Building a Knowledge Sharing Company -
Evidence From the Finnish Insurance Industry

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Abstract

This paper crystallises out some key findings of knowledge management practices from a Finnish survey on the insurance industry. 15 Finnish insurance companies of different sizes and product portfolios are studied. We propose a model of the functioning of a knowledge sharing organization. Knowledge sharing is effective, when the learning organization metaphor is well implemented into the organization. Knowledge sharing is present in a more formal environment, in the business processes, and in a more open human interaction, the existence of which we call intellectual capital. Intellectual capital is born in the process of communication, which needs to be a core competence of a knowledge sharing organization. Communication as a core competence can exist, when there is enough of personal knowledge, human capital, an ICT infrastructure to support the communication process, and enough of organizational slack. Our analysis shows that effective knowledge sharing is in a positive correlation to business success.

1. Introduction

Companies nowadays live in an overflow of information, both internally and externally produced. Ability to maintain an organizational memory through which to share knowledge and facilitate organizational learning is a core capability for any company. Especially important this is however for companies in information intense industries, such as the insurance industry.

Knowledge management is the process of capturing a company’s collective expertise wherever it resides – in databases, on paper, or in people’s heads – and distributing it to wherever it can help produce the biggest payoff [1]. In our paper, we focus especially on the knowledge sharing aspect of knowledge management.

The discipline of knowledge management is more than 15 years old. Knowledge management deals with the process of creating value from organization’s intangible assets. It’s an amalgamation of concepts borrowed from the artificial intelligence/knowledge-based systems, software engineering, BRP, human resource management, and organizational behavior fields [2]. According to Higgins [3] knowledge management is the combining of technology and human judgment to understand and improve how the organization creates, saves, and uses its awareness of how to do things. Knowledge management includes database management and the creation and documentation of how things are done in the organization. Knowledge management is the systematic, explicit, and deliberate building, renewal and application of knowledge to maximize the enterprise’s knowledge-related effectiveness and returns from its knowledge assets [4].

Hibbard [1] states that technology plays a very vital role in knowledge management, but technology on its own cannot make knowledge management happen. Knowing which technologies to select and how to deploy them begins with an understanding of just what knowledge management is.
In our article we build up a model of the functioning of a knowledge sharing company. The basic elements of such an organization are:

- Application of the organizational learning metaphor
- Intellectual capital
- Knowledge sharing built in business processes
- Communication as a core competence
- Human intelligence
- Proper ICT infrastructure
- Enough of organizational slack.

Methodologically our research is based on a survey in the Finnish insurance industry performed between 1996-2000. The material for this study consists of interviews in fifteen (15) Finnish insurance businesses. Two or three persons per company were interviewed during the spring of 1998. Triangulation efforts [5] were included through study of literal material from each company, industry reports, and financial records of the companies. The case study method was used as the technique for the analysis of the material. The study is explorative and deductive in nature. The companies are studied as different cases, and from these cases a broader view and understanding of the insurance business information culture is created. The insurance business was selected because the insurance companies are information intensive in their activities, in which knowledge management is very important.

Our article unfolds as follows: in the next section we take a look at the insurance industry as an environment to create and share knowledge. Focus is mainly on the inter-organizational knowledge transfer, but at the same time the ramifications for the organization-internal knowledge sharing are laid.

The following section takes an organization-internal view on knowledge sharing. The functioning of knowledge sharing is being discussed, and we end up with a model on how a knowledge sharing organization works.

In the next section, we discuss the application of our model in the Finnish insurance industry. In that connection, companies with three different knowledge sharing environments were identified. Depending on the knowledge sharing -environment, companies must put focus of work on different issues.

In the last main section we present one of our key empirical findings, which shows that an open information environment contributes to the business success of the insurance companies. The article is closed with conclusions and recommendations for business managers.

2. Insurance industry as a place to share knowledge

Knowledge formation and sharing can happen both at organizational as well as at personal levels. In this section we discuss the state of organizational knowledge activities in the insurance industry, and the next section will focus more on the personal level.

The concept of information intensity of an industry is well known and documented [6, 7, 8]. The financial industry, including insurance, belongs to the class where both processes and products are information intense. In both external and internal intelligence complexity, insurance companies are at the extreme end. This makes them very dependent on knowledge management skills.

