

# **Unravelling HRM's contribution to organizational capability: identifying the knowledge management micro- processes**

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PERFORMANCE-LED HR

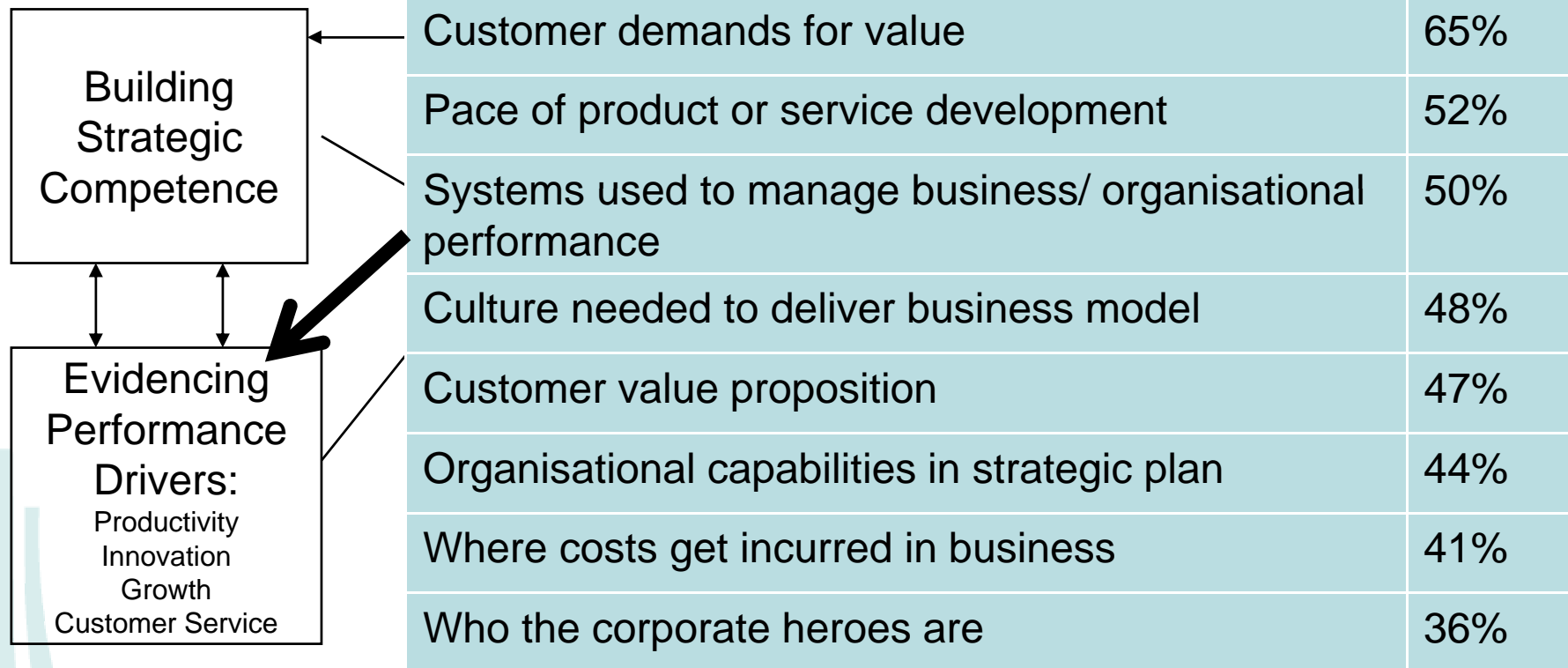
## Issue for HR Directors

- Executive behaviour about living with & managing in issue-driven contexts (Pettigrew, Thomas and Whittington, 2002)
- Irrationality is the order of the day in strategic change processes (Hodgkinson and Sparrow, 2002)
- Irrationality of strategising presents HR functions with opportunity for better contribution to strategy talk
- But have to understand:
  - complex knowledge management processes involved in strategic change,
  - contribution each makes to value &
  - points of engagement these have with HRM

