Managing to Learn
How Companies Can Turn Knowledge into Action
Research by David A. Garvin

After a decade of extraordinary growth, Nike faced slowing sales in the early 1980s, because the initially market-oriented company had missed a major turn in the road. Reebok had introduced softer and more controllable athletic shoes with broad consumer appeal, while Nike stuck to the unrealistically purist view that it was in the business of producing only high-performance footwear for competitive athletes. Nike has since changed its ways, but several years of less-than-stellar sales was the price the company paid for being insufficiently nimble on its own playing field.

In his book, Learning in Action: A Guide to Putting the Learning Organization to Work (Harvard Business School Press: 2000), HBS professor David Garvin argues that Nike left open a critical gap between acquiring innovative thinking and putting it into action throughout the organization. In particular, Nike managers failed to pick up the relevant market signals and learn from them. It took them too long to figure out that consumers wanted something different from what Nike was offering at the time.

Unfortunately, Garvin states, this is not an isolated incident in the corporate world. According to his research, few managers know how to channel innovative thinking into practice by making sense of the overwhelming amount of market, financial, and technical data now available and then sharing discoveries and strategies with other members of the organization. In short, they don’t know how to create organizations that keep learning.

Firms that come up short in this regard, Garvin asserts, may be condemned to repeat mistakes endlessly, fail to adapt to changing conditions, lose employees who are repositories of important knowledge and skills, and ultimately wither. In contrast, Garvin’s concept of a learning organization is one that is “skilled at creating, acquiring, interpreting, transferring, and retaining knowledge and at purposefully modifying its behavior to reflect new knowledge and insights.” Although raw ideas are essential, he avows, lots of lightbulb epiphanies alone do not make a learning organization. The necessary complement is a mind-set of inquiry and experimentation, plus a knowledge-sharing process that enables everyone in a company to act in an informed way upon what’s been learned before.

At the heart of Garvin’s book is a guide for firms to transform themselves into learning organizations, a path that requires the willingness to change routines and not bow down before conventional wisdom. In general, there are three steps needed for learning to occur, no matter what learning style is used. “Organizations must first acquire information,” he writes. “The crucial questions include, What information should we collect? From where? How should it be obtained and by whom? Have organizations interpreted information? At this point, the crucial questions include, What does the information mean? What categories should we apply? What cause-and-effect relationships are at work? Finally, organizations use or apply information, translating it into action.”

Each task involves distinct challenges. Most companies, Garvin found, commonly take the first step, but the next two are more difficult and more rarely done. He recommends that organizations take a careful look at what they need to know to meet their challenges and leverage their opportunities, and then figure out how to go about learning it. Although Garvin’s prescription sounds simple in the abstract, he finds that it’s often hard for companies to follow. A frequent stumbling block is the pervasiveness of what he calls “learning disabilities,” which impede the learning process at every stage.

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"Problems in acquiring knowledge arise from oversight, omission, and errors in the way information is collected," Garvin writes. "Interpretation problems arise from distortions in the way information is collected," as well as from poor statistical methods.

"Application and use problems arise from corporate risk aversion and the difficulties people have in recognizing that their actual behavior often deviates markedly from their espoused behavior. Together, these problems conspire to undermine learning and reduce its effectiveness."

Garvin also describes three distinct modes that successful learning organizations have adopted: intelligence gathering and interpretation, reflecting on experience, and experimentation. L.L. Bean, for instance, is a company that has excelled at learning through customer intelligence. The outdoor products retailer has gained success not only by accumulating information in a thorough way but by interpreting it with great creativity and discipline. The company's product testers assess goods by using or wearing them in the field, noting comfort, fit, functionality, and limitations. Back at L.L. Bean's corporate offices, staff members then evaluate these observations, writing significant pieces on Post-its and using this array of on-the-scene reactions to facilitate the product-improvement process and evaluate a new item's potential in the marketplace.

Boeing has used learning from experience to smooth out difficulties facing its new development projects. For example, a high-level employee group that had been involved with the 737 and 747 aircraft created a "lessons learned" manual to apply to the 757 and 767 models. Xilegheny Ludlum, meanwhile, continuously experiments with its used products, interpreting and applying the results, while allowing work teams freedom from departmental budget constraints as they pursue new products and quality improvements.

Garvin also emphasizes the importance of establishing an atmosphere conducive to organizational learning—"a task he entrusts primarily to corporate leaders, who, he says, need to be both candid and ready to hear new views. Learning leadership requires distinct skills, Garvin argues, including the ability to ask open-ended questions, listen to the responses, and lead a productive discussion free from superficiality, rigidity, or misinformation.

