowledge sharing, and building communities of practices), adapting organisational capital (databases, intranets etc.), building up a learning culture, and transferring knowledge to and gathering knowledge from stakeholders. In a recent report by KPMG Consulting,³ it is emphasised that the great majority of leading firms are now actively pursuing knowledge management. What is meant by knowledge management differs from one firm to another, and many of them still have to undertake measures which go to the heart of an organisation’s culture—such as rewarding knowledge working and measuring intellectual capital. However, the attribution of knowledge management costs across departments show that firms have started to consider that knowledge management is far from being a simple IT issue.

13. While there is much data about this general trend in large private sector organisations, there is little evidence that the same systematic organisational changes are taking place in public sector organisations. On the one hand, there have been many innovations and much progress has been made in consulting with citizens, which is transferring to and gathering knowledge from the most important stakeholders of public service delivery and public policies. On the other hand, as David Stephens points out in “Knowledge Management in the APS: a Stocktake and a Prospectus”⁴, “[while] a number of things are happening [and] [...] the language of a lot of activity reflects the knowledge management literature [...] Very few agencies [looked at] have yet worked a knowledge management thread into their biggest big picture.” David Stephens also concludes⁵ that there are three main reasons for this “wariness about giving

³ KPMG Consulting, “Knowledge Management Research Report 2000”, 2000.

⁴ David Stephens, Knowledge Management in the APS: A Stocktake and a Prospectus, paper prepared for IPAA Conference, ‘Five + Years of Reform’, Canberra, 20 November 2000, p. 11

⁵ *id.*, p. 12

knowledge management a “strategic position”: i) knowledge management can be seen as a second level tool and even be confounded with information technologies; ii) because it is a difficult management concept, again, it can be confounded with IT; iii) there might be vocabulary issues and the term “knowledge management” could even be “culturally forbidding.”

14. David Stephens’ diagnosis is familiar- many countries have found their public services slow to respond to the need for change- however it needs also to be recognised that public sector processes and structures are designed not just to deliver more efficient services, but also to protect deeper constitutional values such as equity and due process, which are all necessary to maintain public confidence in government. For example, in some countries which require passing a competitive examination to enter the civil service or to reach higher levels of responsibilities, it will be more difficult to attract potential job seekers who are primarily motivated by the learning opportunities as they will not automatically be provided with better career opportunities in the civil service later on.

Evaluating the Effectiveness of Public Policies with Complex Goals and Differentiated Stakeholders

15. Learning from evaluation or comparison is crucial for a good knowledge management strategy. An important difference between the public and private sectors is the difficulty to anticipate and get feedback on the outcomes of policies. Such ex ante and ex post evaluations—which define how much knowledge is put into policy making—in the public sector are often more complex to run than in the private sector for the following reasons:

- I. Public policies seek to influence society in complex ways and behaviour is influenced by factors, which are not always within the scope of the state.
- II. Public policies and major policy adjustments need support of multiple stakeholders (Government, Parliament, lobby groups, users, citizens...) with sometimes differing views of what policies should be;
- III. As a consequence, the intermediate goals of public policies are sometimes unclear and changing
- IV. There are sometimes political dis-incentives to collecting information on policy outcomes. Publishing data on an increasing number of crimes may have political consequences for a government seeking re-election. In the private sector, the Board looks for information on results and sanctions executive management. In the public sector, it is the Governing Body (e.g. ministers) who gets sanctioned by other stakeholders, i.e., citizens, Parliament etc.

It is in this area of assessing the outcomes of public policies that the greatest knowledge management challenges seem to lie for the public sector. If we are to create more “learning governments”, a much more strategic approach needs to be taken in collecting, analysing and using outcome information.

From Learning to Action: Can Governments Really Learn?

16. Scholars have proposed an impressive variety of definitions about learning organisations often coming down to “an organisation skilled at creating, acquiring and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights” (Harvard Business Review on Knowledge Management).