# Business Model

- Dominant performance logic that specifies how business is done, who the customers are, where the costs and profits are
- Outlines how & why the organization works as it does, how financial & non-financial resources have to flow through the organization & what organizational capabilities are necessary to ensure such joined up implementation
- Three recurring themes: value network, structure or architecture to deliver the value proposition, & “strategic capabilities”
- “It creates value, and it captures a portion of that value. The first function requires the defining of a series of activities (from raw materials through to the final customer) that will yield a new product or service, with value being added throughout the various activities. The second function requires the establishing of a unique resource, asset or position within that series of activities in which the firm enjoys a competitive advantage” (Chesbrough 2007 p.22)

# HR's Agenda



**PERFORMANCE -LED**

Employee  
Engagement:  
Strategy to  
Performance

**HR**



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# HR's Agenda

67% have had to rethink value proposition, financial models, structures and capabilities

Only 16% have had no change in the organizational capabilities

Only 11% believe that more than 3/5ths of HR function understands the line issues faced when making the components of the business fit together in the BM

Strategic Competence

Evidencing Performance Drivers:  
Productivity  
Innovation  
Growth  
Customer Service

Business Model Alignment

Boardroom Engagement

Rec  
Employee Engagement:  
Strategy to Performance

Sourcing Globalisation

People-Related Capital

**PERFORMANCE -LED**

**HR**



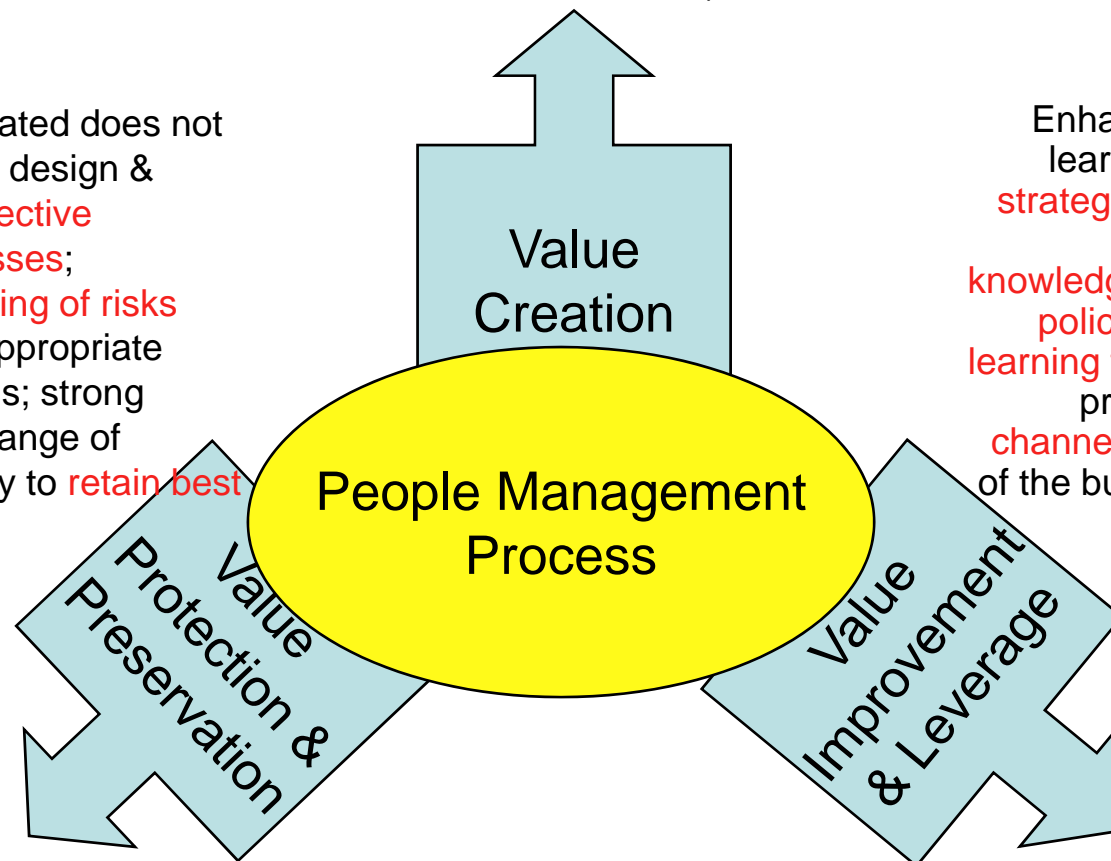
## Intervening in Strategy Talk

- Individuals characterised by fundamental limitations that preclude processing of information to the extent implied by rationale theories of strategy making (Hodgkinson & Healey, 2008)
- Business models contested territory. Competing accounts within top teams, depend on rhetorical & relational skills of strategic actors and access to forms of knowledge (Samra-Fredericks, 2003; Storey and Salaman, 2005)
- “...mental models affect organizational performance and... are a high leverage place for human resources to focus its organizational interventions” (Pfeffer, 2005, p. 124)
- HR needs to understand how best to manage the creation of forms of knowledge that must be combined to enable the business model