At American Express, for example, CEO Harvey Golub tells his direct reports that he is "less interested in people keeping the right answer than in their thinking about issues the right way. What criteria do they use? Why do they think the way they do? What alternatives have they considered? What premises do they have?" Similarly, at Serangi, Byntear, a division of Compaq, General Manager Zahi Housari notes that when employees come to him with a problem, his response focuses on helping them come to their own decision rather than telling them what he thinks they should do. In addition, says Garvin, the top management of a learning organization should allow individual workers to experiment without reproach and send the message loud and clear that knowledge is something to be shared throughout the firm, not hoarded.

In the long run, Garvin observes, a learning organization doesn't rely on old answers to new problems to simulate each generation of employees to collect and examine new data and come up with new approaches. After all, he concludes, "learning is a profession of faith in the future, an admission that progress is possible."
Coordinated Effort

By Robert S. Kaplan

Between 1992 and 1993, Mobil North America Marketing & Refining (Mobil NA-MAR) catapulted from dead last to first place among its industry peers, a position it sustained for the next five years. Within a similar time frame, the city government of Charlotte, North Carolina, found a new way to simplify many departments and service units around a common vision. Meanwhile, UPS was staying ahead of a rapidly changing market by becoming more customer-focused and giving frontline employees a clear sense of the connection between their everyday activities and the company’s overall objectives.

To help accomplish all this, each of these diverse organizations used the Balanced Scorecard to put strategy at the center of its key management systems. HBS professor Robert Kaplan and consultant David P. Norton introduced the Balanced Scorecard in a 1992 Harvard Business Review article and in their 1996 book, The Balanced Scorecard (Harvard Business School Press). They designed it as a tool that translates an operation’s mission and strategy into a comprehensive set of performance measures whose focus goes beyond a financial metric to provide perspective on the customer, internal business processes, and the capacity for innovation and growth.

Since then, the two have seen their concept evolve into a holistic management system that concentrates all the resource and energy of an organization on its strategy. In their latest book, The Strategy-Focused Organization (Harvard Business School Press), Kaplan and Norton document more than twenty examples of this approach.

“We started out,” Kaplan explains, “to solve a specific problem: How do you measure performance when so many of your most important capabilities—like innovation—are intangible? The Balanced Scorecard was the solution.” As organizations went about implementing this system, he continues, “they extended its use beyond performance measurement. We soon realized that the scorecard helped to solve a much more important management problem: how to implement strategy.”

Kaplan and Norton found that organizations successful in doing that displayed a consistent pattern. “Although each unit approached the challenge in different ways, at different paces, and in different sequences,” they explain, “we observed five common practices at work that we formulated into principles for attaining sustainable performance improvements: translate strategy into operational terms, align the organization to the strategy, make strategy everyone’s everyday job, make strategy a continual process, and mobilize change through executive leadership.”

To translate its strategy into operational terms, an organization must define its vision, identity goals to achieve it, and implement measures that will gauge success. The process of developing a balanced scorecard provided the framework for ascertaining these elements and describing them in a consistent way for the entire operation.

The Mobil Speedpass program exemplifies what can happen when strategy is clearly defined and communicated. Using the Balanced Scorecard methodology, executives at Mobil mapped a two-phased strategy for generating higher volume on premium-priced products and services while reducing costs and improving productivity. The revenue growth component required Mobil to offer customers “fast, friendly service.”
By understanding the customer value proposition, a planning manager in Mobil’s Marketing Technology Group found an improved way to enhance customer service by developing the Speedpass, a small electronic device attached to a key chain or car window. When waved in front of a photocell on a gasoline pump, it identifies both the consumer and the method of payment, providing a quick and easy transaction that has helped Mobil differentiate itself from its competitors.

But articulating goals and measures is not enough. To implement a vision, an enterprise must also align its individual business and support functions and create synergies among its various units. While many operations have difficulty communicating and coordinating across these functions, strategy-focused organizations break through this barrier, according to Kaplan and Nolan.

Once Charlotte established a scorecard for the whole city, for example, its operating units— including police, fire, planning, and community development—developed their own scorecards, based on the city’s version. In addition, Charlotte’s city manager established cross-functional cabinets to work on each of the strategic themes articulated in the city’s scorecard, creating cross-functional partnerships among departments. Charlotte’s police chief, for instance, was an obvious choice for the community safety cabinet, but he also joined the transportation cabinet when he realized that more of Charlotte’s citizens were injured as a result of traffic accidents than crimes. “When local objectives are aligned with each other and the rest of the organization, they become reinforcing, and synergies are achieved,” notes Kaplan.