The intelligence needed by any organization can be divided to internal and external intelligence. The external intelligence is usually referred to as market or competitive intelligence [9, 10, 11]. Here the goal is to collect mission-critical information from the organizational environment, mainly markets. Financial industry organizations have to deal very much with risk: for banks etc. financial risks are of key importance, and physical risks less so. For insurance companies, both risk types are of key importance. Investments are typically of longer time-period than in normal investment banking, and the whole insurance idea is about eliminating physical risks.

A key factor for market intelligence is the relationship to customers. Insurance industry is one of the most information intensive industries in this respect: whereas in a bank the knowledge about the customer is often limited to a few key financial records, at the extreme transactions of one account, insurance companies have to maintain a complex set of data about the customer, even in standard operation. The situation is still complicated when a loss materializes.

Internal intelligence is usually referred to as organizational intelligence [12, 13, 14, 15, 16, 17]. It has many aspects, but the ability to manage workforce and information systems are certainly key factors [18]. Innovativeness and product development skills are too central to organizational intelligence [19]. Currently the concept of social intelligence has gained a lot of attention [20].

Again to compare for example banks and insurance companies, banks mostly operate on standard transactions that can be computerized. In insurance, human assessment of risks and losses is a key function. These complicated tasks cannot be computerized fully, but of course supported by them.

One aspect of social intelligence too deserves attention. Customers often contact insurance companies in a severe situation, after a loss, either physical or even of life or health. Handling with these customers demands extreme skills. Banks, again to compare, operate in less sensitive areas of human life.

The big challenge for insurance companies is to share information between different insurance lines. Typically, and often demanded by law, insurance lines related to life, pension and indemnity insurance have been kept separate. A full-service insurance company might have up to some
120 different insurance lines. Current trend of customer-orientation however demands that customers must be seen as whole entities. This puts high pressures on the organizational intelligence of insurance companies.

A key aspect for organizational intelligence is creating a learning organization. Insurance industry is typically considered as an archetype of a tradition-rich and change-resistant industry. However, the external pressures are high and demand also insurance companies to learn. Among the pressures we can see:

- New risk types such as organized terrorism and computer security risks
- Maturation of classical markets
- Global warming causing environmental catastrophes bigger and deeper than before
- Globalisation: failures and mistakes of systems can cause unexpected chain reactions having far-reaching consequences.

One typical method to share knowledge between organizations is to maintain and operate common marketplaces. So far the insurance industry has been quite unsuccessful in this, and even in the Internet-time we do not have any major insurance industry portal or electronic marketplace. One factor to be taken into account is that insurance is at the bottom line about sharing risks: buying and selling them. Risks are quite complex commodities that suffer from high complexity of product description and of different product specificities [21], which makes them hard to trade in any market, not to speak of an electronic market.

Factors making knowledge sharing difficult in the industry are among others too:

- Intense and often conflicting regulation of the industry
- Fragmentation of the market, uneven sizes and capabilities of the companies.

3. The functioning of a knowledge sharing company

The learning organisation has a visible role in the literature that concerns information and knowledge as important resources for business activities. The idea with the learning organisation is that an organisation consists of factors that build up a system in which the individual learning, in order to become effective, is anchored in the whole organisational activity. Thus, individual visions are important, and, at the same time, these have to be incorporated with the organisational visions and aims. The learning organisation is constructed from several components such as core competence, co-operation, motivation and communication. It is important that these components create the common base for the organisation. This is considered the starting point for effective information and knowledge use in a business company [22, 23, 24, 25].

There is a wide range of different descriptions and constructs about organisational learning among researchers. The definitions include such issues as: encoding and modifying routines, acquiring knowledge useful to the organisation, increasing the organisational capacity to take productive action, interpretation and sense-making, developing knowledge about action-outcome relationships and detection and correction of errors. Some of the definitions involve individual human actors while others take place in the organisational level of analysis. Another distinction comes from the research objective: some researchers study how an organisation learns while others concentrate how individuals embedded in organisation learn [26].

Kim [27] is discussing about how individual learning can advance organisational learning and pointing out the link between those two. He creates an integrated model, OADI-SMM-model: observe, assess, design, implement – shared mental models. The model addresses the issue of learning through the exchange of individual and shared mental models. The individual mental model is in essential role in the model and Kim is looking for answers how these mental models explicit and how they can be transferred into the organisational memory.