Ensuring organization has ability to build & acquire talent, develop **value proposition inherent in BM**. Requires: **understanding new capabilities** central to BM; managing immediate & sustained **talent challenges**; and developing performance-driven HR processes (**innovation, service, efficiency or effectiveness**)

Ensuring value created does not get lost. Requires: design & maintenance of **effective governance processes**; constructive **surfacing of risks** inherent in BM & appropriate **mitigation** strategies; strong **reputation** across range of stakeholders; ability to **retain best capabilities**

Enhancing BM as it develops; learning how best to **execute strategy**. Requires: HR function involved in **transferring knowledge**; know how to **optimise policies & practices**; manage **learning from change** & execution process; **multiple structural channels** to ensure engagement of the business with these issues





# 1. Value Creation Capabilities

- Need a theory that incorporates all three facets of value
- Key individual, team & organizational level phenomena linked back to individual level
- **HAVE YOU SEEN THESE PEOPLE?!**
- **DO HRM SYSTEMS BUILD THESE CAPABILITIES?**
- Skills underpinning/ contributing to value creation
- Downstream strategic choice & calculation processes (work on mental representations & decision making) and upstream sensemaking processes (work on interpretation & social construction) (Hodgkinson & Healey, 2008)
- 3 important individual differences effect upstream:
- Sense making and sense giving
- Locus of control and self-efficacy
- Dual information processing capacities



## Sense Making & Sense Giving

- Ability to proactively shape thought processes of others through sensemaking & sense-giving (Gioia & Chittipendi, 1991; Weick, 1995; Maitliss, 2005; Johnson et al, 2007)
- Inter-twined, multi-directional processes (individual & collective levels of analysis)
- Strategies the product of a negotiated order. Role of strategic leaders to create insights within followers' mental representations (Gioia & Chittipendi, 1991; Dunford & Jones, 2000)
- Relevant social & political capital resides at several levels e.g. Rouleau (2005) role of middle managers
- SM & SG reflected at individual reflection in three ways:
  - Mindset & process skills that enable collective dialogue
  - Possession of appropriate social and political capital
  - Rich cognitive maps

## Locus of Control & Self Efficacy

- Basis of selection & team constitution - reflected in structure & content of strategists' mental models and opportunity to spot leverage points in business models
- Attributional style; locus of control (beliefs of individuals about who controls the key events in their lives and a generalised belief in the external or internal control of reinforcement), self (and collective) efficacy, and cognitive style (Hodgkinson & Healey, 2008)
- e.g. Locus of control beliefs influence individual's field of vision, selective perception and interpretation of information (Finkelstein & Hambrick, 1996)
- Significant correlations between CEO internality & tendency for firms to engage in strategic planning, seek information & lead rather than follow competitors

## Dual Information Processing Capability

- Strategic competence: formation of rich cognitive maps
- Two sorts of competency required: Analytical skills to process detail, and monitoring of the ‘bigger picture’
- Dual processing theories (Epstein, 2000; Stanovich & West, 2000; Kahneman, 2003; Payne & Bettman, 2004)
- ‘System 1’ (automaticity and heuristic processing) and ‘System 2’ (analytic intelligence characterised as “controllable, conscious) (Stanovich & West, 2000)
- Cognitive-experiential self theory (CEST): analytic & intuitive processing are *independent* processes
- Each process leading to different construction of the task (Sadler-Smith & Sparrow, 2008)



## 2. Value Leverage Capabilities

- Requires enhancement & exploitation of existing value in strategy by focusing on: optimisation of existing strategy or learning/feedback from strategy execution process
- Individual-level process skills of strategist supported by organizational designs based on principles of redundancy & overlapping business processes, internal competition, strategic rotation of actors, free access to information (reduced information differentials) & single, integrated databases
- Reconstruction & adaptation of organizational knowledge base requires three capabilities:
  - unravelling of information markets within the organization
  - role of communities of practice and global expertise networks in tacit knowledge transfer;
  - team cognitions & management of distributed cognition.