While it is important that executives, department heads, and business unit managers are attuned to their organization’s strategy, today’s frontline worker must also be strategically savvy. The principle to “make strategy everyone’s everyday job” is all about communication and accountability. For example, UPS established local targets for customer satisfaction, employee relations, competitive position, and time spent in transit. As a result, its more than 300,000 employees had a much clearer view of how their local activities contributed to higher-level corporate goals.

But for workers to become truly strategy-focused, they must also create personal and team goals that reinforce their organization’s scorecard. Incentive and reward systems also give employees a stake in their company’s success. Both Mobil and the city of Charlotte based employee incentive programs on Balanced Scorecard results, while all UPS employees could buy stock in the company even before it went public in 1999.

To make strategy an ongoing process, Kaplan and Norton advise that organizations develop feedback systems to promote continual learning. In addition, they underscore the importance of linking budgets with strategies. By using the Balanced Scorecard as a yardstick for evaluating potential investments and initiatives, companies embed their strategy throughout their planning, budgeting, and reporting processes. “The strategic budget identifies what new operations are required; what new capabilities must be created; what new products and services must be launched; what new customers, markets, applications, and regions must be served; and what new alliances and joint ventures must be established,” Kaplan and Norton write.

The authors’ fifth principle, “mobilize change through executive leadership,” is at the heart of all strategy-focused organizations. “Leadership runs throughout the entire process,” declares Kaplan. “A leader starts the journey, has a vision of what the organization can become, and inspires people to fulfill that vision. It takes leadership to launch the effort and sustain the program.”

From measuring progress to navigating strategy, the Balanced Scorecard has proved helpful to a wide spectrum of organizations. As The Strategy-Focused Organization makes clear, operations that make good use of it will benefit from keeping strategy right where it belongs—directly in the cross hairs of the entire enterprise.
If Japan Is Back In Gear, Fasten Your Seatbelt

For months, policymakers, investors, and executives have hesitated to label the good economic news coming out of Japan as proof of a sustainable revival. But on May 13, Japan blew away market expectations by reporting annualized economic growth of 5.6% in the first quarter of 2019 — and 3.2% growth for the fiscal year ended in March, the biggest jump since 1996. After more than a decade of growth averaging 1% a year, the ¥5.7 trillion economy seems increasingly on solid footing, with huge implications for the region and for the global economy.

"For 12 years, Japan was pulling a brake on world (economic) growth. Now it is making a positive contribution," says David Ake, chief global economist at Bear, Stearns & Co. (BSC) in New York. Forecasters say Japan’s economy should clock anywhere from 3% to 3.4% growth for the full year, and maintain that rate for several years out.

Steering Demand

Why are these numbers so encouraging? In the 1990s, Japan relied on two factors to keep going: Massive government spending and exports. Now, faced with huge budget deficits, pump-priming isn’t an option for Prime Minister Junichiro Koizumi. Japan’s government debt is 160% of gross domestic product. Exports are still a big engine of growth, especially to China. But the recovery is now being powered by domestic consumption, which means it could have more staying power than earlier suspected. Consumer spending, housing, and business investment represented about two-thirds of the first-quarter output. Not only are corporate net earnings expected to grow 24% this year but the jobless rate of 4.7% is a three-year low. After enduring years of stagnation and restructuring, Japan-style, shoppers are shutting off the gloom. Domestic demand for high-tech gadgets is soaring. Housing construction is up, as are auto sales in the first quarter.

If the recovery holds, policymakers worldwide will have to adjust their view of Japan’s role in the world. Asia will have a source of growth to rely on besides China. It’s easy to forget that Japan’s economy is 15.5% of the global whole, vs. China’s 4%. Sustainable growth in Japan could also start to work its law of demand in the world economy. The Corporate Good Value Index, which reflects commodity, wholesale, and shipping costs for Japanese manufactured iron ore in March by 0.3% for the first time in nearly four years. That reflects stronger demand for Japanese exports and domestically produced goods, and could eventually feed into consumer prices.

The experts disagree on when Japan’s dedication will peter out. The Bank of Japan thinks consumer prices will keep falling in the middle of 2019. Bear Stearns’ Matthew formally predicts consumer prices will start rising later this year. A rising pressure on the BOJ to raise interest rates modestly next year. Japanese savers who park their wealth in bank deposits would get a better rate on their savings, increasing their disposable income.

Could Japan’s turnaround get detailed? An unexpected recession in the U.S. would be a major setback. A crash landing in China would also hurt, but it might not kill Japan back into recession if the U.S. keeps growing. And if a virtuous circle of rising consumer spending, corporate investment, and growth gets going in Japan, it will be easier for the government to tackle long-term problems such as its still-massive debt load. A robust Japan? It could be the economic shock of the year.