The concept of core competences is well established in business literature [28, 29]. Companies should concentrate on a few specific and well-defined skills that most clearly contribute to the business success. In our model, the ability to communicate is a core competence needed in a knowledge sharing company.

Business processes can be found in all organizations. Instead of viewing business in terms of functions, divisions or products it can be viewed as a process. Process can be defined as a structured, measured set of activities designed to produce specific output for a particular customer market. Process implies a strong emphasis on how work is done within organization, in contrast to a product focus’s emphasis on what. There is also a heavy emphasis on improving how work is done in contrast to a focus on which specific products or services are delivered to customers [30].

When using the process approach the organization usually aims to produce value for its customer. Therefore an important measure of a process is customer satisfaction with the output of the process. To ensure that the customer needs are met and that design an execution is in somebody’s response a process needs a clearly defined owner [30].

Another definition that emphasizes customer role in process says that process is a collection of activities that uses different kind of inputs and creates an output that is of value to the customer [31]. There is also a definition where the process is divided into three types: core, support and management. Core processes concentrate on
satisfying external customers, support processes concentrate on satisfying internal customer and management process concern themselves with managing the core or the support process, or planning the business level [32]. In our framework we define that knowledge sharing must be implemented to business processes.

Here we define the concepts of human and intellectual capital as basic requisites for effective knowledge sharing. With human capital we refer to the workforce of the company, the knowledge and functionality assets the humans in the organization carry. Intellectual capital is human capital put into action. The process of turning human capital into intellectual capital is a demanding one. The interface organisation – individual [33:67] is very difficult to handle, since every individual is unique. This interface is important to consider when building up a functioning communication network in the company. The individual is affected by the information, the personal and the organisational values and motivation for the work.

Information and communication (ICT) infrastructure is basic joint platform of technical solutions an organization uses for information processing purposes. It can be in- or outsourced. Typically crucial parts of ICT infrastructure are processing nodes (computers), communication networks and databases. To ICT infrastructure we can too count the needed human resources (system administratos) and the guidelines and methodologies used in the management of ICT resources. With organizational slack we refer to the extra resources an organization has, especially in workforce and time [34], but too in other resources. It is well understood that organizational slack is a key component in creativity, as well as in development of any activity. In our framework, organizational slack is needed in developing communication skills, which are again needed in knowledge sharing.

Our conceptual conclusion of the function of a successful knowledge sharing company is summarized in Figure 1.

In the figure we connect knowledge sharing to business success. Knowledge sharing can only happen, when the learning organization metaphor is well accepted and implemented into the organization. Knowledge sharing can happen in a more formal environment, in the business processes, and in a more open human interaction, the existence of which we call intellectual capital. Intellectual capital is born in the process of communication, which needs to be a core competence of a knowledge sharing organization. Without communication as a core competence, the business processes too would be based on nothing. Communication as a core competence can exist, when there is enough of personal knowledge, human capital, an ICT infrastructure to support the communication process, and enough of organizational slack.

![Figure 1 The Knowledge Sharing Model (KS-model) of a successful knowledge sharing company](image-url)
A circle is perfected, as we can see that business success can help a company to build up human capital, ICT infrastructure and organizational slack.

4. Knowledge sharing in practice – some findings in the Finnish insurance companies

In this chapter we point out some research findings from the four top performer companies in knowledge transfer in our study. We call these companies ones with an open internal information environment or shortly just open companies.

Earlier research has stressed that the dimension of open vs. closed internal environment is very suitable for studying the information and knowledge aspects in organisations [35, 36, 37, 38, 39, 40, 41]. The aspects of internal information environment have anyhow got little attention in empirical research.

Also in our study we use the dimensions of openness vs. closeness of internal information environment as a starting point for the analysis of knowledge sharing in the Finnish insurance companies. An open internal information environment is defined in this study as follows (after Huotari [42]):

An internal information environment strives for flexibility with focus on the competence of the personnel. It tries to create good circumstances for co-operation in order to create value from the knowledge assets.

The analysis of the internal environment dimension was made operational through the interview answers on three issues:

- Flexibility
- Identification of common values, and
- Support for collective learning.