## Unraveling information markets

- Distributed forms of organization inherent in many business models rarely thought through or managed
- Ability to control and manage quantity & quality of information that flows through intra-organizational information markets (Hansen & Haas, 2001)
- Knowledge brokering gains access to divergent knowledge that is valuable or unknown to important parts of the organization (Hansen, 1999; Van Wijk & van den Bosch, 2000; Kang, Morris and Snell, 2007)
- Requires organization design mindset at individual level: integration mechanisms in enhancement of flows of information across cross-unit linkages; facilitation of searches for knowledge not immediately available; & transfer of complex knowledge without message distortions





## COP and Expertise Networks

- Knowledge that in essence is hard to access and communicate (Nonaka, 1991) but ultimately capable of articulation and surfacing into strategic arenas; or
- Knowledge that is of a different order because it lies outside the conscious and rational modes of cognition (Spender, 1998) – latter managed by dual process
- Possession of processual skills that ensure effective group dialogue & subsequent cognitive - behavioural change that this creates within group (Starbuck & Hedberg, 2001)
- Competency of collective dialogue, known too as organizational inquiry, or strategic conversation (van der Heijden & Eden, 1998)
- Strategic editing has to be both intelligent and additive: ability to transfer tacit knowledge between individuals, collectives and systems (Brown & Duguid, 1991)





## COP and Expertise Networks

- Communities of practice (CoPs) research: unstructured, spontaneous, self-managing & emergent groups, & the social interactions within & without them (Handley, Sturdy, Fincham & Clark, 2006; Roberts, 2006)
- Structures/ systems that enable acquisition of learning through: team processes of learning, reflection & appreciative enquiry; co-inquiry, as opposed to expert-student relationships; joint planning forums; long time-span projects; and dialogues across communities (Lindkvist, 2005)
- Leadership style: reflects management of recognition, power & trust within and without the community; motivations to share knowledge; levels of identification & engagement (Maitliss, 2005)





## Team/ Shared Cognition

- Outcomes of shared cognition - individual knowledge supported by similarity of team members' mental models - emerging cognitive state varying in terms of accuracy and levels of similarity to other team members' maps
- Human factors work on micro-level processes shows the assumption of total sharedness is over-simplification
- Business models involve collaborative efforts of multiple teams (multi-team systems) - "team of teams" require knowledge structures that understand purposes, resource capabilities, limitations & requirements of component teams
- Accommodate: overlapping, complimentary or distributed understanding of strategy execution (Hodgkinson & Sparrow, 2002; Ilgen, Hollenbeck, Johnson & Jundt, 2005; Hodgkinson & Healey, 2008)



## Three Shared Cognition Capabilities

- Information sampling or pooling behaviours: unmediated group behaviour leads to dysfunctional information sampling, gravitation to favoured shared cognitions & limitations in way that knowledge is organized and inter-connected by individuals.
- Cognitive consensus: strategic consensus reached via mediation of group processes that shape wider decisional arena through policy capturing, agreement seeking, risk judgement, and conflict management strategies.
- Knowing where to find particular expertise and deep understanding of mutual capabilities (called transactive memory)



## 3. Value Protection Capabilities

- Value protection & preservation involves maintenance of value through systems, structures & culture that ensure effective governance, risk/reputation management & capability retention
- Risks: information-rich environments scarcest resource is attention people can devote to information; key nodes in network at risk of information overload; nodes at the periphery not be in tune with sensemaking that exists in the core of network
- Three key strategic capabilities:
  - decode institutionalized knowledge/ organizational memories
  - notion of foresight
  - capability for organizations to act as high reliability systems.



## Decoding Organization Level Structures

- Organizational memory highlighting importance of greater sensitivity to past history & political influences (Lyles & Schwenk, 1992; Walsh & Ungson, 1992)
- Cultural language, symbols, stories, sagas (cultural web); transformation logics implicit in standard operating procedures; organizational structures & roles allocated to people etc
- Richness of strategist's cognitive maps - moderates risk
- Avoids repetition of past mistakes, adds legitimacy to new decisions, draws on history to frame sharper questions & helps control & co-ordinate implementation
- Send 'higher-order reference signals' to managers that serve to guide behaviour





## Notion of foresight

- Sensemaking, double-loop learning & scenario planning all allude to notion of foresight (Tsoukas & Sheppard, 2004)
- Ability to see through apparent confusion, spot developments before they become trends, see patterns before they fully emerge & grasp relevant features that shape the direction of future events
- Foresight is in turn the product of preceding insight
- Both an individual competency (dual processing and intuition at the individual level) but also collective quality or socially-embedded organizational capability – a background skill developed through...