17. The capacity to reform itself and its policies from learning is an important aspect of good knowledge management. We have seen earlier in this paper that two types of challenges have to be distinguished in the public sector: i) an internal management challenge—this will require improving

internal processes and promoting internal knowledge sharing; ii) learning on policy outcomes seems to be the hardest difficulty in the public sector due to the wide array of political goals and the difficulty of measurement of results.

18. Even when policy results and better alternatives are known, action to improve these policies is not always taken. In recent history, the fact that some governments in OECD Member countries have not reformed the public pension systems to solve the problems posed by the demographic changes is enlightening. Indeed, the consequences of demographic changes on public pensions systems have been known for a long time. This situation has not prevented some governments from postponing decisions and thus sometimes undermining possibilities of successful reform. By contrast, private firms only have a limited amount of time to transform knowledge into action: this is the private sector's "time to market".

19. Because of the sometimes long gap between action (or inaction) and consequence, a truly learning government may only be fully possible in a "learning society" where the electorate over time learns what policies benefit it and votes accordingly.

The Governance Challenges of Knowledge Management in the Public Sector

The Governance Challenges of Getting and Publishing Data

20. New information systems have made storing, collecting and distributing data much easier. Large databases are mines for private firms, which can extract information about their clients, their competitors, and their providers.

21. Public organisations are certainly following the same path. In the public sector, however, databases are not only an organisation's resource for improving its own efficiency, but it is also in some cases a service provided to the whole collectivity in need of information about public budgets, programs, pending projects etc.

22. However, data as raw material has the potential for being mis-used politically, sometimes even with judicial consequences (e.g. data about accidents in hospitals). Publishing data on the number of crimes, on accidents, alcoholism, pollution, etc. can certainly have some consequences on the chances a government has of being re-elected. This poses the question of having institutional arrangements, such as independent statistics agencies, providing citizens with independent data.

23. Before being able to learn, the public sector needs to get the right information, raw material free of interpretation. Because of the weaker link between political action and outcome (e.g. criminality might increase despite an increased number of policemen in the streets), the political consequences of publishing data, and the confusion of responsibilities between executive management and governing bodies, it could be more difficult in principle to "get the facts right." In addition, governments have to inform public debate on what the facts mean. For example, citizens may associate increased number of immigrants with scarcer jobs, although the causality might not be well founded.

Using knowledge management for the Right Purposes

24. It is also important to note that knowledge management is a powerful tool, which can be used for the wrong purposes in public organisations. Within the community, there is a risk of capture of knowledge by those with the stronger voice and a danger of exclusion of those without a voice (e.g. through the digital

divide). There is also a risk that some might use knowledge management for political influence or for invading people's privacy.

25. What institutional checks and balances can be used or created to face the governance risks of knowledge management very specific to the public sector?

Concluding Comments: Identified Challenges for the Public Sector

Looking at public sector organisations from a distance, the status quo scenario is not realistic. New information and communication technologies are an opportunity for administrations to become more efficient and citizens are pushing for their modernisation. Administrations in OECD Member countries are bound to become more e-administrative. One of the risks is that some governments will not, because of the inertia of their public management systems, take the action needed for a transformation of their public bodies into "learning organisations".

While large private organisations are still struggling to find new ways of managing knowledge, the public sector faces some additional challenges:

1. Improving incentives and internal processes: Flattening hierarchies, rewarding knowledge sharing, building communities of practices etc., will be important to build up a learning culture. Some constitutional and legal rules which have been put in place to promote equity within the civil service (e.g. in recruitment) or due process will hamper the organisational flexibility required to build such a learning culture.
2. Even more importantly, anticipating, getting feedback from, and communicating on outcomes of public policies will be at the core of the learning process of public organisations. They are made difficult by the complex causality of the impact of public policies on public outcomes, and will require an improved communication policy and thus improved public debate with citizens and other stakeholders (lobby groups, Parliament etc.).
3. Learning organisations will also require new or improved governance arrangements for the manipulation of data, to protect citizens' privacy, prevent the capture of knowledge by some groups, avoid the danger of exclusion of those without a voice, and protect the citizens' right to know, especially on the outcomes of policies.