This analysis resulted in three groups as it comes to the openness of the internal information environment:

- Companies with closed internal information environments (3 companies)
- Companies with open internal information environment (4 companies), referred to as open companies
- Companies with developing internal information environments (8 companies)

In the next discussion, we go through the components of our KS-model as described in Figure 1. We try to describe the functioning of the model in the best companies.

We start with looking at how the learning organization metaphor is implemented into the open organizations. The learning organization metaphor was very visible in the open companies. This means that creating circumstances for change also creates co-operation between the different processes in the learning organisation. Here learning is seen as a strategically important question where learning is an active tool for operating change. Learning is underlined on the individual level, the work-task level, but also on the organizational level. The integration of the individual level in the planning of the business processes is an active goal in these companies (see under business processes), which means that the individual learning is visibly incorporated in the organisational memory.

Further the analysis of the open companies shows that the development of communication as a core competence is a natural activity and does not demand separate attention or special actions. Communication is a self-evident, integrated part of the basic business activities. Communication as a core competence consists of activities such as teamwork, interactivity by the middle management and integration of new workers.

We see that the learning organization metaphor and communication are important components in these companies’ activities. How well are these kinds of knowledge sharing then implemented into the formal environment, the business processes? The business processes evaluated in this study were strategic planning, marketing and production. The best companies use process thinking both in planning as well as in daily routines. The open companies integrate all organizational levels in their processes. The worse performers have process thinking in the management jargon, but have failed to implement it to the daily activities of knowledge workers. The individual has an important role in the development and implementation of aims and visions, which is also shown in several earlier studies [43, 44, 45].

In Figure 2 we see that the open companies integrate all organizational levels to work processes.

![Figure 2: Internal information environment and integration of organizational levels in the work processes](image)

The involvement of all three levels in the work processes is a result of the fact that these companies have worked with developing the communication of their business activities already for a long period of time. The aim with this work is to improve the knowledge about these processes throughout the organisation. When the company guidelines are drawn up, several channels are used in order to involve also the individual level in this planning. It is concluded that it is very difficult to use the individual level of knowledge in this process. These
companies mentioned some ideas about how they thought they could succeed in involving the individual level. There must be interest, willingness among the personnel (themes of interest directly for the personnel). Further value discussions and evaluation of the processes are important. Finally, a common language for both the management and the personnel is needed. These companies have also defined this process as a learning process that is anchored in the real activities. The learning metaphor is present in the planning process where learning and education is a tool for getting the process further. The goal is not only to inform about the processes in the organization, but to learn about them.

All the investigated companies define the human capital as a resource at some level, but defining the personnel as a resource is not enough. Those companies with a visible effort on the learning organisation aspects also identify the personnel as an important resource in their actions. They underline that the knowledge transfer is well implemented both in processes and in the organisation structures. They have strongly adopted network thinking as a basic mode of operation, and have created an active environment in which to implement this.

How is then the knowledge sharing working in a more open human interaction environment? The companies with open internal information environments show strong emphasis on work with their intellectual capital. The work with intellectual capital in the organisations shows how the human capital is put into action. The intellectual capital is described through the company's knowledge creation abilities and value of knowledge. In these companies the versatility of the knowledge is underlined as well as its content and communication in the company. The core competences are well defined as well as the measures for their evaluation and development. It was stated that the personnel is identified as an important resource, and therefore actions like teamwork are heavily used.

The issue of ICT infrastructure is a complicated one, and mostly beyond our study here. The insurance businesses are technology intensive working environments and all the studied case companies had the basic office tools in use for knowledge sharing. But the rapid IT-development is a common problem for all the companies. The open companies underline the importance of functioning ICT rather than the importance of having the latest solutions. Information seeking and communication in the electronic environment are very different activities than in the traditional context. In the open companies this aspect is said to be important to include in the ICT strategies in order to gain effective knowledge sharing today.

Finally, lack of organizational slack was a major problem in almost all companies. Lack of time was often mentioned as a hindrance for knowledge sharing. Even the best companies did not do better in this respect, actually their lack of time was even more severe than in the other companies. This is also connected to problems with the rapid ICT-development. ICT-education is problematic to plan effectively while new solutions are a fact before the previous ones are learned throughout the organization.