## High Reliability Organization

- Element of foresight – heedfulness – derived from high reliability theory (Weick, 1987; Roberts, 1990)
- Construct, discover & correct unexpected events capable of escalating into serious problems & establish what is necessary for reliable performance & adaptive learning
- Stability in the cognitive processes (called the cognitive architecture). Competencies of controlled information processing, mindful attention and heedful action applied to social interactions that take place between individuals
- Situation awareness – dynamic & fluid type of knowledge involving attentional/ problem-solving cognitive skills
- Conservation of attention, interpretation of weak signals, differentiation of wisdom, & reframing of understanding induced by concern for the potential of catastrophe





## Conclusions

- Many knowledge management issues currently facing organizations are under-addressed, yet the impact of these issues on HRM and the potential for effective intervention roles for the HR function are significant
- Real opportunity for more inter-disciplinary work in these areas to enrich our understanding
- Work on individual differences & the capability of strategists to cope with the complexity of information should warn HRM functions that either we need to modify the organizational forms adopted, or we have to work much more closely with the individuals who work within them
- HR functions have to understand that at the individual level cognitive skills are paramount, whilst at the organizational level systems and processes that enable more effective social construction come to the fore



## Value Creation Hypotheses

- *H1: In order to provide at the individual level for better sense-making and sense-giving, HR functions need to assess and manage the political and social capital of key actors, along with their possession of appropriate process skills necessary to ensure more collectively-informed ways of knowing*
- *H2: It may be advisable to select individuals with intermediate internal-external control expectancies throughout the top team, or, indeed, the wider organization as a whole.*
- *H3: Both individually and as a collective, managers will better survive the rigours of complexity and turbulence confronting them during periods of business model change by developing both finely honed analytical skills and automatic processing strategies that enable them to cut through the detail in order to take action under time pressure and with less conscious cognitive effort, thereby freeing up capacity for creativity and innovation.*

## Value Leverage Hypotheses

- *H4: In order for HRM to improve and leverage the value inherent in a strategy, it has to design interventions that articulate three key organization design principles: the role played by integration mechanisms in the enhancement of flows of information across cross-unit linkages; facilitation of searches for knowledge that is not immediately available; and transfer of complex knowledge without message distortions*
- *H5: The processual skills of strategic leaders help mediate dysfunctional aspects of group dynamics, by attenuating or amplifying individual ideas and bringing an editing role to what individuals persist in voicing to the world*

## Value Leverage Hypotheses

- *H6: HRM can help manage of communities of practice through management of the mechanisms that determine their effectiveness: the management of recognition, power and trust within and without the community; motivations to share knowledge; levels of identification and engagement (be that in terms of formal activity or inside the minds of participants)*
- *H7: HR functions can improve the quality of shared cognition by analysing the requisite levels of information sampling, cognitive consensus and transactive memory necessary to ensure effective execution of the strategy.*

## Value Protection Hypotheses

- *H8: HRM needs to help assess how the strategic management process is aligned with the knowledge flows to and from individuals that arise from these deeper institutional structures. In examining how individuals interact with knowledge-embedded artefacts that surround them, HRM should ensure that strategists have to both individually attend to, and ensure the collective decoding of, this institutionalized tacit knowledge*
- *H9: HRM can help engender foresight by encouraging work and planning processes that draw attention to three capabilities underpin it: recognition that the future has no place to come from but from the past; recognition that what matters in the present about the future are departures from the past that affect predictive values; and “heedfulness” to prospective change through continuous comparisons and constant oscillations from present to future to past and back.*

# Value Protection Hypotheses

- *H10: The effectiveness of complex business models requires HRM to ensure that interactions within their organizations avoid becoming institutionalized, routine and habitual through the fostering cultures based on mindfulness. This requires building insight into the risks and trade-off between functions allocated to individuals versus teams versus technology within business models.*