We can see that the visibility of the learning-organization metaphor is very descriptive for the open companies. Learning is underlined in most of the parts in our KS-model in Figure 1. Learning must be present both in formal environments (business processes), as in a more open human interaction. Learning seems to be the glue keeping together all the aspects of a knowledge sharing company. With learning as the denominator in the knowledge sharing activities it is easier to build up a systematic picture of knowledge communication. To be informed about a process has not the same depth as to be learned about a process.

5. The correlation between knowledge sharing and business success

In this section we ask: “Does it pay off to invest in knowledge sharing?” We try to establish some correlation between the knowledge sharing capabilities and business success of the studied insurance companies.

We analysed the level of knowledge sharing in the case companies based on the following structure:

- **Human capital**
- **Intellectual capital**
- **ICT infrastructure**
- **Knowledge sharing in processes**

This structure contains most of our variables in Figure 1, but not all. The difference is there because the final structure of Figure 1 was completed first after the empirical research. Each item is assessed by the research – based on the case study material collected - on a scale from 1-5. Value 1 means that the item is badly developed in the company. Value 5 means that the item is in top condition in the company (no wonder value 5 is absent from the assessments). The detailed description of the researcher valuation process can be seen in [46].

The business success of any company is hard to measure, but especially this is true for insurance companies, where the valuation of risks can have a deep impact on the profitability, solidity and result of the companies. Insurance companies have more instruments to manipulate their results than many other companies. There are several factors affecting each other, and the phenomenon must always be put into a context.
The measurement of business success is based on annual reports from 1996-98. It is difficult to compare the financial figures exactly between the fifteen different insurance companies, while they are quite different in size and insurance trades. We have therefore used five different key figures for the analysis of the business success:

- Market share
- Solvency
- Expense ratio
- Net investment income
- Difference between current and book values on investment activities

### Table 1 Analysis of the knowledge sharing capabilities of the case organizations

<table>
<thead>
<tr>
<th>Company</th>
<th>Human capital</th>
<th>Intellectual capital</th>
<th>ICT infrastructure</th>
<th>Knowledge sharing in processes</th>
<th>Knowledge sharing in total= average of the previous</th>
<th>Business success</th>
</tr>
</thead>
<tbody>
<tr>
<td>F1</td>
<td>1.75</td>
<td>2.00</td>
<td>1.70</td>
<td>1.50</td>
<td>1.74</td>
<td>3.00</td>
</tr>
<tr>
<td>F7</td>
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<td>2.00</td>
<td>1.70</td>
<td>2.00</td>
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</tr>
<tr>
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</tr>
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<td>2.00</td>
<td>2.58</td>
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</tr>
<tr>
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<td>2.70</td>
<td>3.90</td>
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<td>2.00</td>
</tr>
<tr>
<td>F2</td>
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<td>4.00</td>
<td>4.19</td>
<td>4.00</td>
</tr>
</tbody>
</table>

Figure 3 Comparison between knowledge sharing and business success
Again, the researcher assesses each item. Assessment is based on the case study material collected on a scale from 1-5. Value 1 means that the item is having a bad value in the company, whereas value 5 means that the item is in top condition in the company.

In Figure 3 the knowledge sharing abilities in the studied insurance companies are compared to their business success.

Companies with a high degree of knowledge sharing too exhibit business success. Of the good performers in knowledge sharing, just one company suffers from lower than average business success. On the other hand, of the lower than average performers in knowledge sharing just one company shows good business success.

While our analysis certainly contains subjective elements, we anyway feel that it confirms a high correlation between an organizations business success and knowledge sharing skills.

6. Conclusions

In the beginning of our conclusions it is natural to come back to our original research questions:

It is important to notice that knowledge is underlined by all of the companies, but it results in different kinds of action. The companies point out different parts of the knowledge capital, identified in three categories by Koenig [23]. The categories are knowledge resources (explicit, tacit, formal, informal knowledge), social capital (culture, reliability, knowledge behaviour, human capital), and infrastructure (processes, resources, technology, metrics).

If knowledge sharing is seen as a goal, it can be concluded that there is a three-step development towards knowledge sharing:

- On the first level (the closed companies with the supportive culture) knowledge in different parts of the infrastructure is emphasized. Information is handled in the processes but not interactively between them.
- On the second level the knowledge sharing becomes an active area of development. The core competencies and a systematic development of them are pointed out. The knowledge resources seem to be the part of the knowledge capital that is underlined (communication channels, measures for core competencies and their development).
- On the third level the social capital is strongly emphasized (human and intellectual capital and learning).

Especially the study of the companies in the middle group showed that those companies which strive to develop a more active information culture and knowledge sharing put emphasis on putting the units into focus and integrating that level in the overall picture. The knowledge of the units is underlined as well as their responsibility for the communication. In the units it is then easier to integrate the individual level in the knowledge creation and communication. The companies in the middle underline also the knowledge resources, which are the evaluation and development of the core competencies. This development process strives to underline the core competence and knowledge in the units and also to communicate them in as many ways as possible. It is thought that, through this process, the core competence is integrated in the business as a whole and becomes visible also in the activities also on the individual level.

This study shows that it is important to create a platform for mutual information communication. All questions are worth discussing, on all levels. A dynamic way to look at information management is important because it creates awareness. It is important to have tools and strategies for information management, and it is also important to have the support of the top management and for the company to value information. These tools constitute the parts of the whole picture that must exist in order to make the information a real resource. This picture is the ability to identify the hidden information culture, to be aware of it and its different parts. This is done through the analysis of the internal environmental dimension that has also been used in this study. Awareness of this picture promotes the ability to share knowledge.

An active information culture can have many advantages. The information communication becomes more effective in the company, but in the long run, there will be large effects also on customer contacts. Companies naturally strive to maintain as good a relationship as possible with the customers. The common language in the company is mirrored in the customer relations, and in the insurance business, it is especially important to use a common and straightforward language with the customers. In an active information culture, where the processes and activities are integrated, the possibilities to create and communicate a common language are better. Information culture and success require integrated planning activities in the whole organisation, as well as well-communicated aims. The information and the knowledge base must be used effectively through co-operation between and among the individuals, the units and the management, resulting in synergy effects. The even more specialized business world of today needs an information culture in which it is possible to keep together the knowledge base and the social capital.

This study gives some complements to Owens & Wilson’s factors [48] that point at the importance of internal factors that must be managed in order to combine corporate success and information use. The internal factors are internal politics, effective information systems, technology, knowledge base, information ethos, quality, profitability, productivity, and export success. This study
shows that the manageability and especially the cooperation and the knowledge sharing are important. It is also important to underline how this cooperation is functioning in the organisation. An active information culture seems to be an ingredient in financial stability, although it is not possible to clearly say that an active information culture is a given success factor. The financial situation of the Finnish insurance business is generally good, which means that critical success factors are not so visible. The external environment plays an important role, and a more passive information culture suits a stable, external environment, whereas the role of the information culture grows in change-intensive environments.

In the study, we were able to divide the companies between good and bad performers as it came to knowledge sharing. Working knowledge sharing is a result of the interplay of several factors, including external pressures, information systems support, prevalent organizational culture, available intellectual capital and social intelligence, and intensity of information management activities.

For managers of organizations, in insurance as well as in other industries, we propose a few guidelines. The managerial role is to project the information culture in the company. Management must shape ramifications for intensive information sharing. Our KS-model shows the areas of work for management.

In all organizations, time seems to be a critical success factor. Management of organizations should understand that a certain amount of organizational slack is needed in any innovative organization, and especially in organizations aiming at knowledge-based innovations and at superior performance in knowledge sharing.

Knowledge in organizations is both in formal and informal forms. Both areas must be recognized and supported. Proper business processes with structured information contents too belong to a company mastering in knowledge sharing. This is often forgotten in small innovative business start-ups that of course yet have had no time to implement business processes.

Knowledge sharing can just happen as we have dissimilar knowledge, or should we say information asymmetry. A good organization in knowledge sharing must be able to hire very many different people, and must be able to maintain different organizational subcultures. First through a constant interaction between these different subcultures long-term knowledge generation and transfer is secured.

A proper ICT-architecture is a cornerstone for information sharing. This does however not just mean having the latest technology. Much more important is to be able to use the tools available productively. It is better to use good tools excellently than excellent tools just somehow.

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